



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Bellingham

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

Published October 30, 2023

Report No. 1033499



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



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

October 30, 2023

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

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

| | |
|---|-----|
| Schedule of Findings and Questioned Costs..... | 4 |
| Schedule of Federal Award Findings and Questioned Costs..... | 6 |
| Summary Schedule of Prior Audit Findings | 10 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 11 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance | 13 |
| Independent Auditor's Report on the Financial Statements | 17 |
| Financial Section..... | 21 |
| Corrective Action Plan for Findings Reported Under Uniform Guidance | 120 |
| About the State Auditor's Office..... | 121 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Bellingham January 1, 2022 through December 31, 2022

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 basic 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 deficiencies that we consider to be material weaknesses.

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

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

| <u>ALN</u> | <u>Program or Cluster Title</u> |
|------------|--|
| 14.218 | CDBG – Entitlement Grants Cluster – COVID-19 – Community Development Block Grants/Entitlement Grants |
| 14.218 | CDBG – Entitlement Grants Cluster – Community Development Block Grants/Entitlement Grants |
| 15.614 | Coastal Wetlands Planning, Protection and Restoration |
| 21.027 | COVID-19 – Coronavirus State and Local Fiscal Recovery Funds |

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2022-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Bellingham January 1, 2022 through December 31, 2022

2022-001 The City did not have adequate internal controls for ensuring compliance with federal reporting requirements.

| | |
|---|--|
| Assistance Listing Number and Title: | 14.218 – COVID-19 – Community Development Block Grant/Entitlement Grants 14.218 – Community Development Block Grants/Entitlement Grants |
| Federal Grantor Name: | U.S. Department of Housing and Urban Development (HUD) |
| Federal Award/Contract Number: | N/A |
| Pass-through Entity Name: | N/A |
| Pass-through Award/Contract Number: | N/A |
| Known Questioned Cost Amount: | \$0 |
| Prior Year Audit Finding: | N/A |

Background

The primary objective of the Community Development Block Grants/Entitlement Grants (CDBG) program is to help provide decent and affordable housing, particularly for people with moderate, low and very low incomes. Funds also help recipients implement strategies for achieving an adequate supply of decent housing and providing suitable living environments and expanded economic opportunities for people with low incomes. In 2022, the City spent \$1,538,040 for its CDBG program. Of this amount, it passed \$1,156,939 through to subrecipients.

Federal regulations require recipients to establish and follow internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring with effectiveness of established controls.

The Federal Funding Accountability and Transparency Act (FFATA) requires direct recipients that make first-tier subawards of \$30,000 or more to report them in the FFATA Subaward Reporting System (FSRS). The City has until the end of the month plus one additional month after obligating a subaward to fulfill this reporting requirement.

Description of Condition

We found the City’s internal controls were ineffective for ensuring compliance with FFATA reporting requirements. Specifically, the City made seven subawards in 2022 that exceeded \$30,000, and it did not prepare or submit any FFATA reports for these subawards as required.

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

Cause of Condition

City staff said they stopped using the FSRS.gov website when performance reporting systems changed. As a result, the City stopped receiving reminder notifications related to reporting deadlines. While FFATA reporting was included in the award agreements, staff in the responsible department were unaware the requirements still existed. Staff relied on the HUD platform and thought the City would not receive reimbursement if all the reporting requirements had not been met.

Effect of Condition

Failing to submit the required reports diminishes the federal government’s ability to ensure accountability and transparency of federal spending. The City has since submitted all FFATA reports applicable to the audit period.

Below is a summary of the discrepancies we identified.

| Transactions Tested | Subaward not reported | Report not timely | Subaward amount incorrect | Subaward missing key elements |
|----------------------------|------------------------------|--------------------------|----------------------------------|--------------------------------------|
| 7 | 7 | 0 | 0 | 0 |

| Dollar Amount of Tested Transactions | Dollar amount of Subaward not reported | Dollar amount of Report not submitted timely | Dollar amount of Subaward amount incorrect | Dollar amount of Subaward missing key elements |
|---|---|---|---|---|
| \$368,902 | \$368,902 | \$0 | \$0 | \$0 |

Recommendation

We recommend the City strengthen its internal controls to ensure it prepares and submits FFATA reports for all subawards subject to the requirement, as federal regulations require.

City’s Response

The City of Bellingham has corrected its oversight in failing to file FFATA reports related to Housing and Services Program federal funding, and all reports are now up to date. In the future, the City will ensure timely reporting with procedures in place for the responsible staff to report regularly and verify reporting is completed via email to the Housing and Services Program Manager.

Auditor’s Remarks

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

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 170, *Reporting Subaward and Executive Compensation Information*, establishes the Federal Funding Accountability and Transparency Act (FFATA) requirements of reporting the subaward information through the FFATA Subaward Reporting System (FSRS).

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Bellingham January 1, 2022 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

| | | | |
|--|---|---|--------------------------|
| Audit Period: January 1, 2021 through December 31, 2021 | Report Reference No.: 1031193 | Finding Ref. No.: 2021-001 | ALN(s): 14.239 |
| Federal Program Name and Granting Agency: Home Investment Partnerships Program, U.S. Department of Housing and Urban Development | | Pass-Through Agency Name: N/A | |
| Finding Caption: The City did not have adequate internal controls for ensuring subawards of the Home Investment Partnerships Program contained all required information | | | |
| Background: The City of Bellingham administers the federal Home Investment Partnerships (“HOME”) Program. One of the main objectives of HOME is to expand the supply of decent and affordable housing, particularly for low- and very-low-income households. In fiscal year 2021, the City spent \$2,048,967 on this program, of which it passed \$1,939,539 to five subrecipients. Federal regulations require recipients of federal funding to establish and follow internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of program compliance. Whenever the City passes on federal funding to a subrecipient, it must clearly identify the subaward contract as a federal award, and the awarding documents must include specific federal identification elements and all program requirements. | | | |
| Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid | | | |
| Corrective Action Taken: <i>The City revised its contract template used by the Planning Department to ensure contracts clearly identify the funding source, specific federal identification elements and all program requirements.</i> | | | |

INDEPENDENT AUDITOR'S REPORT

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

City of Bellingham January 1, 2022 through December 31, 2022

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 23, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy, State Auditor

Olympia, WA

October 23, 2023

INDEPENDENT AUDITOR'S REPORT

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, 2022 through December 31, 2022

Mayor and City Council
City of Bellingham
Bellingham, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Bellingham, with the types of compliance requirements identified as subject to audit 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, 2022. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2022-001 that we consider to be a material weakness.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Pat McCarthy, State Auditor

Olympia, WA

October 23, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Bellingham January 1, 2022 through December 31, 2022

Mayor and City Council
City of Bellingham
Bellingham, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Bellingham, as of December 31, 2022, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

October 23, 2023

City of Bellingham
January 1, 2022 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022

Statement of Activities – 2022

Balance Sheet Governmental Funds – 2022

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

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

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

Statement of Net Position – Proprietary Funds – 2022

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

Statement of Cash Flows – Proprietary Funds – 2022

Statement of Fiduciary Net Position – Fiduciary Fund – 2022

Statement of Changes in Fiduciary Net Position – Fiduciary Fund – 2022

Notes to the Basic Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Legal Basis – Original General Fund – 2022

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 – 2022

Schedule of City's Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2022

Schedule of Contributions – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2022 Schedule of Changes in the Net Pension Liability and Related Ratios – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2022

Schedule of Changes in Total Pension Liability and Related Ratios – Firefighters’
Pension Plan, Police Officers’ Pension Plan – 2022

Schedule of Changes in Total OPEB Liability and Related Ratios – Firefighters’
Healthcare Plan, Police Officers’ Healthcare Plan – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2022

Notes to the Schedule of Expenditures of Federal Awards – 2022

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, 2022. The information presented should be read in conjunction with the financial statements and the notes to the financial statements.

Financial highlights

- On December 31, 2022, 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 \$1 billion, an increase of \$44 million over the 2021, amount of \$996.9 million. 68% or \$707.8 million of the 2022, government-wide net position is classified as net investments in capital assets, 22.8% or \$237.5 million is restricted net position, and the remaining 9.2% or \$96 million of government-wide net position is unrestricted and may be used to meet the City's, ongoing obligations.
- The net position of governmental activities is \$643.7 million in 2022, an increase of \$31.1 million, over the 2021, amount of \$612.6 million. Restricted government-wide governmental net position decreased by \$20.8 million, \$41 million of which is due to the City's proportionate share of the Washington State Department of Retirement Systems decreasing restricted net asset value and almost all other functional areas on restricted net position showing gains. Unrestricted government-wide governmental net position increased by \$51.7 million, \$38.3 million of which can be attributed to the City's proportionate share of the Washington State Department of Retirement Systems changes in deferred inflows, outflows and net pension liability.
- The net position of business-type activities is \$397.6 million in 2022, which represents an increase of \$13.3 million, over the 2021, amount of \$384.3 million. This increase can be attributed to gains in utility funds net positions. Water gained \$10.3 million while Wastewater gained \$2.8 million in proprietary fund net position.

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 in nature 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).

Each 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, cemetery, golf course, parking, medic one, and development services.

The government-wide financial statements include the City, referred to as the primary government, and a legally separate entity, the Bellingham-Whatcom Public Facility District (PFD), a discretely presented component unit for which the City is financially accountable. Financial information for the Bellingham-Whatcom Public Facility District is reported separately from the financial information presented for the primary government itself.

Fund financial statements

While the government-wide statements looks at the City as a whole and a 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.

Budgetary comparisons are included with the financial statements in 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 into a single line called “Internal balances” in the liabilities 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 eight enterprise funds, which account for the operations of three major funds: Water, Wastewater, and Surface and Stormwater, 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 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 these 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 three major enterprise funds. Data from the remaining enterprise funds and internal service funds are combined and presented in their own, single, aggregated columns in the fund statement.

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 one fund that is reported as a Custodial fund. Custodial funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own 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, and proportionate share of, the state retirement plans.

Government-wide financial analysis

Government-wide 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 \$1.1 million, on December 31, 2022. This was an increase of \$44.3 million, or 4.4%, over December 31, 2021.

| Net position (in thousands) | | | | | | |
|---------------------------------------|--------------------------------|-------------|---------------------------------|-------------|--------------|-------------|
| | Governmental activities | | Business-type activities | | Total | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Assets | | | | | | |
| Current | \$ 254,979 | \$ 231,498 | \$ 104,927 | \$ 90,816 | \$ 359,906 | \$ 322,315 |
| Noncurrent | 98,456 | 154,395 | 22,215 | 40,082 | 120,671 | 194,476 |
| Capital assets | 441,669 | 425,039 | 349,429 | 343,863 | 791,098 | 768,902 |
| Total assets | 795,103 | 810,932 | 476,571 | 474,761 | 1,271,674 | 1,285,693 |
| Deferred Outflows of Resources | 21,134 | 7,592 | 7,449 | 3,538 | 28,584 | 11,130 |
| Liabilities | | | | | | |
| Current | 26,274 | 21,924 | 8,039 | 5,229 | 34,314 | 27,153 |
| Noncurrent | 125,132 | 129,795 | 71,681 | 73,782 | 196,813 | 203,577 |
| Total liabilities | 151,407 | 151,719 | 79,720 | 79,011 | 231,126 | 230,730 |
| Deferred Inflows of Resources | 21,122 | 54,172 | 6,749 | 15,002 | 27,871 | 69,174 |
| Net position | | | | | | |
| Net investment in capital assets | 422,914 | 422,702 | 284,847 | 276,122 | 707,761 | 698,823 |
| Restricted | 220,400 | 241,237 | 17,089 | 32,963 | 237,489 | 274,200 |
| Unrestricted | 395 | (51,306) | 95,616 | 75,202 | 96,011 | 23,897 |
| Total net position | \$ 643,709 | \$ 612,633 | \$ 397,551 | \$ 384,287 | \$ 1,041,260 | \$ 996,920 |

68% of the City's GW net position 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 2022, the GW net investment in capital assets increased by \$8.9 million.

An additional 22.8% of the City's GW net position 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 2022, the GW restricted resources total \$237.5 million. The remaining balance of \$96 million is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. In 2022, the unrestricted net position increased \$72.1 million from 2021.

At the end of 2022, the City of Bellingham is able to report positive balances in all reported categories of net position for the government as a whole.

Government-wide changes in net position

In 2022, government-wide net position increased by \$44.3 million. In 2021, government-wide net position increased by \$82.8 million, a decrease in net gain of \$38.5 million 2022. The most notable factors that contribute to the decreased gain in 2022, are related to the accrual basis of accounting, recording unrealized losses in fair value of investment income earnings, and recording a significant decrease in the City's proportionate share of State pension plan net assets. The government-wide recorded net loss on fair value of investments was \$17.3 million in 2022. The government-wide recorded decrease in the City's proportionate share of the State net pension asset was \$49.8 million in 2022.

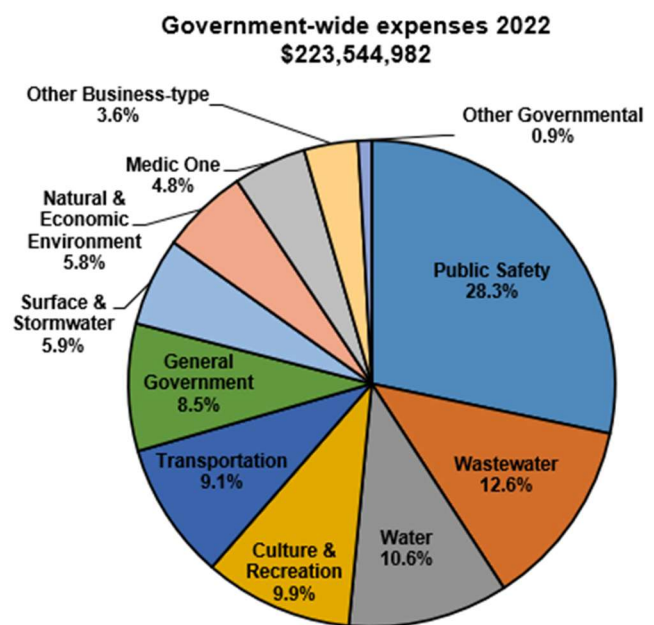
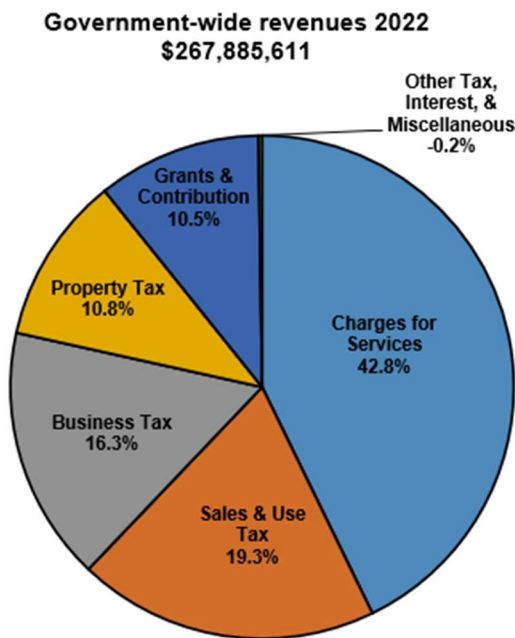
| Changes in net position (in thousands) | | | | | | |
|---|--------------------------------|-------------------|---------------------------------|-------------------|---------------------|-------------------|
| | Governmental activities | | Business-type activities | | Total | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Program revenues: | | | | | | |
| Charges for services | \$ 21,169 | \$ 16,973 | \$ 93,983 | \$ 83,417 | \$ 115,152 | \$ 100,390 |
| Operating grants and contributions | 15,855 | 15,379 | 2,459 | 1,020 | 18,314 | 16,399 |
| Capital grants and contributions | 5,875 | 17,379 | 4,145 | 9,348 | 10,019 | 26,727 |
| General revenues: | | | | | | |
| Property tax | 28,991 | 28,169 | - | - | 28,991 | 28,169 |
| Sales and use tax | 50,940 | 44,771 | 1,097 | 986 | 52,037 | 45,757 |
| Business tax | 44,000 | 39,275 | - | - | 44,000 | 39,275 |
| Real estate excise tax | 6,285 | 5,850 | - | - | 6,285 | 5,850 |
| Leasehold tax | 612 | 678 | - | - | 612 | 678 |
| Admissions tax | 409 | - | - | - | 409 | - |
| Investment Income | (8,878) | (1,367) | (4,297) | (617) | (13,175) | (1,984) |
| Miscellaneous revenue | 4,758 | 2,721 | 484 | 366 | 5,242 | 3,087 |
| Total revenues | 170,017 | 169,829 | 97,869 | 94,519 | 267,886 | 264,348 |
| Program expenses: | | | | | | |
| General government | 18,920 | 9,499 | - | - | 18,920 | 9,499 |
| Public safety | 63,239 | 57,427 | - | - | 63,239 | 57,427 |
| Transportation | 20,390 | 17,855 | - | - | 20,390 | 17,855 |
| Natural and economic environment | 12,976 | 9,527 | - | - | 12,976 | 9,527 |
| Social services | 565 | 1,192 | - | - | 565 | 1,192 |
| Culture and recreation | 22,125 | 15,593 | - | - | 22,125 | 15,593 |
| Interest on long-term debt | 1,448 | 1,432 | - | - | 1,448 | 1,432 |
| Water | - | - | 23,791 | 22,485 | 23,791 | 22,485 |
| Wastewater | - | - | 28,117 | 22,454 | 28,117 | 22,454 |
| Surface & stormwater | - | - | 13,129 | 9,255 | 13,129 | 9,255 |
| Medic one | - | - | 10,841 | 7,916 | 10,841 | 7,916 |
| Other business type activities | - | - | 8,003 | 6,960 | 8,003 | 6,960 |
| Total expenses | 139,665 | 112,525 | 83,880 | 69,070 | 223,545 | 181,595 |
| Excess (deficiency) before transfers | 30,352 | 57,305 | 13,989 | 25,449 | 44,341 | 82,753 |
| Transfers | 724 | 526 | (724) | (526) | - | - |
| Change in net position | 31,076 | 57,831 | 13,264 | 24,922 | 44,341 | 82,753 |
| Net position - beginning | 612,633 | 554,802 | 384,287 | 359,365 | 996,920 | 914,166 |
| Net position - ending | \$ 643,709 | \$ 612,633 | \$ 397,551 | \$ 384,287 | \$ 1,041,260 | \$ 996,920 |

Government-wide revenues and expenses

Government-wide revenues including both governmental and business-type activities increased \$3.5 million in 2021, from \$264.3 million in 2021, to \$267.8 million in 2022. General revenues consisting of taxes, investment and miscellaneous earnings increased \$3.6 million in 2022, with a \$12.6 million increase in taxes, \$2.2 million miscellaneous, and \$11.2 million offsetting negative investment income. 2022, investment earnings include \$6.1 million in actual interest revenue received and a negative \$17.3 million adjustment for fair value reporting of investment assets.

Government wide program revenues consisting of charges for services, operating grants and contributions, and capital grants and contributions decreased \$30 thousand in 2022, from \$143.52 million in 2021, to \$143.49 million in 2022. The \$30 thousand decrease in government-wide program revenues consisted of a \$14.76 million increase in charges for services and a \$14.79 million decrease in grants and contributions. The proprietary utility funds experienced rate increases contributing to the government-wide increase in charges for services in 2022. The transportation governmental activity received significantly fewer grant funding dollars for street related projects contributing to the government-wide decrease in grants and contributions in 2022.

Overall government-wide expenses increased by \$41.9 million in 2022, from \$181.6 million in 2021, to \$223.5 million in 2022. Of this \$41.9 million increase in government-wide expenses, \$27.1 million were derived from governmental activities and \$14.8 million from business-type activities. The increase in government-wide spending is primarily related to labor expenses. Contract negotiations resulted in cost-of-living increases for employee wages in 2022. A 2021, leap in State pension plan net assets resulted in a significant reduction to labor expense in 2021.



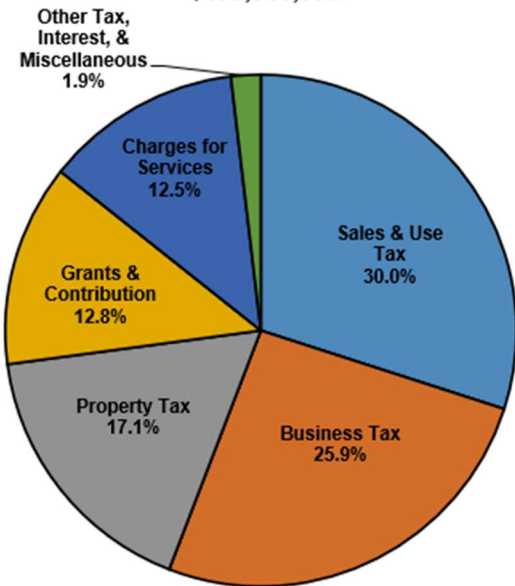
Government-wide governmental activities

Government-wide governmental activities total general revenues increased by \$7 million, from \$120.1 million in 2021, to \$127.1 million in 2022. The most notable increases were \$6.2 million in retail sales and use taxes and \$4.7 million in business tax. Taxes make up the bulk of general revenues with retail sales and use tax at 40.1%, business tax at 34.6%, and property tax at 22.8% of total governmental activities general revenues.

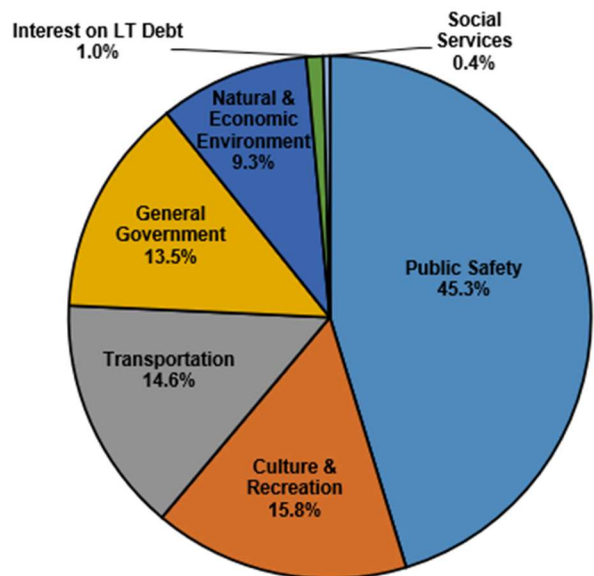
Government-wide governmental activities total program revenues decreased by \$6.8 million, from \$49.7 million in 2021, to \$42.9 million in 2022. The most noteworthy governmental activities program revenue decrease was a reduction of \$11.5 million in capital grant contributions predominantly awarded by both the US and the WA State departments of transportation for street projects in 2021.

Government-wide governmental activities total expenses increased \$27.1 million, from \$112.5 million in 2021, to \$139.7 million in 2022. The decrease was due in part to a 2021, State net pension assets adjustment reducing operating expense for government-wide governmental activities in the amount of \$16.1 million and \$4.4 million spent on disaster recovery in 2022.

Government-wide governmental revenues 2022
\$170,016,574



Government-wide governmental expenses 2022
\$139,664,620

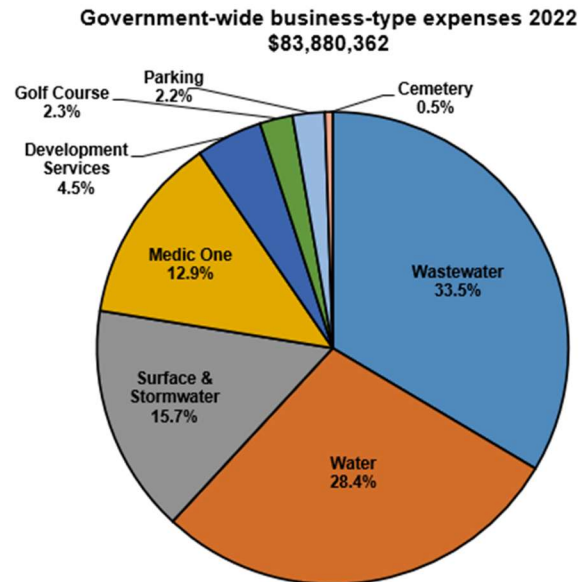
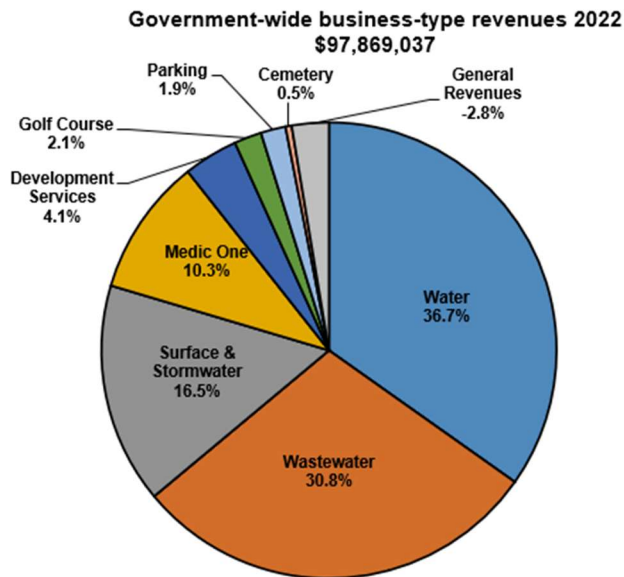


Government-wide business-type activities

Government-wide business-type activities total general revenues decreased by \$3.5 million, from \$734K in 2021, to a negative \$2.7 million in 2022. The driving factor for the decrease was a negative \$4.3 million fair value adjustment on investments at the end of 2022. The actual investment interest earnings received for the government-wide business type activities prior to the fair value adjustment in 2022, was \$1.2 million. A substantial offset to the net negative investment income reported in 2022, was a special purpose tax received in the Medic One fund. This special purpose tax increased by 11.2% from \$986K in 2021, to \$1.1 million in 2022.

Government-wide business-type activities total program revenues experienced a \$6.8 million increase from \$93.8 million in 2021, to \$100.6 million in 2022. The increase in total program revenue was the result of an across-the-board rate increase in all three utility funds. Water, Wastewater, and Surface and Stormwater funds bring in the bulk of the business type program revenue with operating revenue receipts of \$33.3 million, \$29.7 million, and \$12.8 million respectively. The Medic One fund is on the cusp of becoming a major revenue fund with \$9.8 million in program revenue in 2022.

Government-wide business-type activities total expenses increased by \$14.8 million, from \$69 million in 2021, to \$83.9 million in 2022. This increase in expense is due in part by a financial reporting requirement to account for a proportionate share of State net pension assets. In 2021, this translated into reporting a reduction in labor operating expense for government-wide business-type activities in the amount of \$4.8 million. Water, Wastewater, Surface and Stormwater, and the Medic One funds, account for the bulk of the business-type expenses with operating expenses of \$23.8 million, \$28.1 million, \$13.1 million and \$10.8 million respectively. The Wastewater fund experienced a \$5.7 million increase in expense in 2022, primarily for repair and maintenance costs and consulting service expenses for a long-term wastewater treatment plant biosolids facility plan.



Fund level financial analysis

Governmental Funds

Governmental fund balances

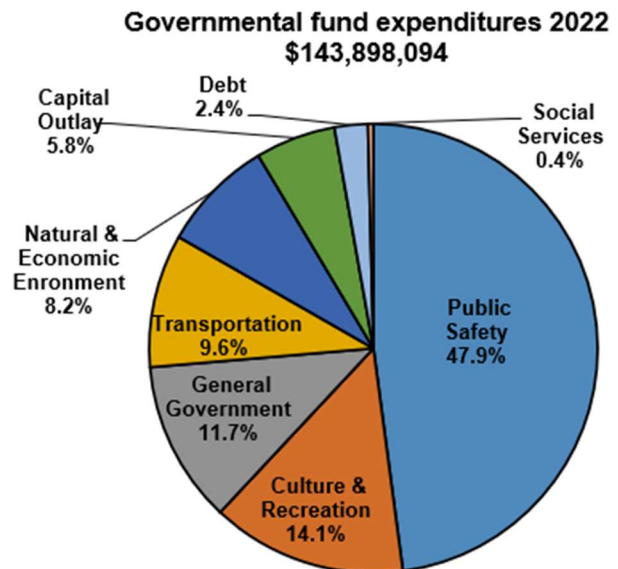
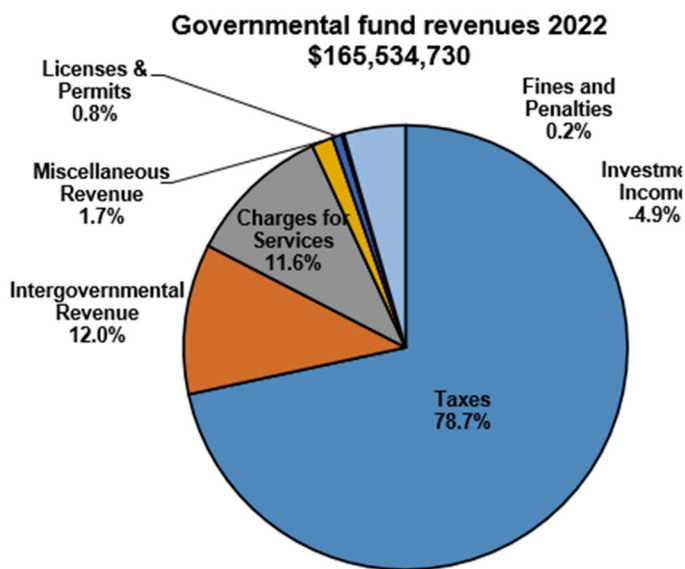
Governmental funds total fund balance increased by \$20.3 million, from \$241 million in 2021, to \$261.3 million in 2022. The largest increase was a gain of \$18.6 million in restricted fund balance with significant fund increases in affordable housing, capital improvements, Firefighter’s OPEB, and transportation improvement activities.

Governmental fund revenues

Governmental fund revenues increased by \$1.1 million, from \$164.4 million in 2021, to \$165.5 million in 2022. Tax revenue is the City’s most significant source of governmental revenue, representing 78.7% of total governmental revenue. Tax revenue supports services that are basic to the City’s mission such as streets, fire, police, and parks. The major tax categories are retail sales and use, business and occupation, property, and utility tax. Tax collections increased by \$12.3 million and 10.4% from 2021 to 2022, generating a total of \$130.2 million in revenue.

Governmental fund expenditures

Governmental fund expenditures increased by \$10.7 million, from \$133.1 million in 2021, to \$143.9 million in 2022. Public safety consisting of fire, police, and municipal court accounts for 47.9% of governmental fund expenditures and experienced a \$4.7 million increase in spending in 2022. Contributors to the increase in spending were factors such as labor COLA adjustments and a heavier than normal turnover rate resulting in costs associated with employee separation, overtime, and personnel recruitment in a diminished labor market. Culture and recreation services represent the next largest functional area of spending at 14.1% of total governmental fund expenditures. The culture and recreation function includes parks, recreation programs, museums, and libraries. Culture and recreation experienced a \$2.6 million increase in spending in 2022.



Proprietary funds

Proprietary fund net position

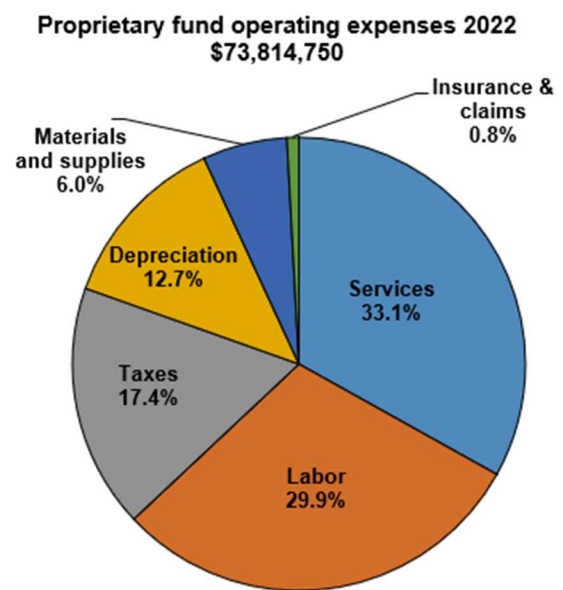
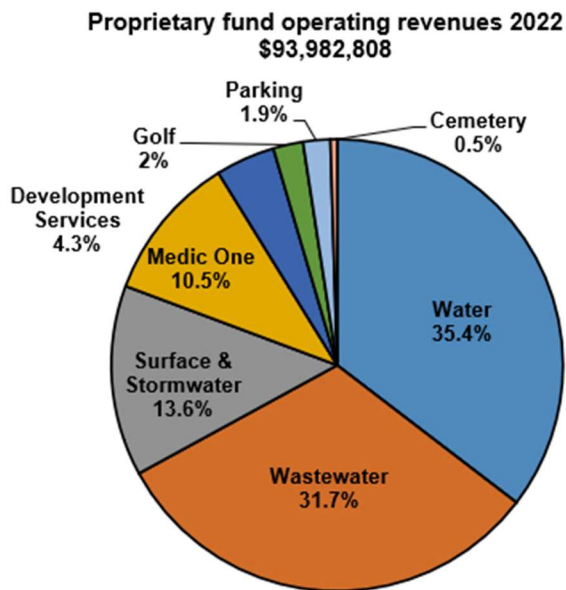
Proprietary funds total net position increased by \$13.3 million, from \$384.3 million in 2021, to \$397.6 million in 2022. The largest fund increase was a gain of \$10.3 million in the Water fund net position and the largest functional net position increase was in *net investments in capital assets* at \$8.7 million. The Water fund gain in net position can be attributed primarily to a \$12 million in operating revenue over funds expended. The surplus revenue is intended for pending infrastructure repair, maintenance, and capital expenses. The increase in *net investments in capital assets* is largely due to a Wastewater fund \$6.7 million upgrade on the Whatcom Creek wastewater main.

Proprietary fund operating revenues

Proprietary fund operating revenues increased by \$10.5 million, from \$83.4 million in 2021, to \$94 million in 2022. The non-major proprietary funds experienced a combined operating revenue increase of \$3.3 million. All three proprietary major funds established user fee rate increases at the beginning of 2022, resulting in significant increases in utility revenue. Water and Wastewater funds each experienced revenue increases of \$2.3 million, and Surface and Stormwater increased \$2.7 million.

Proprietary fund operating expenses

Proprietary fund operating expenses increased by \$12.5 million, from \$61.3 million in 2021, to \$73.8 million in 2022. The fund experiencing the largest increase in expense was Wastewater at \$5.5 million, \$3.9 million of which was spent on Services. The functional area experiencing the largest increase was *Labor* at \$5.9 million, \$2.9 million of which was in the Medic One fund due to contract negotiation settlements.



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 eight additional funds with their own separate legally adopted budgets that do not meet the requirements of special revenue funds per GASB 54 and have accordingly been combined with the General fund. The City of Bellingham budgets on a biennial basis. 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.
- Increases and decreases in appropriations to recognize actual program costs.
- New appropriations to acknowledge unanticipated revenues and corresponding expenditures.

General fund 2021-2022 original versus amended budgetary comparison – legal budgetary basis

| | Original Budget | Final Budget | Change |
|---------------------------|--------------------|-----------------|------------|
| Total revenues | 164,768,089 | 199,590,733 | 34,822,644 |
| Total expenditures | 171,918,861 | 211,896,058 | 39,977,197 |

2022, was the second year of a two-year budget cycle. The 2021-2022 adopted General fund budget for revenues (pre-GASB 54 rollup) was \$164.8 million, the final budget after all amendments is \$199.6 million. The 2021-2022, actual 2-year total revenues, as shown in RSI, are \$190.4 million or 95.4% of the final revenue budget amount. The 2021-2022 adopted General fund budget for expenditures (pre-GASB 54 rollup) was \$171.9 million, the final budget after all amendments is \$211.9 million. The 2021-2022, actual 2-year expenditures are \$181.3 million or 85.6% of the final two-year budgeted amount.

General fund 2021-2022 revenue budget to actual percentage comparison – legal budgetary basis

| | Final Budget | Total Amounts Legal Basis | % of Final Budget |
|-----------------------|--------------------|---------------------------------|----------------------|
| REVENUES | | | |
| <i>Taxes:</i> | | | |
| Property | \$ 32,640,000 | \$ 32,899,621 | 100.80% |
| Sales and use | 42,844,224 | 44,123,015 | 102.98% |
| Business | 72,625,886 | 78,897,000 | 108.63% |
| Leasehold | 1,099,000 | 1,197,341 | 108.95% |
| Admissions | 150,000 | 502,079 | 334.72% |
| Licenses and permits | 1,737,800 | 1,813,596 | 104.36% |
| Intergovernmental | 21,232,121 | 18,045,229 | 84.99% |
| Charges for services | 24,255,777 | 12,520,877 | 51.62% |
| Fines and penalties | 898,992 | 585,347 | 65.11% |
| Investment income | 834,230 | (2,149,466) | -257.66% |
| Miscellaneous | 1,272,703 | 1,998,777 | 157.05% |
| Total revenues | <u>199,590,733</u> | <u>190,433,416</u> | 95.41% |

Tax revenue including property, sales and use, business, leasehold, and admissions tax finished the budget cycle strong at 105.5% of budget. Likewise licenses and permits revenue came in 4.4% over budget. Sales, business, and utility taxes have been strong in 2022, due to increased business activity from the stronger local economy. A significant offset to total revenue is a total negative investment income of \$2.1 million resulting from a substantial loss on the fair value of investments. Actual interest earnings received are \$1.1 million.

General Fund expenditures came in well below budget by \$30.1 million, \$20.3 million of which was budgeted for *general government*. \$10.7 million of the *general government* unspent budget was for city wide reimbursements to the general fund for centralized service indirect costs, \$7.1 million of the unspent budget is dedicated to ARPA funding for COVID relief, \$2.7 million is unspent budgeted labor costs due to national labor shortages resulting in staffing vacancies.

The General fund actual ending fund balance of \$48.6 million, is \$32.1 million greater than the final budgeted ending fund balance of \$16.5 million, which is a direct result of the above-mentioned General Fund spending coming in significantly under budget.

Debt administration

Long-term debt

On December 31, 2022, the City's total outstanding debt was \$108.7 million, a decrease of \$7 million from 2021.

Outstanding debt (in thousands)

| | Governmental activities | | Business-type activities | | Total | | Increase (Decrease) |
|--------------------------|-------------------------|------------------|--------------------------|------------------|-------------------|-------------------|------------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022-2021 |
| General obligation bonds | \$ 39,042 | \$ 42,232 | \$ - | \$ - | \$ 39,042 | \$ 42,232 | \$ (3,190) |
| Revenue bonds | - | - | 56,183 | 57,964 | 56,183 | 57,964 | (1,781) |
| Government loans | 1,770 | 2,300 | 11,709 | 13,251 | 13,479 | 15,551 | (2,072) |
| Total | <u>\$ 40,812</u> | <u>\$ 44,532</u> | <u>\$ 67,892</u> | <u>\$ 71,215</u> | <u>\$ 108,704</u> | <u>\$ 115,747</u> | <u>\$ (7,043)</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 2021 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

On December 31, 2022, the City has invested \$791.1 million in a wide range of capital assets throughout governmental and business-type activities, an increase of \$22.2 million from the previous year. This was due to an increase in Land of \$4.4 million, Buildings of \$16.5 million and Improvements/Infrastructure of \$31.3 million, offset by a decrease in Construction in progress (CIP) of \$31 million. This increase is primarily due to the following completed projects:

- Pacific Operations Building totaled 13.1 million
- Public Works Operations Equipment Barn totaled 7.1 million
- Nooksack Fish Passage totaled \$18.3 million
- Orchard Drive Extension totaled \$9.4 million
- Whatcom Truck Main totaled \$7.5 million
- Ellis Bridge replacement totaled \$4.3 million

- Park Place Water Quality Facility totaled \$2.7 million
- Parks department property purchases totaled \$2.2 million
- Watershed property purchases totaled \$1.6 million

Capital assets (net of depreciation, in thousands)

| | <u>Governmental activities</u> | | <u>Business-type activities</u> | | <u>Total</u> | | <u>Increase</u> |
|---|--------------------------------|-------------------|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> | <u>(Decrease)</u> |
| Capital assets, non depreciable: | | | | | | | |
| Land | \$ 89,856 | \$ 86,991 | \$ 54,373 | \$ 52,768 | \$ 144,229 | \$ 139,759 | \$ 4,470 |
| Improvements/infrastructure | 17,615 | 17,615 | - | - | 17,615 | 17,615 | - |
| Construction in progress | 6,698 | 19,779 | 4,835 | 22,801 | 11,533 | 42,580 | (31,047) |
| Intangible right of ways | 59,420 | 59,184 | 206 | 206 | 59,626 | 59,390 | 236 |
| Capital assets, net of depreciation: | | | | | | | |
| Buildings | 42,323 | 23,043 | 85,799 | 88,600 | 128,122 | 111,643 | 16,479 |
| Improvements/infrastructure | 206,756 | 200,375 | 203,186 | 178,273 | 409,942 | 378,648 | 31,294 |
| Machinery and equipment | 17,827 | 16,869 | 1,030 | 1,215 | 18,857 | 18,084 | 773 |
| Intangible software | 1,173 | 1,183 | - | - | 1,173 | 1,183 | (10) |
| Total | \$ 441,668 | \$ 425,039 | \$ 349,429 | \$ 343,863 | \$ 791,097 | \$ 768,902 | \$ 22,195 |

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 wastewater, surface and stormwater, parks, street and facilities projects. Of the current capital commitments, \$53.2 million has been spent to date with \$7.4 million remaining.

Economic factors and Next Year’s Budget

The City of Bellingham budgets on a biennial basis. 2023 represents the first year of the 2023-2024 Biennial Budget. The budget was initially developed in 2022 and will be modified in late 2023 through a robust mid-biennial process, including an updated revenue forecast. The total budget for the biennium is \$844 million, supported by \$706 million in revenues. Expenditures exceeding revenues are primarily capital and other one-time spending.

The current budget was developed to maintain levels of service in a growing community. Investments were made in public safety, infrastructure, and public services. It uses American Rescue Plan Act dollars to support public services, remodel the Central Library and invest in affordable housing.

The current revenue forecast assumes continued economic growth through 2023 and 2024, though at a more tempered rate than the significant growth experienced in the 2021 and 2022 recovery from the COVID-19 economic crisis. The forecast anticipates economic-based revenues, such as sales tax and business and occupation taxes to regress toward historical growth rates, while growth of utility fees and associated taxes increase at a faster pace due to rate increases tied to the consumer price index. The City is carefully monitoring the macro-economic situation as persistent inflation and resulting federal fiscal policy suggest future financial headwinds for the economy and economic-based revenues. If the economic environment changes significantly, the City’s robust cash reserves position it well to weather crisis as it makes budget adjustments to ensure continued fiscal health.

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, 2022

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-----------------------------|-------------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Public Facilities District |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 36,597,955 | \$ 15,110,405 | \$ 51,708,360 | \$ 151,268 |
| Investments | 196,226,635 | 85,162,643 | 281,389,278 | 852,549 |
| Receivables, net | 22,154,001 | 4,654,207 | 26,808,208 | 381,387 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 369,083 | 1,493,367 | 1,862,450 | 132,146 |
| Investments | 2,080,161 | 8,416,657 | 10,496,818 | 744,779 |
| Due from other governments | 5,996,752 | 3,253,267 | 9,250,019 | 808 |
| Due from component units | 10,248,880 | - | 10,248,880 | - |
| Inventory | 1,086,547 | 38,709 | 1,125,256 | - |
| Prepaid items | 122,204 | 113 | 122,317 | - |
| Notes and contracts receivable | 43,379,542 | - | 43,379,542 | - |
| Net pension asset - State | 35,172,897 | 9,012,709 | 44,185,606 | - |
| Capital assets, nondepreciable: | | | | |
| Land | 89,855,636 | 54,372,830 | 144,228,466 | 1,329,860 |
| Improvements | 17,614,900 | - | 17,614,900 | - |
| Construction in progress | 6,697,558 | 4,834,941 | 11,532,499 | - |
| Intangible assets - right of ways | 59,420,153 | 206,111 | 59,626,264 | - |
| Capital assets, net of depreciation: | | | | |
| Buildings | 42,323,480 | 85,798,898 | 128,122,378 | 11,907,523 |
| Improvements | 206,756,497 | 203,185,949 | 409,942,446 | 5,080,832 |
| Machinery and equipment | 17,827,460 | 1,030,244 | 18,857,704 | - |
| Intangibles - software | 1,172,958 | - | 1,172,958 | - |
| Total assets | 795,103,299 | 476,571,050 | 1,271,674,349 | 20,581,152 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Loss on bond refunding | 837,779 | 1,842,491 | 2,680,270 | 336,086 |
| Related to pensions | 20,296,411 | 5,606,919 | 25,903,330 | - |
| Total deferred outflows of resources | 21,134,190 | 7,449,410 | 28,583,600 | 336,086 |
| LIABILITIES | | | | |
| Accounts payable | 6,537,163 | 3,451,429 | 9,988,592 | 28,034 |
| Accrued wages and benefits | 4,107,150 | 1,188,975 | 5,296,125 | - |
| Deposits | 1,626,463 | 233,907 | 1,860,370 | - |
| Internal balances | (3,131,882) | 3,131,882 | - | - |
| Due to other governments | 283,701 | 9,018 | 292,719 | 105 |
| Unearned revenue - other | 310,035 | 24,026 | 334,061 | - |
| Unearned revenue - grant funding | 16,541,719 | - | 16,541,719 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 15,306,225 | 4,630,810 | 19,937,035 | 1,775,854 |
| Due in more than one year | 109,826,175 | 67,049,701 | 176,875,876 | 8,473,026 |
| Total liabilities | 151,406,749 | 79,719,748 | 231,126,497 | 10,277,019 |

CITY OF BELLINGHAM
Government-Wide
Statement of Net Position
December 31, 2022

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|-----------------------------|-------------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Public Facilities District |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Gain on bond refunding | - | 1,342,998 | 1,342,998 | - |
| Related to OPEB | 1,729,420 | - | 1,729,420 | - |
| Related to pensions | 19,392,329 | 5,406,283 | 24,798,612 | - |
| Total deferred inflows of resources | 21,121,749 | 6,749,281 | 27,871,030 | - |
| NET POSITION | | | | |
| Net investment in capital assets | 422,913,984 | 284,847,211 | 707,761,195 | 8,405,421 |
| Restricted: | | | | |
| <i>Expendable</i> | | | | |
| Affordable housing | 52,199,928 | - | 52,199,928 | - |
| Capital improvements | 19,848,272 | 2,771,246 | 22,619,518 | - |
| Cemetery services | - | 385,709 | 385,709 | - |
| Debt service | 15,099,371 | 4,588,045 | 19,687,416 | 876,925 |
| Environmental remediation | 8,559,658 | - | 8,559,658 | - |
| Firefighter's OPEB | 13,356,992 | - | 13,356,992 | - |
| Firefighter's pension | 6,511,974 | - | 6,511,974 | - |
| Government access TV | 939,144 | - | 939,144 | - |
| Library projects | 346,422 | - | 346,422 | - |
| Net pension asset - State | 35,172,897 | 9,012,709 | 44,185,606 | - |
| Opioid settlement | 1,786,556 | - | 1,786,556 | - |
| Park maintenance and improvements | 23,648,140 | - | 23,648,140 | - |
| Public safety special purpose | 544,249 | - | 544,249 | - |
| Rental property inspections | - | 330,838 | 330,838 | - |
| Tourism | 3,777,258 | - | 3,777,258 | - |
| Transportation improvements | 18,679,852 | - | 18,679,852 | - |
| Waterfront redevelopment | 10,321,951 | - | 10,321,951 | - |
| <i>Nonexpendable</i> | | | | |
| Permanent funds principal | 9,607,350 | - | 9,607,350 | - |
| Unrestricted | 394,993 | 95,615,673 | 96,010,666 | 1,357,873 |
| Total net position | \$ 643,708,991 | \$ 397,551,431 | \$ 1,041,260,422 | \$ 10,640,219 |

CITY OF BELLINGHAM
Government-Wide
Statement of Activities
For the Year Ended December 31, 2022

| Function/Program Activities | Net (Expense) Revenue and Changes in Net Position | | | | | | | Component Unit |
|---|---|------------------------------------|----------------------------------|-------------------------|--------------------------|--------------------------|----------------------------|----------------|
| | Program Revenues | | | Primary Government | | | Public Facilities District | |
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total Primary Government | | |
| Governmental Activities | Expenses | | | | | | | |
| General Government | \$ 18,920,223 | \$ 6,712,179 | \$ - | \$ (10,256,072) | \$ - | \$ (10,256,072) | \$ - | |
| Public Safety | 63,239,397 | 6,250,989 | - | (44,860,404) | - | (44,860,404) | - | |
| Transportation | 20,390,400 | 4,691 | 5,839,945 | (12,510,516) | - | (12,510,516) | - | |
| Natural and Economic Environment | 12,976,343 | 2,831,252 | - | (7,831,622) | - | (7,831,622) | - | |
| Social Services | 564,805 | - | - | (564,805) | - | (564,805) | - | |
| Culture and Recreation | 22,125,037 | 2,740,684 | 35,000 | (19,293,758) | - | (19,293,758) | - | |
| Interest on long-term debt | 1,448,415 | - | - | (1,448,415) | - | (1,448,415) | - | |
| Total governmental activities | 139,664,620 | 21,169,377 | 15,854,706 | (96,765,592) | - | (96,765,592) | - | |
| Business-Type Activities | | | | | | | | |
| Water | 23,790,508 | 39,308 | 2,628,573 | - | 12,146,200 | 12,146,200 | - | |
| Wastewater | 28,117,143 | 2,430 | 373,257 | - | 2,007,665 | 2,007,665 | - | |
| Surface and Stormwater | 13,128,510 | 2,197,380 | 1,142,679 | - | 3,030,873 | 3,030,873 | - | |
| Cemetery | 443,294 | 449,933 | - | - | 6,639 | 6,639 | - | |
| Golf Course | 1,896,854 | 2,009,996 | - | - | 113,142 | 113,142 | - | |
| Parking | 1,850,725 | 1,827,716 | - | - | (23,009) | (23,009) | - | |
| Medic One | 10,841,327 | 9,863,265 | 211,691 | - | (766,371) | (766,371) | - | |
| Development Services | 3,812,001 | 3,994,626 | 8,105 | - | 190,730 | 190,730 | - | |
| Total business-type activities | 83,880,362 | 93,982,808 | 2,458,914 | - | 16,705,869 | 16,705,869 | - | |
| Total primary government | \$ 223,544,982 | \$ 115,152,185 | \$ 18,313,620 | \$ 10,019,454 | \$ (96,765,592) | \$ (80,059,723) | \$ - | |
| Component Unit | | | | | | | | |
| Public Facilities District | \$ 1,121,359 | \$ 7,599 | \$ - | \$ - | \$ - | \$ - | \$ (1,113,760) | |
| General revenues | | | | | | | | |
| Taxes: | | | | | | | | |
| Property | | | | 28,991,000 | - | 28,991,000 | - | |
| Sales and use | | | | 50,940,259 | 1,096,583 | 52,036,842 | 2,194,587 | |
| Business | | | | 43,999,574 | - | 43,999,574 | - | |
| Real estate excise | | | | 6,285,462 | - | 6,285,462 | - | |
| Leasehold | | | | 612,395 | - | 612,395 | - | |
| Admissions | | | | 408,552 | - | 408,552 | - | |
| Investment income | | | | (8,877,903) | (4,297,471) | (13,175,374) | (66,233) | |
| Miscellaneous | | | | 4,758,207 | 483,694 | 5,241,901 | 32,082 | |
| Transfers | | | | 724,274 | (724,274) | - | - | |
| Total general revenues and transfers | | | | 127,841,820 | (3,441,466) | 124,400,352 | 2,160,436 | |
| Change in net position | | | | 31,076,228 | 13,264,401 | 44,340,629 | 1,046,676 | |
| Net position - beginning | | | | 612,632,763 | 384,287,030 | 996,919,793 | 9,593,543 | |
| Net position - ending | | | | \$ 643,708,991 | \$ 397,551,431 | \$ 1,041,260,422 | \$ 10,640,219 | |

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

CITY OF BELLINGHAM
Balance Sheet
Governmental Funds
December 31, 2022

| | General | Nonmajor Governmental Fund Totals | Governmental Funds Total |
|--|--------------------|---|-----------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 19,115,729 | \$ 13,506,270 | \$ 32,621,999 |
| Investments | 124,800,901 | 49,017,150 | 173,818,051 |
| Receivables, net | 17,919,851 | 3,255,321 | 21,175,172 |
| Due from other funds | 1,631,881 | 22,707 | 1,654,588 |
| Due from other governments | 3,566,326 | 2,107,186 | 5,673,512 |
| Due from component units | - | 10,248,880 | 10,248,880 |
| Interfund loans receivable | 1,500,000 | 962,148 | 2,462,148 |
| Prepaid items | 56,424 | 35 | 56,459 |
| Notes and contracts receivable | 1,526,843 | 41,852,699 | 43,379,542 |
| Total assets | 170,117,955 | 120,972,396 | 291,090,351 |
| LIABILITIES | | | |
| Accounts payable | 3,206,796 | 1,000,851 | 4,207,647 |
| Accrued wages and benefits | 3,210,584 | 320,217 | 3,530,801 |
| Deposits | 698,172 | 1,298 | 699,470 |
| Due to other funds | - | 22,707 | 22,707 |
| Interfund loans payable | - | 962,147 | 962,147 |
| Due to other governments | 72,851 | - | 72,851 |
| Unearned revenue - other | 65,035 | - | 65,035 |
| Unearned revenue - grant funding | 16,141,719 | 400,000 | 16,541,719 |
| Total liabilities | 23,395,157 | 2,707,220 | 26,102,377 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - aid fees | 1,066,524 | - | 1,066,524 |
| Unavailable revenue - fines | 510,976 | - | 510,976 |
| Unavailable revenue - impact fees | 25,277 | - | 25,277 |
| Unavailable revenue - property taxes | 246,604 | 41,287 | 287,891 |
| Unavailable revenue - settlement | 1,786,556 | - | 1,786,556 |
| Total deferred inflows of resources | 3,635,937 | 41,287 | 3,677,224 |

CITY OF BELLINGHAM
Balance Sheet
Governmental Funds
December 31, 2022

| | General | Nonmajor Governmental Fund Totals | Governmental Funds Total |
|---|-----------------------|---|-----------------------------|
| FUND BALANCES | | | |
| <i>Nonspendable:</i> | | | |
| Permanent funds principal | - | 9,607,350 | 9,607,350 |
| Prepaid items | 56,424 | 35 | 56,459 |
| <i>Restricted:</i> | | | |
| Affordable housing | 326,843 | 51,832,929 | 52,159,772 |
| Capital improvements | 19,848,272 | - | 19,848,272 |
| Debt service | - | 15,099,371 | 15,099,371 |
| Environmental remediation | - | 8,559,658 | 8,559,658 |
| Firefighter's OPEB | 13,330,050 | - | 13,330,050 |
| Firefighter's pension | 6,511,974 | - | 6,511,974 |
| Government access TV | - | 939,144 | 939,144 |
| Library projects | - | 346,422 | 346,422 |
| Park maintenance and improvements | 23,583,195 | - | 23,583,195 |
| Public safety special purpose | - | 544,249 | 544,249 |
| Tourism | - | 3,777,258 | 3,777,258 |
| Transportation improvements | 1,404,060 | 17,264,498 | 18,668,558 |
| Waterfront redevelopment | - | 10,320,821 | 10,320,821 |
| <i>Committed:</i> | | | |
| Legal environmental remediation | 645,126 | - | 645,126 |
| Police officer's OPEB | 4,383,523 | - | 4,383,523 |
| Police officer's pension | 4,283,633 | - | 4,283,633 |
| <i>Assigned:</i> | | | |
| Public safety donations | 4,342 | - | 4,342 |
| Streets | 21,122,040 | - | 21,122,040 |
| <i>Unassigned</i> | 47,587,379 | (67,846) | 47,519,533 |
| Total fund balances | \$ 143,086,861 | \$ 118,223,889 | \$ 261,310,750 |
| | | | |
| Total liabilities, deferred inflows of resources and fund balances | \$ 170,117,955 | \$ 120,972,396 | \$ 291,090,351 |

CITY OF BELLINGHAM
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2022

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

| | | |
|--|--------------|-----------------------|
| Total fund balance of governmental funds | | \$ 261,310,750 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 398,309,270 |
| The following long-term assets and deferred outflows of resources are not available to pay for current period expenditures, and, therefore, are not reported in the funds: | | |
| Accrued investment interest | 439,279 | |
| Deferred loss on bond refunding | 837,779 | |
| Deferred pension outflows | 18,004,300 | |
| Net pension asset - State | 32,905,921 | |
| Unavailable revenue | 3,677,224 | |
| | | 55,864,503 |
| Internal service funds are used by management to charge the cost of certain internal functions, goods, and services to other funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position. | | 41,931,237 |
| The following long-term liabilities and deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Accrued interest payable on long-term debt | (42,640) | |
| Compensated absences | (6,845,536) | |
| Deferred OPEB inflows | (1,729,420) | |
| Deferred pension inflows | (17,053,779) | |
| General obligation bonds, loans, and notes payable | (14,614,819) | |
| Net Pension Liability - State | (3,930,889) | |
| Pollution remediation costs | (41,158,138) | |
| Premiums on long-term debt | (1,123,883) | |
| Total OPEB liability | (22,707,434) | |
| Total pension liability - City | (4,500,231) | |
| | | (113,706,769) |
| Net position of governmental activities | | \$ 643,708,991 |

CITY OF BELLINGHAM
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2022

| | General | Nonmajor Governmental Funds | Governmental Funds Total |
|---|-----------------------|-----------------------------------|-----------------------------|
| REVENUES | | | |
| Taxes: | | | |
| Property | \$ 24,838,233 | \$ 4,123,380 | \$ 28,961,613 |
| Sales and use | 35,141,224 | 14,819,187 | 49,960,411 |
| Business | 41,611,303 | 2,388,271 | 43,999,574 |
| Real estate excise | 6,285,462 | - | 6,285,462 |
| Leasehold | 612,395 | - | 612,395 |
| Admissions | 408,552 | - | 408,552 |
| Licenses and permits | 970,081 | 308,856 | 1,278,937 |
| Intergovernmental | 13,341,275 | 6,574,789 | 19,916,064 |
| Charges for services | 11,406,491 | 7,746,459 | 19,152,950 |
| Fines and penalties | 285,823 | - | 285,823 |
| Investment income | (5,880,625) | (2,273,673) | (8,154,298) |
| Miscellaneous | 1,445,962 | 1,381,285 | 2,827,247 |
| Total revenues | 130,466,176 | 35,068,554 | 165,534,730 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 16,742,522 | 62,358 | 16,804,880 |
| Public safety | 60,231,496 | 8,694,700 | 68,926,196 |
| Transportation | 10,679,741 | 3,135,706 | 13,815,447 |
| Natural and economic environment | 5,326,632 | 6,420,670 | 11,747,302 |
| Social services | 564,805 | - | 564,805 |
| Cultural and recreation | 20,159,892 | 104,850 | 20,264,742 |
| Debt service: | | | |
| Principal | - | 2,835,232 | 2,835,232 |
| Interest and related charges | 96 | 619,584 | 619,680 |
| Capital outlay | 6,110,817 | 2,208,993 | 8,319,810 |
| Total expenditures | 119,816,001 | 24,082,093 | 143,898,094 |
| Revenues over (under) expenditures | 10,650,175 | 10,986,461 | 21,636,636 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 3,330,424 | 3,330,424 |
| Transfers out | (3,489,662) | (1,221,589) | (4,711,251) |
| Total other financing sources and (uses) | (3,489,662) | 2,108,835 | (1,380,827) |
| Net change in fund balances | 7,160,513 | 13,095,296 | 20,255,809 |
| Fund balances - beginning | 135,926,348 | 105,128,593 | 241,054,941 |
| Fund balances - ending | \$ 143,086,861 | \$ 118,223,889 | \$ 261,310,750 |

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, 2022

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

Net change in fund balances - total governmental funds **\$ 20,255,809**

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives. The following capital asset activities are not financial resources and, therefore, are not reported in the funds:

| | | |
|--|-------------|-------------|
| Purchases and construction | 8,319,810 | |
| Contractor contributions and donations | 1,566,414 | |
| Abandonments and retirements | (1,939,354) | |
| Depreciation | (9,085,293) | |
| | | (1,138,423) |

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

| | | |
|---------------------------------|-----------|-----------|
| Accrued investment interest | 174,193 | |
| Deferred loss on bond refunding | (165,460) | |
| Unavailable revenue | 2,267,610 | |
| | | 2,276,343 |

Internal service funds are used by management to charge the cost of certain internal functions, goods, and services to individual funds. The net revenue, or the change in net position, of internal service funds is reported with governmental activities. 858,262

Some expenses reported in the statement of activities do not require the use current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|---|-------------|-----------|
| Accrued interest on long-term debt | 8,448 | |
| Changes in OPEB liabilities and related deferred outflows and inflows of resources | 5,660,605 | |
| Changes in pension liabilities and related deferred outflows and inflows of resources | 1,087,150 | |
| Changes in net pension assets and related deferred outflows and inflows of resources | 1,599,446 | |
| Changes in compensated absences | (1,007,865) | |
| Changes in pollution remediation costs | (1,593,926) | |
| Changes in general obligation bonds, loans, and notes payable | 2,835,232 | |
| Amortization of bond premiums and discounts and deferred amounts of refunding | 235,147 | |
| | | 8,824,237 |

Change in net position of governmental activities **\$ 31,076,228**

CITY OF BELLINGHAM
Statement of Net Position
Proprietary Funds
December 31, 2022

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities | |
|---|---|--------------------|------------------------|---------------------------------|-------------------------|------------------------|
| | Water | Wastewater | Surface and Stormwater | Nonmajor Enterprise Fund Totals | Enterprise Fund Totals | Internal Service Funds |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 5,499,714 | \$ 6,678,861 | \$ 1,614,297 | \$ 1,317,533 | \$ 15,110,405 | \$ 3,975,956 |
| Investments | 30,996,532 | 37,642,234 | 9,098,223 | 7,425,654 | 85,162,643 | 22,408,584 |
| Receivables, net | 1,656,432 | 1,900,348 | 687,394 | 410,033 | 4,654,207 | 539,550 |
| Due from other governments | 11,001 | 4,099 | 331,535 | 2,906,632 | 3,253,267 | 323,240 |
| Inventory | - | - | - | 38,709 | 38,709 | 1,086,547 |
| Prepaid items | - | - | - | 113 | 113 | 65,745 |
| Restricted cash and cash equivalents | 243,253 | 274,403 | - | - | 517,656 | 369,083 |
| Restricted investments | 1,370,976 | 1,546,543 | - | - | 2,917,519 | 2,080,161 |
| Total current assets | 39,777,908 | 48,046,488 | 11,731,449 | 12,098,674 | 111,654,519 | 30,848,866 |
| Noncurrent assets: | | | | | | |
| Restricted cash and cash equivalents | 181,598 | 726,167 | - | 67,946 | 975,711 | - |
| Restricted investments | 1,023,493 | 4,092,700 | - | 382,945 | 5,499,138 | - |
| Net pension asset - State | 941,321 | 962,221 | 579,370 | 6,529,797 | 9,012,709 | 2,266,976 |
| Capital assets, nondepreciable: | | | | | | |
| Land | 44,046,490 | 3,925,297 | 4,879,408 | 1,521,635 | 54,372,830 | 40,102 |
| Construction in progress | 439,491 | 4,240,018 | 155,432 | - | 4,834,941 | 1,371,831 |
| Intangibles - right of ways | - | 118,769 | 87,342 | - | 206,111 | - |
| Capital assets, net of depreciation: | | | | | | |
| Buildings | 4,826,832 | 78,854,288 | - | 2,117,778 | 85,798,898 | 20,998,659 |
| Improvements | 99,417,572 | 58,131,777 | 45,155,315 | 481,285 | 203,185,949 | 4,970,074 |
| Machinery and equipment | 222,792 | 707,393 | 24,178 | 75,881 | 1,030,244 | 15,517,724 |
| Intangibles - software | - | - | - | - | - | 460,982 |
| Total noncurrent assets | 151,099,589 | 151,758,630 | 50,881,045 | 11,177,267 | 364,916,531 | 45,626,348 |
| Total assets | 190,877,497 | 199,805,118 | 62,612,494 | 23,275,941 | 476,571,050 | 76,475,214 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Loss on bond refunding | 137,451 | 1,705,040 | - | - | 1,842,491 | - |
| Related to pensions | 951,757 | 972,889 | 585,793 | 3,096,480 | 5,606,919 | 2,292,111 |
| Total deferred outflows of resources | 1,089,208 | 2,677,929 | 585,793 | 3,096,480 | 7,449,410 | 2,292,111 |

CITY OF BELLINGHAM
Statement of Net Position
Proprietary Funds
December 31, 2022

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities | |
|--|---|-----------------------|------------------------|---------------------------------|-------------------------|------------------------|
| | Water | Wastewater | Surface and Stormwater | Nonmajor Enterprise Fund Totals | Enterprise Fund Totals | Internal Service Funds |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 547,346 | 1,703,854 | 756,911 | 443,318 | 3,451,429 | 2,329,516 |
| Accrued wages and benefits | 220,933 | 269,231 | 169,814 | 528,997 | 1,188,975 | 576,349 |
| Deposits | 2,596 | 3,201 | 64,188 | 163,922 | 233,907 | 884,353 |
| Due to other funds | - | - | - | 3,131,882 | 3,131,882 | - |
| Due to other governments | - | - | - | 9,018 | 9,018 | 210,850 |
| Unearned revenue | 24,026 | - | - | - | 24,026 | 30,000 |
| Current portion of noncurrent liabilities: | | | | | | |
| Bonds payable, net | 805,000 | 1,003,324 | - | - | 1,808,324 | 721,855 |
| Compensated absences | 282,216 | 328,296 | 167,156 | 1,014,451 | 1,792,119 | 611,584 |
| Intergovernmental loans | 714,807 | 20,373 | 295,187 | - | 1,030,367 | - |
| Claims and judgments payable | - | - | - | - | - | 2,119,737 |
| Total current liabilities | 2,596,924 | 3,328,279 | 1,453,256 | 5,291,588 | 12,670,047 | 7,484,244 |
| Noncurrent liabilities: | | | | | | |
| Bonds payable, net | 1,690,000 | 52,684,747 | - | - | 54,374,747 | 24,505,085 |
| Compensated absences | 52,373 | 31,474 | 29,451 | 95,177 | 208,475 | 163,836 |
| Intergovernmental loans | 7,862,873 | 414,412 | 2,401,726 | - | 10,679,011 | - |
| Claims and judgments payable | - | - | - | - | - | 825,000 |
| Other noncurrent liabilities | - | - | - | - | - | 215,000 |
| Net pension liability - State | 541,617 | 553,643 | 333,359 | 358,849 | 1,787,468 | 1,304,373 |
| Total noncurrent liabilities | 10,146,863 | 53,684,276 | 2,764,536 | 454,026 | 67,049,701 | 27,013,294 |
| Total liabilities | 12,743,787 | 57,012,555 | 4,217,792 | 5,745,614 | 79,719,748 | 34,497,538 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Gain on bond refunding | - | 1,342,998 | - | - | 1,342,998 | - |
| Related to pensions | 971,040 | 992,600 | 597,661 | 2,844,982 | 5,406,283 | 2,338,550 |
| Total deferred inflows of resources | 971,040 | 2,335,598 | 597,661 | 2,844,982 | 6,749,281 | 2,338,550 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 138,017,947 | 94,840,281 | 47,792,403 | 4,196,580 | 284,847,211 | 26,441,416 |
| Restricted: | | | | | | |
| Capital improvements | 944,929 | 1,826,317 | - | - | 2,771,246 | - |
| Cemetery endowment / preneed | - | - | - | 385,709 | 385,709 | - |
| Debt service | 593,991 | 3,994,054 | - | - | 4,588,045 | - |
| Net pension asset - State | 941,321 | 962,221 | 579,370 | 6,529,797 | 9,012,709 | 2,266,976 |
| Rental property inspections | - | - | - | 330,838 | 330,838 | - |
| Unrestricted | 37,753,690 | 41,512,021 | 10,011,061 | 6,338,901 | 95,615,673 | 13,222,845 |
| Total net position | \$ 178,251,878 | \$ 143,134,894 | \$ 58,382,834 | \$ 17,781,825 | \$ 397,551,431 | \$ 41,931,237 |

CITY OF BELLINGHAM
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2022

| | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities |
|---|---|-----------------------|---------------------------|---------------------------------------|---------------------------|----------------------------|
| | Water | Wastewater | Surface and Stormwater | Nonmajor Enterprise Fund Totals | Enterprise Fund Totals | Internal Service Funds |
| Operating revenues: | | | | | | |
| Sales of merchandise | \$ - | \$ - | \$ - | \$ 605,154 | \$ 605,154 | \$ 2,725,940 |
| Charges for services | 33,268,827 | 29,749,121 | 12,819,324 | 17,540,382 | 93,377,654 | 35,877,870 |
| Total operating revenues | <u>33,268,827</u> | <u>29,749,121</u> | <u>12,819,324</u> | <u>18,145,536</u> | <u>93,982,808</u> | <u>38,603,810</u> |
| Operating expenses: | | | | | | |
| Labor | 3,516,913 | 4,700,918 | 2,414,930 | 11,446,994 | 22,079,755 | 10,494,569 |
| Materials and supplies | 1,789,617 | 1,652,942 | 246,368 | 764,980 | 4,453,907 | 4,554,160 |
| Services | 5,010,153 | 11,400,297 | 2,805,231 | 5,211,864 | 24,427,545 | 9,902,834 |
| Depreciation | 3,488,001 | 4,325,707 | 1,368,865 | 188,382 | 9,370,955 | 2,681,163 |
| Taxes | 7,109,342 | 4,060,268 | 1,667,165 | 19,152 | 12,855,927 | 4,374 |
| Insurance | 308,469 | 108,233 | 71,574 | 109,069 | 597,345 | 2,031,246 |
| Claims | - | - | - | 29,316 | 29,316 | 9,777,518 |
| Total operating expenses | <u>21,222,495</u> | <u>26,248,365</u> | <u>8,574,133</u> | <u>17,769,757</u> | <u>73,814,750</u> | <u>39,445,864</u> |
| Operating income (loss) | 12,046,332 | 3,500,756 | 4,245,191 | 375,779 | 20,168,058 | (842,054) |
| Nonoperating revenues (expenses): | | | | | | |
| External grants and subsidies | 39,308 | 2,430 | 2,197,380 | 219,796 | 2,458,914 | 218,645 |
| Assessments and tax levies | - | - | - | 1,096,583 | 1,096,583 | 979,848 |
| Investment interest | 424,190 | 623,016 | 118,322 | 82,257 | 1,247,785 | 387,059 |
| Net incr (decr) in fair value of investments | (2,056,868) | (2,477,865) | (551,611) | (458,912) | (5,545,256) | (1,284,857) |
| Interest expense and related charges | (208,669) | (1,587,640) | (69,849) | - | (1,866,158) | (837,183) |
| Gain (loss) on sale of capital assets | - | - | - | - | - | (41,229) |
| Other nonoperating revenues | 157,398 | 72,384 | 11,262 | 242,656 | 483,700 | 144,404 |
| Other nonoperating expenses | (2,359,344) | (281,138) | (4,484,528) | (1,074,444) | (8,199,454) | - |
| Total nonoperating revenues (expenses) | <u>(4,003,985)</u> | <u>(3,648,813)</u> | <u>(2,779,024)</u> | <u>107,936</u> | <u>(10,323,886)</u> | <u>(433,313)</u> |
| Income (loss) before contributions and transfers | 8,042,347 | (148,057) | 1,466,167 | 483,715 | 9,844,172 | (1,275,367) |
| Capital grants and contributions | 2,628,573 | 373,257 | 1,142,679 | - | 4,144,509 | 28,528 |
| Transfers in | - | - | 560,000 | 44,000 | 604,000 | 6,660,644 |
| Transfers out | (407,604) | (405,802) | (401,713) | (113,161) | (1,328,280) | (4,555,543) |
| Change in net position | 10,263,316 | (180,602) | 2,767,133 | 414,554 | 13,264,401 | 858,262 |
| Total net position - beginning | 167,988,562 | 143,315,496 | 55,615,701 | 17,367,271 | 384,287,030 | 41,072,975 |
| Total net position - ending | <u>\$ 178,251,878</u> | <u>\$ 143,134,894</u> | <u>\$ 58,382,834</u> | <u>\$ 17,781,825</u> | <u>\$ 397,551,431</u> | <u>\$ 41,931,237</u> |

CITY OF BELLINGHAM
Statement of Cash flows
Proprietary Funds
For the Year Ended December 31, 2022

| | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities |
|--|--|---------------------|-----------------------------------|--|-----------------------------------|------------------------------------|
| | Water | Wastewater | Surface and Stormwater | Nonmajor Enterprise Fund Totals | Enterprise Fund Totals | Internal Service Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Receipts from outside customers | \$ 33,410,065 | \$ 29,720,805 | \$ 12,572,687 | \$ 16,032,013 | \$ 91,735,570 | \$ 137,840 |
| Receipts from interfund services provided | | | | - | - | 43,018,369 |
| Payments to employees | (3,953,205) | (5,071,396) | (2,445,954) | (12,539,270) | (24,009,825) | (11,444,573) |
| Payments to suppliers and service providers | (11,112,507) | (14,848,046) | (2,921,910) | (1,269,105) | (30,151,568) | (16,999,357) |
| Payments to claimants | - | - | - | (29,316) | (29,316) | (9,766,339) |
| Payments for interfund services used | (3,235,835) | (2,348,632) | (1,920,054) | (2,120,432) | (9,624,953) | (3,418,768) |
| Other receipts | 157,398 | 72,384 | 11,262 | 242,662 | 483,706 | 144,404 |
| Other payments | (2,359,344) | (281,138) | (4,484,528) | - | (7,125,010) | - |
| Net cash from operating activities | 12,906,572 | 7,243,977 | 811,503 | 316,552 | 21,278,604 | 1,671,576 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Transfers in from other funds | - | - | - | 44,000 | 44,000 | 5,746,385 |
| Transfers out to other funds | (407,604) | (405,802) | (401,713) | (113,161) | (1,328,280) | (3,641,284) |
| Operating grants and loans | 65,910 | 2,430 | 2,152,645 | 219,796 | 2,440,781 | 218,645 |
| Excise tax receipts | - | - | - | 1,096,583 | 1,096,583 | 979,848 |
| Taxes passed on to other governments | - | - | - | (1,074,444) | (1,074,444) | - |
| Net cash from noncapital financing activities | (341,694) | (403,372) | 1,750,932 | 172,774 | 1,178,640 | 3,303,594 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | | | | |
| Transfers in from other funds | - | - | 560,000 | - | 560,000 | - |
| Proceeds from issuance of capital bonds | - | - | - | - | - | (81,855) |
| Capital grants and loans | 5,177,073 | - | 615,395 | - | 5,792,468 | 28,528 |
| Contributions from developers | - | - | 243,915 | - | 243,915 | - |
| Principal payments on capital debt | (1,600,090) | (733,565) | (700,934) | - | (3,034,589) | (610,000) |
| Interest payments on capital debt | (195,542) | (1,849,022) | (69,849) | - | (2,114,413) | (839,725) |
| Purchases of capital assets | (2,649,827) | (9,566,571) | (645,220) | - | (12,861,618) | (20,697,649) |
| Sale of capital assets | - | - | - | - | - | 207,334 |
| Net cash from capital financing activities | 731,614 | (12,149,158) | 3,307 | - | (11,414,237) | (21,993,367) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds from sales and maturity of investments | 1,879,130 | 6,903,553 | - | 1,421,739 | 10,204,422 | 18,874,264 |
| Purchase of investments | (14,899,387) | (5,584,803) | (2,693,816) | (2,331,188) | (25,509,194) | (6,807,579) |
| Interest and dividends received | 370,960 | 591,441 | 105,574 | 74,200 | 1,142,175 | 392,475 |
| Net cash from investment activities | (12,649,297) | 1,910,191 | (2,588,242) | (835,249) | (14,162,597) | 12,459,160 |
| Net increase (decrease) in cash and equivalents | 647,195 | (3,398,362) | (22,500) | (345,923) | (3,119,590) | (4,559,037) |
| Cash and cash equivalents - beginning of year | 5,277,370 | 11,077,793 | 1,636,797 | 1,731,402 | 19,723,362 | 8,904,076 |
| Cash and cash equivalents - end of year | \$ 5,924,565 | \$ 7,679,431 | \$ 1,614,297 | \$ 1,385,479 | \$ 16,603,772 | \$ 4,345,039 |

CITY OF BELLINGHAM
Statement of Cash flows
Proprietary Funds
For the Year Ended December 31, 2022

| | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities |
|--|--|---------------------|-----------------------------------|--|-----------------------------------|------------------------------------|
| | Water | Wastewater | Surface and Stormwater | Nonmajor Enterprise Fund Totals | Enterprise Fund Totals | Internal Service Funds |
| Reconciliation of operating income (loss) to net cash from operating activities: | | | | | | |
| Operating income (loss) | \$ 12,046,332 | \$ 3,500,756 | \$ 4,245,191 | \$ 375,779 | \$ 20,168,058 | \$ (842,054) |
| <i>Adjustments to reconcile operating income (loss) to net cash from operating activities:</i> | | | | | | |
| Depreciation | 3,488,001 | 4,325,707 | 1,368,865 | 188,382 | 9,370,955 | 2,681,163 |
| Pension expense - proportionate share | (422,507) | (430,240) | (258,594) | (1,331,083) | (2,442,424) | (1,018,931) |
| Miscellaneous income | 157,398 | 72,384 | 11,262 | 242,662 | 483,706 | 144,404 |
| Miscellaneous expense | (2,359,344) | (281,138) | (4,484,528) | - | (7,125,010) | - |
| (Increase) decrease in accounts receivable | (48,237) | (28,114) | (162,590) | 59,059 | (179,882) | (164,809) |
| (Increase) decrease in due from other governments | 189,475 | (202) | (84,047) | (2,172,582) | (2,067,356) | (305,007) |
| (Increase) decrease in inventories | - | - | - | (7,242) | (7,242) | (167,747) |
| (Increase) decrease in prepaid items | - | - | - | (113) | (113) | (31,716) |
| Increase (decrease) in accounts payable | (164,935) | 35,673 | 104,751 | 16,235 | (8,276) | 1,170,119 |
| Increase (decrease) in wages and benefits payable | (13,785) | 59,762 | 50,404 | 238,807 | 335,188 | 68,927 |
| Increase (decrease) in revenues collected in advance | 25,472 | (16,201) | 17,659 | - | 26,930 | - |
| Increase (decrease) in due to other funds | - | - | - | 2,658,442 | 2,658,442 | - |
| Increase (decrease) in due to other governments | - | - | - | (1,152) | (1,152) | 42,369 |
| Increase (decrease) in other current liabilities | - | - | - | 15,394 | 15,394 | 622,281 |
| Increase (decrease) in other long-term liabilities | 8,702 | 5,590 | 3,130 | 33,964 | 51,386 | (527,423) |
| Total Adjustments | 860,240 | 3,743,221 | (3,433,688) | (59,227) | 1,110,546 | 2,513,630 |
| Net cash from operating activities | \$ 12,906,572 | \$ 7,243,977 | \$ 811,503 | \$ 316,552 | \$ 21,278,604 | \$ 1,671,576 |
| Schedule of noncash activities: | | | | | | |
| Net change in fair value of investments | (2,056,868) | (2,477,865) | (551,611) | (458,912) | (5,545,256) | (1,284,857) |
| Contributions from developers | 1,090,993 | 373,257 | 610,912 | - | 2,075,162 | - |

CITY OF BELLINGHAM
Statement of Fiduciary Net Position
Fiduciary Fund
December 31, 2022

| | Custodial Fund |
|----------------------------------|-----------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 123,951 |
| Leasehold tax receivable | 30,574 |
| Total assets | 154,525 |
| LIABILITIES | |
| Due to other governments | 154,525 |
| Total liabilities | 154,525 |
| NET POSITION | |
| Restricted for other governments | - |
| Total net position | \$ - |

CITY OF BELLINGHAM
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended December 31, 2022

| | Custodial Fund |
|----------------------------------|-----------------------|
| ADDITIONS | |
| Court shared revenue collections | \$ 264,374 |
| Leasehold tax collections | 130,770 |
| Total additions | 395,144 |
| DEDUCTIONS | |
| Court shared revenue remittances | 264,374 |
| Leasehold tax remittances | 130,770 |
| Total deductions | 395,144 |
| Change in net position | - |
| Net position - beginning | - |
| Net position - ending | \$ - |

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.

As required by the generally accepted accounting principles the financial statements present the City and its component unit. The component unit discussed below is included in the City reporting entity because of the significance of its financial relationships with 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

Discretely presented component unit

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.

As a discrete component unit, the PFD is reported in its own column in the government-wide basic financial statements. Separately issued financial statements may be obtained by writing to:

City of Bellingham
Finance Director
210 Lottie St.
Bellingham, WA 98225
adasbjornsen@cob.org

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 the nonfiduciary activities of the primary government and its component units. *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.

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. To comply with GASB Statement No. 54 and GASB Statement No. 84 several former special revenue funds and two former fiduciary funds are reported in the *General fund*. There are a total of eight funds in addition to the originally budgeted *General fund* that roll up as part of the combined *General fund* presented in the ACFR. 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 three 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.

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. The City reports the *Guaranty Deposit* fund as a custodial fund.

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 funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

The custodial fund uses the economic resources measurement focus and 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
- 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 of more than 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 assets that applies to future periods 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 assets that applies to future periods 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 the Guild of Pacific Northwest Employees Local 1937 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.

Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The operating revenues of the proprietary funds are charges to customers for sales and services and sales of merchandise both of which are directly related to the fund's principal operations. Operating expenses for enterprise and internal service funds include labor, materials and supplies, services, depreciation, taxes, insurance, and claims all of which are directly related to the fund's principal operations. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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. For

purposes of calculating the restricted net position related to the net pension asset, the City includes the net pension asset only.

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 fiduciary net position of the City of Bellingham Firefighters' (FHC), City of Bellingham Police Officers' (PHC) healthcare 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, 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 they are 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.

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 the Deputy Finance Director. 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 it's 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 eight 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.

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. Excess of expenditures over appropriations

As of December 31, 2022, there has been no material violation of finance related legal or contractual provisions in any City governmental fund.

C. Deficit fund equity

Fund 160 – The *Public Safety Dispatch fund* has a deficit net position of \$67.8 thousand. The deficit is due primarily to a \$375 thousand Fire Dispatch Station remodel.

3. Deposits and investments

Deposits

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the City would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The City's deposits are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The City does not have a deposit policy for custodial credit risk.

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, 2022.

The City is a participant in the Washington State Local Government Investment Pool (LGIP), an external investment vehicle operated by the Washington State Treasurer. The pool is neither rated nor registered with the SEC. Oversight is provided by the State Finance Committee in accordance with RCW 43.250. The LGIP offers 100% liquidity to its participants. The amortized cost of the position in the LGIP is the purchase price and is reported by the City as *cash and cash equivalents*.

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

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. To minimize risk of loss arising from interest rate fluctuations, the City manages its exposure to declines in fair values by limiting the maximum maturity length of investments to five years.

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 investments as of December 31, 2022

| Investment type / issuer | Fair value | Maturity period | | | % of total | Moody's rating |
|---|-----------------------|----------------------|----------------------|-----------------------|-------------|----------------|
| | | ≥ 3 months | 4-12 months | 1-5 years | | |
| U.S. Treasury Securities (explicitly guaranteed): | | | | | | |
| U.S. Treasury Notes | \$ 47,648,825 | \$ - | \$ 9,720,310 | \$ 37,928,515 | 16.24% | |
| U.S. Agency Securities (implicitly guaranteed): | | | | | | |
| Federal Farm Credit Bank (FFCB) | 90,359,404 | 4,975,740 | 4,940,755 | 80,442,909 | 30.79% | Aaa |
| Federal Home Loan Bank (FHLB) | 52,162,606 | 4,970,870 | 4,802,770 | 42,388,966 | 17.77% | Aaa |
| Federal National Mortgage Association (FNMA) | 37,243,865 | 4,994,290 | 9,607,780 | 22,641,795 | 12.69% | Aaa |
| Federal Home Loan Mortgage Corp. (FHLMC) | 22,442,280 | - | 9,862,340 | 12,579,940 | 7.65% | Aaa |
| Farmer MAC (FMAC) | 8,517,799 | - | - | 8,517,799 | 2.90% | Aaa |
| Municipal Bonds: | | | | | | |
| State of Georgia GO | 4,974,300 | - | 4,974,300 | - | 1.69% | Aaa |
| Tulsa County OK ISD 5 GO | 4,953,600 | - | 4,953,600 | - | 1.69% | Aa2 |
| New York City GO | 4,930,750 | - | 4,930,750 | - | 1.68% | Aa1 |
| Energy Northwest WA REV | 3,320,133 | - | 3,320,133 | - | 1.13% | Aa2 |
| New York City GO | 4,656,550 | - | - | 4,656,550 | 1.59% | Aa1 |
| Ecorse Township ISD GO | 4,553,250 | - | - | 4,553,250 | 1.55% | Aaa |
| Midlothian TX ISD GO | 3,392,491 | - | - | 3,392,491 | 1.16% | Aaa |
| University of WA GO | 3,146,920 | - | - | 3,146,920 | 1.07% | Aaa |
| Colton CA JUSD GO | 1,180,650 | - | - | 1,180,650 | 0.40% | Aa3 |
| Total investments at fair value | \$ 293,483,424 | \$ 14,940,900 | \$ 57,112,738 | \$ 221,429,786 | 100% | |

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

| Bellingham-Whatcom Public Facilities District | |
|---|---------------------|
| Cash and cash equivalents | |
| Local Government Investment Pool | \$ 181,590 |
| Deposits | 101,824 |
| Total cash and cash equivalents | 283,414 |
| Investments at fair value | |
| U.S. Treasury Securities | 259,336 |
| U.S. Agency Securities | 1,146,908 |
| Municipal Bonds | 191,084 |
| Total investments | 1,597,328 |
| Total deposits and investments | \$ 1,880,742 |

| Reconciliation to basic financial statements | |
|---|-----------------------|
| Total investments at fair value | \$ 293,483,424 |
| Cash and cash equivalents | |
| Local Government Investment Pool | 34,585,044 |
| Deposits with bank | 19,393,131 |
| Total cash and cash equivalents | 53,978,175 |
| <i>Less:</i> | |
| Fiduciary fund cash and investments | (123,951) |
| Government-wide SNP cash and investments | \$ 347,337,648 |

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered fair value hierarchy as follows:

Level 1: Quoted prices for identical investments in active markets;

Level 2: Observable inputs other than those in Level 1; and

Level 3: Unobservable inputs.

Debt securities classified as Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 are valued based on price data obtained from observed transactions and market price quotations from broker dealers. Securities classified as Level 3 have limited trade information, these securities are priced or using the last trade price or estimated using recent trade prices.

Fair value measurement as of December 31, 2022

| Investments by fair value level | Level 1 | Level 2 | Level 3 | Totals |
|--|----------------------|-----------------------|-------------|-----------------------|
| U.S. Treasury Securities | \$ 47,648,825 | \$ - | \$ - | \$ 47,648,825 |
| U.S. Agency Securities | - | 210,725,955 | - | 210,725,955 |
| Municipal Bonds | - | 35,108,644 | - | 35,108,644 |
| Total investments by fair value level | \$ 47,648,825 | \$ 245,834,599 | \$ - | \$ 293,483,424 |

4. Receivables

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

Receivables as of December 31, 2022

| Governmental funds | General | Nonmajor governmental |
|-----------------------------------|----------------------|-----------------------|
| Taxes | \$ 6,578,749 | \$ 2,322,360 |
| Accounts | 22,003,641 | 932,961 |
| Gross receivables | 28,582,390 | 3,255,321 |
| Less: allowance for uncollectible | (10,662,539) | - |
| Total governmental | \$ 17,919,851 | \$ 3,255,321 |

| Proprietary funds | Water | Waste water | Surface & stormwater | Nonmajor enterprise | Internal service |
|-----------------------------------|---------------------|---------------------|----------------------|---------------------|-------------------|
| Interest | \$ 99,836 | \$ 129,407 | \$ 27,203 | \$ 23,347 | \$ 73,219 |
| Taxes | - | - | - | 193,128 | 168,759 |
| Accounts | 1,556,596 | 1,770,941 | 660,191 | 1,237,635 | 297,572 |
| Gross receivables | 1,656,432 | 1,900,348 | 687,394 | 1,454,110 | 539,550 |
| Less: allowance for uncollectible | - | - | - | (1,044,077) | - |
| Total business-type | \$ 1,656,432 | \$ 1,900,348 | \$ 687,394 | \$ 410,033 | \$ 539,550 |

| Fiduciary funds | Guaranty Deposit |
|------------------------|------------------|
| Tax Accounts | \$ 30,574 |
| Total fiduciary | \$ 30,574 |

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 2022 was \$16,724,290,897. The City's regular levy rate was \$1.169/\$1,000, for a total regular levy of \$19,552,637.

Special levies approved by the voters are not subject to the same statutory limitations. For 2022, voters authorized an additional special levy rate of \$0.566/\$1,000, totaling \$9,480,974.

| Property tax levies 2022 | | | |
|---------------------------------|--------------|---------------------|----------------------|
| Purpose of Levy | Type | Rate/\$1,000 | Tax |
| General fund | regular levy | 1.0000588260 | \$ 16,725,275 |
| Fire pension | regular levy | 0.1628437437 | 2,723,446 |
| New What RDA LIFT | regular levy | 0.0062134981 | 103,916 |
| Total regular levy | | 1.1691160678 | 19,552,637 |
| Affordable Housing | special levy | 0.2400886444 | 4,015,312 |
| Greenways IV - parks | special levy | 0.3268097699 | 5,465,662 |
| Total special levy | | 0.5668984143 | 9,480,974 |
| Total Levy | | 1.7360144821 | \$ 29,033,611 |

6. Capital assets

Capital asset activity for the year ended December 31, 2022, is summarized as follows:

| Primary government | | | | |
|--|---|----------------------|------------------------|--|
| Governmental activities | Beginning balance 1/1/2022 | Additions | Reductions | Ending balance 12/31/2022 |
| Capital assets not being depreciated: | | | | |
| Land | \$ 86,990,444 | \$ 2,865,192 | \$ - | \$ 89,855,636 |
| Improvements | 17,614,900 | - | - | 17,614,900 |
| Construction in progress | 19,779,330 | 4,498,617 | (17,580,389) | 6,697,558 |
| Intangibles - right of ways | 59,184,050 | 236,103 | - | 59,420,153 |
| Total capital assets, not being depreciated/amortized | 183,568,724 | 7,599,912 | (17,580,389) | 173,588,247 |
| Capital assets being depreciated/amortized: | | | | |
| Buildings | 47,696,095 | 20,191,564 | - | 67,887,659 |
| Improvements other than buildings | 362,780,368 | 16,030,663 | - | 378,811,031 |
| Machinery and equipment | 38,608,715 | 3,906,835 | (1,364,244) | 41,151,306 |
| Intangibles - software | 5,012,707 | 435,292 | (1,763,544) | 3,684,455 |
| Total capital assets being depreciated/amortized | 454,097,885 | 40,564,354 | (3,127,788) | 491,534,451 |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings | (24,653,565) | (910,614) | - | (25,564,179) |
| Improvements other than buildings | (162,404,878) | (9,649,655) | - | (172,054,533) |
| Machinery and equipment | (21,739,481) | (2,723,211) | 1,138,847 | (23,323,845) |
| Intangibles - software | (3,829,544) | (422,330) | 1,740,378 | (2,511,496) |
| Total accumulated depreciation/amortization | (212,627,468) | (13,705,810) | 2,879,225 | (223,454,053) |
| Total capital assets, being depreciated/amortized, net | 241,470,417 | 26,858,544 | (248,563) | 268,080,398 |
| Governmental activities capital assets, net | <u>\$ 425,039,141</u> | <u>\$ 34,458,456</u> | <u>\$ (17,828,952)</u> | <u>\$ 441,668,645</u> |

| Business-type activities | Beginning balance 1/1/2022 | Additions | Reductions | Ending balance 12/31/2022 |
|--|---|----------------------|------------------------|--|
| Capital assets not depreciated/amortized: | | | | |
| Land | \$ 52,768,318 | \$ 1,604,512 | \$ - | \$ 54,372,830 |
| Construction in progress | 22,801,181 | 3,251,096 | (21,217,336) | 4,834,941 |
| Intangibles - right of ways | 206,111 | - | - | 206,111 |
| Total capital assets, not being depreciated/amortized | 75,775,610 | 4,855,608 | (21,217,336) | 59,413,882 |
| Capital assets depreciated/amortized: | | | | |
| Buildings | 143,989,791 | - | - | 143,989,791 |
| Improvements other than buildings | 307,488,444 | 31,282,002 | (80,933) | 338,689,513 |
| Machinery and equipment | 5,636,085 | 16,505 | (286,614) | 5,365,976 |
| Intangibles - software | 284,325 | - | - | 284,325 |
| Total capital assets, being depreciated/amortized | 457,398,645 | 31,298,507 | (367,547) | 488,329,605 |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings | (55,389,464) | (2,801,429) | - | (58,190,893) |
| Improvements other than buildings | (129,215,922) | (6,368,575) | 80,933 | (135,503,564) |
| Machinery and equipment | (4,421,395) | (200,951) | 286,614 | (4,335,732) |
| Intangibles - software | (284,325) | - | - | (284,325) |
| Total accumulated depreciation/amortization | (189,311,106) | (9,370,955) | 367,547 | (198,314,514) |
| Total capital assets, being depreciated/amortized, net | 268,087,539 | 21,927,552 | - | 290,015,091 |
| Business-type activities capital assets, net | <u>\$ 343,863,149</u> | <u>\$ 26,783,160</u> | <u>\$ (21,217,336)</u> | <u>\$ 349,428,973</u> |

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

| Governmental activities | |
|---|----------------------|
| General governmental | \$ 266,327 |
| Public safety | 833,465 |
| Transportation | 7,321,486 |
| Cultural and recreational | 2,521,011 |
| Natural and economic environment | 82,358 |
| Internal service fund capital assets are charged to various functions based on the usage of the assets | 2,681,163 |
| Total depreciation expense - governmental activities | <u>\$ 13,705,810</u> |
| Business-type activities | |
| Cemetery | \$ 2,940 |
| Water | 3,488,001 |
| Wastewater | 4,325,707 |
| Storm and surface water | 1,368,865 |
| Golf | 36,324 |
| Parking | 104,422 |
| Medic one | 44,696 |
| Total depreciation expense - business-type activities | <u>\$ 9,370,955</u> |

Capital asset activity for the year ended December 31, 2022, is summarized as follows:

| Discretely presented component unit | | | | |
|--|---|---------------------|-------------------|--|
| Bellingham-Whatcom Public Facility District | Beginning balance 1/1/2022 | Additions | Reductions | Ending balance 12/31/2022 |
| 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 |
| Total capital assets being depreciated/amortized | 28,164,688 | - | - | 28,164,688 |
| Less accumulated depreciation for: | | | | |
| Buildings | (6,863,072) | (324,015) | - | (7,187,087) |
| Improvements other than buildings | (3,712,392) | (276,854) | - | (3,989,246) |
| Total accumulated depreciation/amortization | (10,575,464) | (600,869) | - | (11,176,333) |
| Total capital assets, being depreciated/amortized, net | 17,589,224 | (600,869) | - | 16,988,355 |
| Public Facilities District capital assets, net | <u>\$ 18,919,084</u> | <u>\$ (600,869)</u> | <u>\$ -</u> | <u>\$ 18,318,215</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, 2022 | | | | |
|--|---------------------------------------|------------------------------------|---------------------------------|-------------------------------|
| | Interfund loans receivable | Interfund loans payable | Due from other funds | Due to other funds |
| General | \$ 1,500,000 | \$ - | \$ 1,631,881 | \$ - |
| Nonmajor governmental | 962,147 | 962,147 | 22,707 | 22,707 |
| Medic One | - | 1,500,000 | - | 1,631,881 |
| Total government-wide | <u>\$ 2,462,147</u> | <u>\$ 2,462,147</u> | <u>\$ 1,654,588</u> | <u>\$ 1,654,588</u> |
| Internal balances between governmental activities and business type activities | | | | <u>\$ 3,131,881</u> |

Greenways Maintenance Endowment fund made a \$1,465,993 loan in 2021, authorized by Ordinance No. 2020-12-043, to the Public Safety Dispatch fund for the purchase of equipment. The term of the loan is five years. There is \$962,147 principal balance remaining on this loan at year-end, and of that amount \$668,894 will not be repaid in 2023.

General fund made a \$1,500,000 loan in 2022, authorized by Ordinance No. 2022-11-029, to the Medic One fund to cover a cash shortfall. The term of the loan is three years. There is \$1,500,000 principal balance remaining on this loan at year-end, and of that amount \$1,005,388 will not be repaid in 2023.

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, 2022 | | | | | | | | |
|---------------------------------------|----------------------|-----------------------|----------------------------------|---------------------|---------------------|-------------------------------------|--------------------------------|-----------------------------|
| | Transfers In | Transfers Out | | | | | | |
| | | General | Nonmajor Governmental | Water | Wastewater | Surface & Stormwater | Nonmajor Enterprise | Internal Service |
| Nonmajor Governmental | \$ 3,330,424 | \$ (2,564,097) | \$ (660,893) | \$ (6,026) | \$ (4,644) | \$ (1,506) | \$ (23,143) | \$ (70,115) |
| Surface & Stormwater | 560,000 | - | (560,000) | - | - | - | - | - |
| Nonmajor Enterprise | 44,000 | (44,000) | - | - | - | - | - | - |
| Internal Service | 6,660,644 | (881,559) | (696) | (401,578) | (401,158) | (400,207) | (90,018) | (4,485,428) |
| Total | <u>\$ 10,595,068</u> | <u>\$ (3,489,656)</u> | <u>\$ (1,221,589)</u> | <u>\$ (407,604)</u> | <u>\$ (405,802)</u> | <u>\$ (401,713)</u> | <u>\$ (113,161)</u> | <u>\$ (4,555,543)</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 2022 totaled \$681,078. The future minimum lease payments for non-cancelable leases are as follows:

Future minimum lease payments at December 31, 2022

| | | |
|-------|----|----------------|
| 2023 | \$ | 254,090 |
| 2024 | | 152,675 |
| 2025 | | 26,155 |
| 2026 | | 18,033 |
| 2027 | | 6,126 |
| Total | \$ | <u>457,078</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, 2022

| | Spent to date | Remaining commitment |
|---------------------|----------------------|-------------------------|
| Street projects | \$ 16,248,634 | \$ 1,268,052 |
| Parks projects | 2,176,444 | 1,111,746 |
| Wastewater projects | 11,779,698 | 2,463,312 |
| Stormwater projects | 2,812,137 | 192,478 |
| Facilities projects | 20,191,564 | 2,381,174 |
| | <u>\$ 53,208,477</u> | <u>\$ 7,416,762</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. Facilities projects are financed with funding from the *Street, Water, Wastewater and Stormwater funds*.

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, construction of new administration buildings at the Pacific Street complex and refunding of previously issued bonds. General obligation bonds have been issued for both governmental 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 will be repaid by the *Environmental Remediation fund*. The 2021 LTGO bonds will be paid for by the *General fund, Water fund, Wastewater fund, and Surface and Stormwater fund*.

General obligation bonds outstanding December 31, 2022

| 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/PFD | 14,370,000 | 03/29/12 | 12/01/28 | 2.00 - 4.00% | 4,715,000 |
| 14 LTGO Solid Waste Rfdg A Pollution Remediation | 3,170,000 | 12/17/14 | 12/01/25 | 3.00 - 4.00% | 1,790,000 |
| 16 LTGO Rfdg of 07 PFD bond A Museum/Theater | 8,815,000 | 04/20/16 | 12/01/27 | .60 - 4.00% | 6,340,000 |
| 21 LTGO Pacific St Complex Buildings | 17,705,000 | 06/23/21 | 12/01/40 | 2.00 - 5.00% | 16,835,000 |
| Total general obligation bonds outstanding | <u>\$ 50,540,000</u> | | | | <u>\$ 35,780,000</u> |

General obligation bond annual debt service requirements to maturity

| Year ending December 31 | Governmental activities | | Total requirements |
|----------------------------|-------------------------|---------------------|----------------------|
| | Principal | Interest | |
| 2023 | \$ 3,070,000 | \$ 1,336,205 | \$ 4,406,205 |
| 2024 | 3,310,000 | 1,212,555 | 4,522,555 |
| 2025 | 9,645,000 | 1,086,030 | 10,731,030 |
| 2026 | 3,135,000 | 605,950 | 3,740,950 |
| 2027 | 3,035,000 | 497,100 | 3,532,100 |
| 2028-2032 | 4,795,000 | 1,497,650 | 6,292,650 |
| 2033-2037 | 5,330,000 | 670,000 | 6,000,000 |
| 2038-2040 | 3,460,000 | 139,300 | 3,599,300 |
| Total | <u>\$ 35,780,000</u> | <u>\$ 7,044,790</u> | <u>\$ 42,824,790</u> |

As of December 31, 2022, the City has \$5,034,247 available in debt service funds and \$109,587 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, 2022

| Name of issuance/purpose | Original issue amount | Issue date | Maturity date | Interest rates | Debt outstanding |
|--|-----------------------|------------|---------------|----------------|----------------------|
| Business-type activities | | | | | |
| 15 Water/Sewer Rfdg bond system imprvmts | 4,035,000 | 11/10/15 | 08/01/26 | 2.17% | 1,690,000 |
| 20 Water/Sewer Rfdg bond system imprvmts | 18,935,000 | 09/09/20 | 08/01/43 | .56 - 2.68% | 17,210,000 |
| 21 Water/Sewer Rfdg bond system imprvmts | 29,455,000 | 05/04/21 | 08/01/41 | 5.00% | 29,210,000 |
| Total revenue bonds outstanding | <u>\$ 52,425,000</u> | | | | <u>\$ 48,110,000</u> |

Revenue bond annual debt service requirements to maturity

| Year ending December 31 | Business-type activities | | |
|----------------------------|--------------------------|----------------------|----------------------|
| | Principal | Interest | Total requirements |
| 2023 | \$ 1,520,000 | \$ 1,871,574 | \$ 3,391,574 |
| 2024 | 1,551,000 | 1,844,243 | 3,395,243 |
| 2025 | 1,592,000 | 1,814,986 | 3,406,986 |
| 2026 | 1,642,000 | 1,765,670 | 3,407,670 |
| 2027 | 1,725,000 | 1,713,233 | 3,438,233 |
| 2028-2032 | 9,750,000 | 7,446,185 | 17,196,185 |
| 2033-2037 | 12,025,000 | 5,180,311 | 17,205,311 |
| 2038-2042 | 14,955,000 | 2,239,916 | 17,194,916 |
| 2043 | 3,350,000 | 89,780 | 3,439,780 |
| Total | <u>\$ 48,110,000</u> | <u>\$ 23,965,897</u> | <u>\$ 72,075,897</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 \$72,075,897. Principal and interest expense for the current year and total net available income were \$3,383,202 and \$30,201,959, respectively.

To service revenue bond debt, \$3,442,282 is available in the reserve accounts of the *Water* and *Wastewater* enterprise funds as of December 31, 2022, 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

8.93%. 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.

Government loans

The City has received government loans to provide for construction of capital projects. The City's current loan agreements are with the Washington State Water Pollution Control Revolving Fund through 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 DOH loan is being repaid from the *Water fund*. The *Surface and Stormwater fund* is repaying six DOE loans. The *Wastewater fund* will be repaying one DOE loan.

Government loan debt outstanding December 31, 2022

| Name of issuance/purpose | Original issue amount | Issue date | Maturity date | Interest rates | Debt outstanding |
|---|-----------------------|------------|---------------|----------------|----------------------|
| Governmental activities | | | | | |
| 2014 WA State COP - Six Ambulances | 867,507 | 08/28/14 | 06/01/24 | 2.13% | 209,819 |
| 2015 WA State COP - LED Lights | 3,205,000 | 09/24/15 | 12/01/27 | 2.70% | 1,560,000 |
| Total governmental activities | 4,072,507 | | | | 1,769,819 |
| Business-type activities | | | | | |
| DOH Water Pre-treatment Plant | 11,998,800 | 05/27/15 | 10/01/34 | 1.50% | 8,577,680 |
| DOE L1200033 Padden Creek Daylighting | 1,426,000 | 05/10/13 | 12/15/35 | 2.60% | 1,031,141 |
| DOE L1400025 Texas/Columbia Storm Mains | 1,414,000 | 12/31/14 | 06/30/23 | 1.10% | 145,655 |
| DOE L1300017 Squalicum Crk Reroute Ph I | 528,632 | 07/01/15 | 05/30/36 | 2.70% | 398,809 |
| DOE L1400010 Squalicum Crk Reroute Ph II | 543,536 | 07/01/15 | 12/31/36 | 2.30% | 412,733 |
| DOE EL160594 Squalicum Crk Reroute Ph III | 528,813 | 11/09/16 | 01/31/42 | 2.40% | 520,935 |
| DOE EL190008 Roeder Lift Station Imprv | 458,350 | 12/31/18 | 11/30/41 | 1.50% | 434,785 |
| DOE EL180465 Squalicum Crk Reroute Ph IV | 195,824 | 10/31/20 | 12/30/41 | 1.50% | 187,640 |
| Total business-type activities | 17,093,955 | | | | 11,709,378 |
| Total governmental loans outstanding | <u>\$ 21,166,462</u> | | | | <u>\$ 13,479,197</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 |
| 2023 | \$ 392,287 | \$ 65,440 | \$ 457,727 | \$ 1,030,367 | \$ 215,844 | \$ 1,246,211 |
| 2024 | 402,532 | 53,307 | 455,839 | 888,757 | 183,246 | 1,072,003 |
| 2025 | 310,000 | 35,869 | 345,869 | 892,902 | 168,379 | 1,061,281 |
| 2026 | 330,000 | 20,369 | 350,369 | 897,148 | 153,411 | 1,050,559 |
| 2027 | 335,000 | 10,469 | 345,469 | 901,499 | 138,338 | 1,039,837 |
| 2028-2032 | - | - | - | 4,576,589 | 461,762 | 5,038,351 |
| 2033-2037 | - | - | - | 2,255,853 | 123,958 | 2,379,811 |
| 2038-2042 | - | - | - | 266,265 | 44,541 | 310,805 |
| Total | <u>\$ 1,769,819</u> | <u>\$ 185,453</u> | <u>\$ 1,955,272</u> | <u>\$ 11,709,378</u> | <u>\$ 1,489,478</u> | <u>\$ 13,198,857</u> |

The following table is a summary of the changes in long-term liabilities for the year ended December 31, 2022. 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, 2022 | | | | | | |
|---|----------------------|----------------------|------------------------|----------------------|----------------------|-----------------------|
| Debt type | Beginning balance | Additions | Reductions | Ending balance | Due in ≤ 1 year | Due in ≥ 1 year |
| Governmental activities | | | | | | |
| Bonds payable | | | | | | |
| General obligation bonds - govt | \$ 15,150,000 | \$ - | \$ (2,305,000) | \$ 12,845,000 | \$ 2,430,000 | \$ 10,415,000 |
| Premium - govt | 1,162,944 | - | (193,340) | 969,604 | 193,340 | 776,264 |
| Taxable energy conservation bonds | 6,100,000 | - | - | 6,100,000 | - | 6,100,000 |
| General obligation bonds - Int srvc | 17,445,000 | - | (610,000) | 16,835,000 | 640,000 | 16,195,000 |
| Premium - Int servc | 2,373,795 | - | (81,855) | 2,291,940 | 81,855 | 2,210,085 |
| Total bonds payable | 42,231,739 | - | (3,190,195) | 39,041,544 | 3,345,195 | 35,696,349 |
| Government loans | 2,300,051 | - | (530,232) | 1,769,819 | 392,287 | 1,377,532 |
| Premium | 196,085 | - | (41,807) | 154,278 | 41,807 | 112,471 |
| Total government loans | 2,496,136 | - | (572,039) | 1,924,097 | 434,094 | 1,490,003 |
| Claims and litigation | 2,881,354 | 9,838,653 | (9,775,270) | 2,944,737 | 2,119,737 | 825,000 |
| Pollution remediation obligation | 39,564,212 | 1,594,084 | (158) | 41,158,138 | 1,517,880 | 39,640,258 |
| Net pension liability, state | 2,345,882 | 2,889,380 | - | 5,235,262 | - | 5,235,262 |
| Total OPEB liability | 27,978,598 | - | (5,271,164) | 22,707,434 | 1,149,920 | 21,557,514 |
| Total pension liability, local | 5,689,717 | - | (1,189,486) | 4,500,231 | 592,136 | 3,908,095 |
| Compensated absences | 6,607,389 | 1,045,984 | (32,415) | 7,620,958 | 6,147,265 | 1,473,693 |
| Governmental activities | | | | | | |
| long-term liabilities | \$129,795,027 | \$ 15,368,101 | \$ (20,030,727) | \$125,132,401 | \$ 15,306,227 | \$ 109,826,174 |
| Business-type activities | | | | | | |
| Bonds payable | | | | | | |
| Revenue bonds | \$ 49,603,000 | \$ - | \$ (1,493,000) | \$ 48,110,000 | \$ 1,520,000 | \$ 46,590,000 |
| Premium | 8,361,395 | - | (288,324) | 8,073,071 | 288,324 | 7,784,747 |
| Total revenue bonds | 57,964,395 | - | (1,781,324) | 56,183,071 | 1,808,324 | 54,374,747 |
| Government loans | 13,250,968 | - | (1,541,590) | 11,709,378 | 1,030,367 | 10,679,011 |
| Net pension liability, state | 822,523 | 964,944 | - | 1,787,467 | - | 1,787,467 |
| Compensated absences | 1,744,044 | 274,763 | (18,213) | 2,000,594 | 1,792,119 | 208,475 |
| Total business-type activities | | | | | | |
| long-term liabilities | \$ 73,781,930 | \$ 1,239,707 | \$ (3,341,127) | \$ 71,680,510 | \$ 4,630,810 | \$ 67,049,700 |

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 \$163,836 and short-term liabilities of \$611,584 for internal service fund compensated absences are included in the above amounts. For the governmental activities, compensated absences, pension and OPEB liabilities, claims and litigation and pollution remediation are generally liquidated by the *General fund*.

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 in the amount of \$9,640,000 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, 2022

| 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 | 12/01/28 | 2.00 - 4.00% | \$ 3,170,482 |
| 08 Museum Construction | 2,800,000 | 12/31/08 | 12/31/27 | 3.25% | 738,399 |
| 16 LTGO Rfdg Museum/Theater | 9,640,000 | 04/20/16 | 12/01/27 | .60 - 4.00% | 6,340,000 |
| Total bonds outstanding | <u>\$ 21,810,000</u> | | | | <u>\$ 10,248,881</u> |

Limited sales tax annual debt service requirements to maturity

| Year ending December 31 | Discretely presented component unit | | Total requirements |
|----------------------------|-------------------------------------|---------------------|----------------------|
| | Principal | Interest | |
| 2023 | \$ 1,775,854 | \$ 358,336 | \$ 2,134,191 |
| 2024 | 1,922,959 | 285,431 | 2,208,391 |
| 2025 | 2,115,214 | 201,339 | 2,316,553 |
| 2026 | 2,302,435 | 110,918 | 2,413,353 |
| 2027 | 2,132,418 | 62,035 | 2,194,453 |
| Total | <u>\$ 10,248,881</u> | <u>\$ 1,018,059</u> | <u>\$ 11,266,940</u> |

| Summary of changes in long-term liabilities for the year ended December 31, 2022 | | | | | | |
|--|-------------------|-----------|----------------|----------------|-----------------|-----------------|
| Debt type | Beginning balance | Additions | Reductions | Ending balance | Due in ≤ 1 year | Due in > 1 year |
| Bonds | \$ 11,882,399 | \$ - | \$ (1,633,518) | \$ 10,248,881 | \$ 1,775,854 | \$ 8,473,027 |
| Total long-term liabilities | \$ 11,882,399 | \$ - | \$ (1,633,518) | \$ 10,248,881 | \$ 1,775,854 | \$ 8,473,027 |

11. Restricted component of net position

The government-wide statement of net position reports \$237,488,561 of restricted component of net position, of which \$158,767,047 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 \$2 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 making payments towards insurance premiums and employee claims for medical, dental, and vision benefits. Both the City and employee contribute to the cost for either medical insurance or the City's self-insured medical plan. The City alone contributes towards the cost of dental and vision insurance or the City's self-insured dental and vision plans, for full time employees. City departments are charged composite rates to cover the cost of plan contributions for each employee. Most City employees' benefit coverage is provided by the City's self-insured medical, dental, and vision plans administered by HUB International. Police and Fire employees receive purchased insurance, administered by the Association of Washington Cities, the Whatcom Fire Trust, or the Bellingham Police Guild Trust.

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, 2022, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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, Willamette Dental Group, 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 2022, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$1.5 million through United States Fire Insurance Company. 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

| | | Beginning Liability | Claims Incurred | Claims Paid | Ending Liability |
|------------------------------|------|------------------------|--------------------|-------------|------------------|
| Claims and Litigation | | | | | |
| | 2022 | 1,510,000 | 196,041 | (191,947) | 1,514,094 |
| | 2021 | 1,435,076 | 366,410 | (291,486) | 1,510,000 |
| Unemployment Comp | | | | | |
| | 2022 | 20,302 | 285,252 | (275,657) | 29,897 |
| | 2021 | 80,422 | (23,710) | (36,410) | 20,302 |
| Workers' Comp | | | | | |
| | 2022 | 86,433 | 819,498 | (789,343) | 116,588 |
| | 2021 | 316,633 | 314,450 | (544,650) | 86,433 |
| Health Benefits | | | | | |
| | 2022 | 1,264,619 | 8,537,862 | (8,518,323) | 1,284,158 |
| | 2021 | - | 9,469,323 | (8,204,704) | 1,264,619 |

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 issued two general obligation bonds for the City's share of remediation costs being repaid primarily by net revenues from the *Environmental Remediation fund*. These revenues are generated principally by tax revenues paid by the City's solid waste contractor. The *Environmental Remediation fund's* projected cash flow indicates sufficient net revenue to repay the principal and interest costs on the outstanding bonds, which mature in 2025. 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 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.

Estimated pollution remediation obligations as of December 31, 2022

| Site | Governmental activities |
|---|-------------------------|
| South State Street Manufacturing Gas Plant (f.k.a Boulevard Park) | \$ 9,330,000 |
| Cornwall Avenue Landfill Site | 13,150,805 |
| RG Haley Site | 15,720,000 |
| Eldridge Avenue Municipal Landfill | 122,468 |
| Central Waterfront | 2,834,865 |
| Total | <u>\$ 41,158,138</u> |

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, 2021. 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 2021 Engineering and Design Report. The balance of the City's pollution remediation obligation related to the Cornwall Avenue Landfill site is \$13.2 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, 2022, is \$122,468.

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, 2022. 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 2022, the City contributed \$1,518,799 to the Public Safety Dispatch fund as its share of operations, approximately 19% of total revenues. On January 1, 2021 pursuant to ordinance 2020-12-043 the City also provided funding through an interfund loan from the Greenways Maintenance Endowment Fund, in the amount of \$1,465,933. The term of the loan is five years. The Public Safety Dispatch fund made principal payments of \$290,368 in 2022. As of December 31, 2022, the loan balance is \$962,147.

Waterfront redevelopment

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

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

The City of Bellingham, Whatcom County, and the Lake Whatcom Water and Sewer District (LWWSD) came together in 1998 to formalize, by interlocal agreement, the Lake Whatcom Management Program. The goal of the program is to improve lake water quality by jointly implementing programs affecting the Lake Whatcom Watershed. In 2010 the LWMP 2010-2014 work plan was adopted which included several capital projects all three entities committed to completing. In this timeframe the Aquatic Invasive

Species (AIS) Prevention Program was also launched as a joint program funded by LWWSD, Whatcom County, the City, and program fees. The City, County, and LWWSD have all agreed through the interlocal agreement to commit funds towards land preservation, stormwater management, land use, education and engagement, monitoring and data, hazardous materials mitigation, recreation, AIS, utilities and transportation, and administration. The 2020-2024 work plan cost estimates for the LWMP included contributions totaling \$60.1 million between the City, County, and LWWSD over the five-year period.

In 2022 the City contributed \$241,394 towards the AIS program, LWWSD contributed \$62,985, the County contributed \$154,944 and programs revenues were \$151,480.

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 2022, Fire District No. 8 paid the City \$1,755,285 for providing these services.

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, 2022, a total of \$5,607,350 in property taxes and donations has been receipted into the endowment fund and is nonspendable. Interest in the amount of \$109,158 remains unspent.

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

According to the terms of the agreement, the corpus (or original lump payment received) cannot be expended for 50 years. Only the interest earned by that corpus or any other outside revenues received (such as donations) may be expended for (a) or (b) as defined above. As of December 31, 2022, \$306,390 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 an endowment fund for the uses, benefits, purpose, and duration for which the fund was established, RCW 24.55.025. 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 for the year 2022**

| | | |
|--------------------------------|----|------------|
| Pension assets | \$ | 44,185,606 |
| Deferred outflows of resources | \$ | 25,903,330 |
| Pension liabilities | \$ | 11,522,961 |
| Deferred inflows of resources | \$ | 24,798,612 |
| Pension expense/expenditures | \$ | 2,038,179 |

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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR 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 2022 were as follows:

| PERS Plan 1 | | |
|----------------------------------|-----------------|------------------|
| Actual Contribution Rates | Employer | Employee* |
| January – August 2022 | | |
| PERS Plan 1 | 6.36% | 6.00% |
| PERS Plan 1 UAAL | 3.71% | |
| Administrative Fee | 0.18% | |
| Total | 10.25% | 6.00% |
| September – December 2022 | | |
| PERS Plan 1 | 6.36% | 6.00% |
| PERS Plan 1 UAAL | 3.85% | |
| Administrative Fee | 0.18% | |
| Total | 10.39% | 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 2022 were as follows:

| PERS Plan 2/3 | | |
|----------------------------------|---------------------|--------------------|
| Actual Contribution Rates | Employer 2/3 | Employee 2* |
| January – August 2022 | | |
| PERS Plan 2/3 | 6.36% | 6.36% |
| PERS Plan 1 UAAL | 3.71% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | Varies |
| Total | 10.25% | 6.36% |
| September – December 2022 | | |
| PERS Plan 2/3 | 6.36% | 6.36% |
| PERS Plan 1 UAAL | 3.85% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | Varies |
| Total | 10.39% | 6.36% |

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

The City’s actual PERS plan contributions were \$1,647,787 to PERS Plan 1 and \$2,793,380 to PERS Plan 2/3 for the year ended December 31, 2022.

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

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

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

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% 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 2022. 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 includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2022.

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

| LEOFF Plan 2 | | |
|----------------------------------|-----------------|-----------------|
| Actual Contribution Rates | Employer | Employee |
| January – December 2022 | | |
| State and local governments | 5.12% | 8.53% |
| Administrative Fee | 0.18% | |
| Total | 5.30% | 8.53% |

The City’s actual contributions to the plan were \$1,969,267 for the year ended December 31, 2022.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2022, the state contributed \$81,388,085 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,190,144.

Actuarial Assumptions

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

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

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

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

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data,

considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income | 20% | 1.5% |
| Tangible Assets | 7% | 4.7% |
| Real Estate | 18% | 5.4% |
| Global Equity | 32% | 5.9% |
| Private Equity | 23% | 8.9% |
| | 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%, 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%) or 1-percentage point higher (8%) than the current rate.

| Plan | Current Discount Rate | | |
|----------|-----------------------|-----------------|----------------------|
| | 1% Decrease 6.00% | 7.00% | 1% Increase 8.00% |
| PERS 1 | \$ 9,382,271 | \$ 7,022,730 | \$ 4,963,405 |
| PERS 2/3 | \$ 14,373,427 | \$ (12,205,376) | \$ (34,041,543) |
| LEOFF 1 | \$ (6,889,962) | \$ (7,862,237) | \$ (8,705,350) |
| LEOFF 2 | \$ (1,110,607) | \$ (24,117,993) | \$ (42,947,569) |

Pension Plan Fiduciary Net Position

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

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

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

| Plan | Liability (Asset) |
|------------------------|------------------------|
| PERS 1 | \$ 7,022,730 |
| TOTAL LIABILITY | \$ 7,022,730 |
| PERS 2/3 | (12,205,376) |
| LEOFF 1 | (7,862,237) |
| LEOFF 2 | (24,117,993) |
| TOTAL ASSET | \$ (44,185,606) |

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 Plan 1 Asset | LEOFF Plan 2 Asset |
|--------------------------------|----------------------|--------------------|
| Employer's proportionate share | \$ 7,862,237 | 24,117,993 |
| State's proportionate share | 53,179,977 | 15,623,111 |
| TOTAL | \$ 61,042,214 | 39,741,104 |

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

| Plan | Proportionate Share 6/30/2021 | Proportionate Share 6/30/2022 | Change in Proportion |
|----------|-------------------------------|-------------------------------|----------------------|
| PERS 1 | 0.259443% | 0.252220% | -0.007223% |
| PERS 2/3 | 0.333354% | 0.329094% | -0.004260% |
| LEOFF 1 | 0.268987% | 0.274078% | 0.005091% |
| LEOFF 2 | 0.887241% | 0.887442% | 0.000201% |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and 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 2022. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). The state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

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

Pension Expense

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

| Plan | Pension Expense |
|--------------|---------------------|
| PERS 1 | \$ 3,048,089 |
| PERS 2/3 | (4,063,310) |
| LEOFF 1 | (481,752) |
| LEOFF 2 | 4,036,746 |
| TOTAL | \$ 2,539,773 |

Deferred Outflows of Resources and Deferred Inflows of Resources

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

| PERS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Net difference between projected and actual investment earnings on pension plan investments | \$ - | \$ 1,163,873 |
| Contributions subsequent to the measurement date | 855,199 | - |
| TOTAL | \$ 855,199 | \$ 1,163,873 |
| PERS Plans 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 3,024,206 | \$ 276,298 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 9,023,524 |
| Changes of assumptions | 6,802,812 | 1,781,220 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 223,820 | 345,805 |
| Contributions subsequent to the measurement date | 1,434,655 | - |
| TOTAL | \$ 11,485,493 | \$ 11,426,847 |
| LEOFF Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Net difference between projected and actual investment earnings on pension plan investments | \$ - | \$ 981,709 |
| TOTAL | \$ - | \$ 981,709 |
| LEOFF Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 5,730,834 | \$ 223,772 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 8,075,629 |
| Changes of assumptions | 6,109,769 | 2,100,018 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 460,282 | 540,096 |
| Contributions subsequent to the measurement date | 1,051,320 | - |
| TOTAL | \$ 13,352,204 | \$ 10,939,515 |

| TOTAL ALL STATE PLANS | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 8,755,040 | \$ 500,071 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 19,244,735 |
| Changes of assumptions | 12,912,582 | 3,881,237 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 684,101 | 885,901 |
| Contributions subsequent to the measurement date | 3,341,174 | - |
| TOTAL | \$ 25,692,898 | \$ 24,511,944 |

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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | PERS Plan 1 | PERS Plans 2/3 | LEOFF Plan 1 | LEOFF Plan 2 | TOTAL PLANS |
|--------------|-----------------------|-----------------------|---------------------|---------------------|-----------------------|
| 2023 | (492,527) | (2,830,387) | (415,783) | \$ (2,573,038) | \$ (6,311,735) |
| 2024 | (447,342) | (2,503,572) | (376,465) | (2,235,282) | (5,562,661) |
| 2025 | (561,177) | (3,012,839) | (470,725) | (2,962,636) | (7,007,376) |
| 2026 | 337,172 | 4,086,000 | 281,264 | 3,446,655 | 8,151,090 |
| 2027 | - | 1,448,368 | - | 987,088 | 2,435,457 |
| Thereafter | - | 1,436,421 | - | 4,698,584 | 6,135,005 |
| Total | \$ (1,163,873) | (1,376,009) | (981,709) | \$ 1,361,370 | \$ (2,160,219) |

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 within the general fund basic financial statements of this report and individually within this note.

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 contributions. Both FFP and POP benefits have been pre-funded with employer contributions which have included general fund transfers for both plans and a special dedicated property tax levy for the FFP. The accumulated assets do not meet the irrevocable, dedicated, and legally protected requirements provided for under GASB 72, and are therefore reported under 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 12/31/2021 | POP 12/31/2021 |
|-------------------------------------|-------------------|-------------------|
| Active employees | 0 | 0 |
| Total number retirees | 13 | 10 |
| Total number beneficiaries | 14 | 0 |
| Total number participants | 27 | 10 |
| Average retiree age | 80.7 | 81.4 |
| Average beneficiary age | 86.2 | 0.0 |
| Average retiree monthly benefit | \$1,222 | \$899 |
| Average beneficiary monthly benefit | \$1,298 | \$0 |

* As of last valuation date.

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 reporting date of the pension liability is December 31, 2021. A full actuarial valuation is performed every two years, with the most recent valuation being performed December 31, 2021.

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

| |
|--|
| Pension actuarial methods and assumptions for FFP and POP |
|--|

| | |
|---|--|
| Actuarial valuation date | 12/31/2021 |
| Actuarial measurement date | 12/31/2022 |
| Fiscal year end date | 12/31/2022 |
| Actuarial cost method | entry age normal, level % of salary |
| Interest rate for discounting future liabilities | 3.75% per yr., based on all yrs. discounted at municipal bond rate (bond buyer 20-bond GO index as of the measurement date). |
| General inflation | 2.0% |
| Mortality rates - healthy participants | RP-2014, with scale MP-2014, projected to 2024. |
| Mortality rates - disabled participants without LTC costs | RP-2014, with scale MP-2014, projected to 2024, set forward 3 yrs. |
| Mortality rates - disabled participants with LTC costs | 3 times the rates described above for other disabled participants. |
| Future COLA for city benefits | 3.0% |
| Future COLA for LEOFF benefits | 2.5% |
| Changes since prior valuation | The interest rate for discounting future liabilities was changed to reflect current municipal bond rates. |

*Pension expense***Pension expense for year ending 12/31/2022**

| | <u>FFP</u> | <u>POP</u> |
|--|---------------------|---------------------|
| Change in total pension liability | \$ (914,804) | \$ (274,682) |
| (Increase)/decrease in deferred outflows | 152,083 | 85,249 |
| Increase/(decrease) in deferred inflows | (54,857) | (80,139) |
| Benefit payments | 440,594 | 144,962 |
| Total pension expense | <u>\$ (376,984)</u> | <u>\$ (124,610)</u> |
| Interest | \$ 83,151 | \$ 24,788 |
| Recognition of assumption changes | (546,753) | (144,013) |
| Recognition of experience gains and losses | 86,618 | (5,385) |
| Total pension expense | <u>\$ (376,984)</u> | <u>\$ (124,610)</u> |

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

| | <u>FFP</u> | <u>POP</u> |
|---|---------------------|---------------------|
| Total Pension liability, 1/1/2022 | \$ 4,377,823 | \$ 1,311,894 |
| Changes for the year: | | |
| Interest cost | 83,151 | 24,788 |
| Differences, expected and actual experience | - | - |
| Changes in actuarial assumptions | (557,361) | (154,508) |
| Benefit payments, net of refunds | (440,594) | (144,962) |
| Net changes | <u>(914,804)</u> | <u>(274,682)</u> |
| Total Pension liability, 12/31/2022 | <u>\$ 3,463,019</u> | <u>\$ 1,037,212</u> |

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 2.75% | Current rate 3.75% | 1% Increase 4.75% |
|--------------|----------------------|-----------------------|----------------------|
| FFP | \$ 3,728,482 | \$ 3,463,019 | \$ 3,225,768 |
| POP | \$ 1,124,108 | \$ 1,037,212 | \$ 960,146 |

Deferred Outflows of Resources and Deferred Inflows of Resources

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| FFP | | |
| Differences between expected and actual experience | \$ 110,910 | \$ 72,888 |
| Changes of assumptions | 82,335 | 62,566 |
| TOTAL | \$ 193,245 | \$ 135,454 |
| POP | | |
| Differences between expected and actual experience | \$ - | \$ 151,214 |
| Changes of assumptions | 17,187 | - |
| TOTAL | \$ 17,187 | \$ 151,214 |
| TOTAL | | |
| Differences between expected and actual experience | \$ 110,910 | \$ 224,102 |
| Changes of assumptions | 99,522 | 62,566 |
| TOTAL | \$ 210,432 | \$ 286,668 |

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 |
|-------------------------|------------------|---------------------|--------------------|
| 2023 | \$ 97,222 | \$ (60,583) | \$ 36,639 |
| 2024 | 866 | (73,444) | (72,578) |
| 2025 | (40,297) | - | (40,297) |
| Thereafter | - | - | - |
| Total | \$ 57,791 | \$ (134,027) | \$ (76,236) |

| |
|-------------------------------------|
| Pension Financial Statements |
|-------------------------------------|

City of Bellingham
Balance Sheet
December 31, 2022

| | <u>Firefighters'</u> <u>Pension</u> | <u>Police Officers'</u> <u>Pension</u> |
|--------------------------------------|--|---|
| ASSETS | | |
| Cash and cash equivalents | \$ 356,292 | \$ 233,229 |
| Investments in government securities | 6,155,681 | 4,047,070 |
| Total assets | 6,511,973 | 4,280,299 |
| LIABILITIES | | |
| Total liabilities | - | - |
| FUND BALANCE | \$ 6,511,973 | \$ 4,280,299 |

City of Bellingham
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2022

| | <u>Firefighters'</u> <u>Pension</u> | <u>Police Officers'</u> <u>Pension</u> |
|--|--|---|
| ADDITIONS | | |
| Contributions: | | |
| Auction proceeds | \$ - | \$ 18,961 |
| Fire insurance premium tax | 197,973 | - |
| Total trust contributions | 197,973 | 18,961 |
| Investment income: | | |
| Interest | 71,878 | 47,117 |
| Net incr (decr) in fair value of investments | (362,253) | (238,568) |
| Net investment income | (290,375) | (191,451) |
| Total additions | (92,402) | (172,490) |
| DEDUCTIONS | | |
| Benefit payments | 440,594 | 144,962 |
| Total benefit payments | 440,594 | 144,962 |
| Administrative expense | 485 | 485 |
| Total deductions | 441,079 | 145,447 |
| Net change in fund balances | (533,481) | (317,937) |
| Fund Balance - Beginning | 7,045,454 | 4,598,236 |
| Fund Balance - Ending | \$ 6,511,973 | \$ 4,280,299 |

18. Other post-employment benefits (OPEB)

Aggregate OPEB amounts for all plans subject to GASB 75 for the year 2022

| | |
|-------------------------------|----------------|
| Total OPEB liabilities | \$ 22,707,434 |
| Deferred inflows of resources | \$ 1,729,420 |
| OPEB expense | \$ (4,452,459) |

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 plans is contained within the general fund basic financial statements of this report and individually within this note.

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 required by the Revised Code of Washington (RCW) 41.26. Both plans are closed to new participants, no longer have any active employees and are no longer receiving employee contributions. A special dedicated FHC property tax levy is used towards covering FHC expenses.

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

Long-term care benefits have been pre-funded with employer contributions however the accumulating assets do not meet the irrevocable, dedicated, and legally protected requirements provided for under GASB 74, and are therefore reported under GASB 75.

Plan benefits

The plan purchases two types of medical insurance for participants, a Medicare Advantage plan through Humana and a Premera plan for participants not eligible for Medicare. The Premera plan will change to Regence Group Administrators on 1/1/2023. The plan also reimburses participants for out-of-pocket medical expenses (including Medicare premiums) and pays for long-term care costs.

Plan Membership

| | FHC <u>12/31/21</u> | PHC <u>12/31/21</u> |
|------------------------------|------------------------|------------------------|
| Active employees | 0 | 0 |
| Total number of participants | 57 | 37 |
| Average participant age | 75.8 | 75.5 |

* As of last valuation date.

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. The measurement and reporting dates of the pension liability are December 31, 2021, and December 31, 2022, respectively. A full actuarial valuation is performed every two years, with the most recent valuation being performed December 31, 2021.

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

OPEB actuarial methods and assumptions for FHC and PHC

| | |
|---|--|
| Actuarial valuation date | 12/31/2021 |
| Actuarial measurement date | 12/31/2022 |
| Fiscal year end report date | 12/31/2022 |
| Actuarial cost method | entry age normal, level % of salary |
| Interest rate for discounting future liabilities | 3.75% 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% per yr. |
| Annual premium increase rate | 6.4% in 2022 decreasing .1% each yr. thereafter. LTC expenses are assumed to increase 4.5% annually. |
| Mortality rates - healthy participants | RP-2014, with scale MP-2014, projected to 2024. |
| Mortality rates - disabled participants without LTC costs | RP-2014, with scale MP-2014, projected to 2024, set forward 3 yrs. |
| Mortality rates - disabled participants with LTC costs | 3 times the rates described above for other disabled participants. |
| Long-term care costs | For disabled members with current LTC costs, current costs were valued going forward. For all other retirees, costs were assumed at \$71,622 per yr. in 2022, with an average duration of 2.2 yrs. and were developed based on the Genworth Cost of Care Survey 2019, brought forward with trend. The LTC incidence table was based on data gathered by the American Association for LTC insurance and the USDHHS. |
| Health care reimbursements | Average of the prior 3 yrs. annual reimbursements by individual were valued, increased with health care trend to 2022. |
| Changes since prior valuation | The interest rate for discounting future liabilities was changed to reflect current municipal bond rates. |

*OPEB expense***OPEB expense for year ending 12/31/2022**

| | <u>FHC</u> | <u>PHC</u> |
|--|-----------------------|-----------------------|
| Change in total OPEB liability | \$ (3,071,681) | \$ (2,199,483) |
| Increase/(decrease) in deferred inflows | (217,775) | (171,666) |
| Benefit payments | 660,615 | 547,531 |
| Total OPEB expense | \$ (2,628,841) | \$ (1,823,618) |
| Financing Expenses | | |
| Interest | \$ 322,304 | \$ 225,187 |
| Changes | | |
| Recognition of assumption changes | (2,781,704) | (1,919,345) |
| Recognition of experience gains and losses | (169,441) | (129,460) |
| Total OPEB expense | \$ (2,628,841) | \$ (1,823,618) |

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

| | <u>FHC</u> | <u>PHC</u> |
|---|----------------------|---------------------|
| Total OPEB liability, 1/1/2022 | \$ 16,445,500 | \$ 11,533,098 |
| Changes for the year: | | |
| Interest cost | 322,304 | 225,187 |
| Changes in actuarial assumptions | (2,733,370) | (1,877,139) |
| Benefit payments, net of refunds | (660,615) | (547,531) |
| Net changes | (3,071,681) | (2,199,483) |
| Total OPEB liability, 12/31/2022 | \$ 13,373,819 | \$ 9,333,615 |

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 2.75% | Current rate 3.75% | 1% Increase 4.75% |
|------------|----------------------|-----------------------|----------------------|
| FHC | \$ 14,826,869 | \$ 13,373,819 | \$ 12,129,364 |
| PHC | \$ 10,307,297 | \$ 9,333,615 | \$ 8,498,540 |

Total OPEB liability healthcare cost trend rate sensitivity

| OPEB Plan | 1% Decrease | Current rate | 1% Increase |
|------------|--|--|--|
| | 5.4% grading down to 3.5% over 1 yr. | 6.4% grading down to 4.5% over 1 yr. | 7.4% grading down to 5.5% over 1 yr. |
| FHC | \$ 12,075,659 | \$ 13,373,819 | \$ 14,862,469 |
| PHC | \$ 8,460,456 | \$ 9,333,615 | \$ 10,333,333 |

Deferred Outflows of Resources and Deferred Inflows of Resources

On December 31, 2022, 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 | \$ - | \$ 677,764 |
| Changes in actuarial assumptions | - | 193,336 |
| TOTAL | \$ - | \$ 871,100 |
| PHC | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 647,295 |
| Changes in actuarial assumptions | - | 211,025 |
| TOTAL | \$ - | \$ 858,320 |
| TOTAL | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 1,325,059 |
| Changes in actuarial assumptions | - | 404,361 |
| TOTAL | \$ - | \$ 1,729,420 |

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 |
|--------------------------------|---------------------|---------------------|----------------------|
| 2023 | \$ (217,775) | \$ (171,666) | \$ (389,441) |
| 2024 | (217,775) | (171,666) | (389,441) |
| 2025 | (217,775) | (171,666) | (389,441) |
| 2026 | (217,775) | (171,666) | (389,441) |
| 2027 | - | (171,656) | (171,656) |
| Thereafter | - | - | - |
| Total | \$ (871,100) | \$ (858,320) | \$(1,729,420) |

| |
|----------------------------------|
| OPEB Financial Statements |
|----------------------------------|

**City of Bellingham
Balance Sheet
OPEB Plans
December 31, 2022**

| | <u>Firefighters' Healthcare</u> | <u>Police Officers' Healthcare</u> |
|--------------------------------------|-------------------------------------|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 840,000 | \$ 286,862 |
| Investments in government securities | 12,559,970 | 4,134,458 |
| Receivables, net | 32,311 | - |
| Total assets | 13,432,280 | 4,421,319 |
| LIABILITIES | | |
| Vouchers payable | 37,629 | 20,790 |
| Accrued benefit payments | 37,659 | 13,673 |
| Total liabilities | 75,288 | 34,463 |
| DEFERRED INFLOW OF RESOURCES | | |
| Property tax | 26,942 | - |
| Total deferred inflows | 26,942 | - |
| FUND BALANCE | \$ 13,330,050 | \$ 4,386,856 |

| |
|----------------------------------|
| OPEB Financial Statements |
|----------------------------------|

City of Bellingham
Statement of Revenues, Expenditures and Changes in Fund Balances
OPEB Plans
December 31, 2022

| | <u>Firefighters'</u> <u>Healthcare</u> | <u>Police Officers'</u> <u>Healthcare</u> |
|--|---|--|
| ADDITIONS | | |
| Contributions: | | |
| Property taxes | \$ 2,712,334 | - |
| Total trust contributions | 2,712,334 | - |
| Investment income: | | |
| Interest | 135,142 | 50,702 |
| Net incr (decr) in fair value of investments | (760,223) | (239,635) |
| Net investment income | (625,080) | (188,933) |
| Total additions | 2,087,253 | (188,933) |
| DEDUCTIONS | | |
| Benefit payments | 86,836 | 236,483 |
| Medical insurance | 436,463 | 275,192 |
| Participant reimbursements | 137,315 | 35,856 |
| Total benefit payments | 660,615 | 547,531 |
| Administrative expense | 68,183 | 65,498 |
| Total deductions | 728,797 | 613,029 |
| Net change in fund balances | 1,358,456 | (801,962) |
| Fund Balance - Beginning | 11,971,594 | 5,188,818 |
| Fund Balance - Ending | \$ 13,330,050 | \$ 4,386,856 |

Medical Expense Reimbursement Plan (MERP)

The City of Bellingham and the International Association of Fire Fighters (IAFF) Union provide for health insurance for eligible future retirees through a medical expense reimbursement plan (MERP). The City through negotiation with the union is obligated to make monthly contributions to the Washington State Council of Fire Fighters (WSCFF) Employee Benefits Trust Medical Expense Reimbursement Plan (MERP) in the amount of \$150 per month on behalf of each union member. This plan is sponsored by the IAFF and City involvement is limited to its contributions.

Plan description

The MERP is a Retiree Medicare Trust (RMT) started by the WSCFF to help active fire fighters save money while employed, tax-free, for medical costs they will incur in retirement. The MERP is a completely tax-sheltered plan – contributions to the fund are made pre-tax, investment earnings accrue tax-free, and benefits come back out to eligible retirees in the form of reimbursable covered expenses.

Board membership

The MERP is managed by a board of nine trustees, each representing a participating local. Five are elected, four are appointed.

Summary of significant accounting and funding policies

All administrative and reporting requirements are the responsibility of the IAFF and the WSCFF. The WSCFF board of trustees establishes plan rates with the ability to amend these rates primarily based on updated actuarial data.

Plan benefits

Post retirement, members receive a tax-free, lifetime benefit for the reimbursement of qualifying medical expenses. Eligible retirees are entitled to reimbursement toward the payment of covered expenses, generally consisting of insurance premiums and medical expenses incurred by the retired employee once eligible under MERP. For eligible retirees, the MERP provides a lifetime stream of benefit payments.

Plan Membership

All current and future IAFF represented employees are eligible and irrevocably required to participate in the union sponsored plan.

An employee becomes an eligible retiree entitled to monthly benefits under the MERP generally after the following criteria have been met:

- The employee earns five (5) years of active service in the Trust.
- Contributions are made to the Trust on behalf of the employee for all years of active service in the Trust.
- The employee reaches age 53.
- The employee ceases employment with a participating employer.

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 fifteen property owners that qualify under the program for a total property tax valuation of \$95,051,941 and an estimated tax abatement of \$165,012 for fiscal year 2022.

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 ten 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. Asset Retirement Obligation (ARO)

The City has three underground storage tanks. WAC 173-360A-0810 outlines requirements for decommissioning underground storage tanks. The three tanks cannot be separately identified in capital asset records and individually do not meet the City's capital asset threshold. An approximate cost to remove the tanks, in compliance with the WAC, is estimated at \$45,000 based on an inquiry with an external supplier/contractor and staff evaluation. The City has no plans to decommission the storage tanks. The cost to decommission is below the City's capital asset threshold and has been determined to be immaterial for financial statement reporting purposes.

The City owns dams that are used to control the level of water in both Lakes Whatcom and Padden, and that are used for flood control purposes. The City continuously monitors and maintains these dams and plans to use these assets in perpetuity. Retirement of City Dams is not reasonably estimable.

21. New and Closed Funds

Fund 183 – Tourism Promotion Area – In 2022 the City created a new fund to account for a new levy (charge) imposed on the Operators of Lodging Businesses within the Bellingham Whatcom County Tourism Promotion Area and subsequently passed on to the guests of the Lodging Business, under the authority of the TPA Act, for the purpose of providing funding of Tourism Promotion. Established by Ordinance 2021-05-016, authorized by RCW 35.101.010.

Fund 520 – Purchasing and Materials Management – In 1981 the City of Bellingham created the *Purchasing and Materials Management fund* for the purpose of consolidating the functions of purchasing, warehousing and issuing supplies to various departments of the City. Since that time, the City's warehousing and purchasing activities have changed dramatically. The 2023-2024 Biennial Budget transfers the City's purchasing activity to the *General fund*. The Bellingham City Council passed Ordinance 2022-12-033, dissolving the *Purchasing and Material Management fund* and transferring any residual cash to the *Facilities fund*, effective December 31, 2022.

22. COVID-19 pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

In 2020, the City took measures to reduce spending to offset projected significant revenue shortfalls in the General Fund; however, the major General Fund revenue sources cumulatively were down only approximately 1.4% from 2019. The City was also awarded approximately \$4 million in Coronavirus Relief Funds, which were used to cover unplanned expenses related to the public health emergency and to support local businesses, food security, homeless populations, and childcare services. The City was able to end 2020 without the need to draw upon reserves.

In 2021, the City was awarded approximately \$21 million in funding from the American Recovery Plan Act (ARPA), and experienced strong sales tax and business tax growth as the COVID restrictions eased.

As of the end of 2022, the City has used approximately \$4.8 of the ARPA funds and has further plans to use the remainder of the funds on economic recovery, low-income housing, food security, homeliness, and climate resiliency for vulnerable populations. The economy has continued to remain strong through 2022 and to begin 2023.

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, 2022

| | 2021-2022 Biennial | | 2021 | 2022 | Total Amounts Legal Basis | Variance with Final Budget |
|---|----------------------|----------------------|----------------------------------|----------------------------------|------------------------------|-------------------------------|
| | Budgeted Amounts | Budgeted Amounts | Actual Amounts Legal Basis | Actual Amounts Legal Basis | | |
| | Original | Final | | | | |
| REVENUES | | | | | | |
| <i>Taxes:</i> | | | | | | |
| Property | \$ 31,386,400 | \$ 32,640,000 | \$ 16,223,387 | \$ 16,676,234 | \$ 32,899,621 | \$ 259,621 |
| Sales and use | 34,485,360 | 42,844,224 | 21,066,583 | 23,056,432 | 44,123,015 | 1,278,791 |
| Business | 65,008,483 | 72,625,886 | 37,285,697 | 41,611,303 | 78,897,000 | 6,271,114 |
| Leasehold | 1,099,000 | 1,099,000 | 584,946 | 612,395 | 1,197,341 | 98,341 |
| Admissions | 463,130 | 150,000 | 93,527 | 408,552 | 502,079 | 352,079 |
| Licenses and permits | 1,737,800 | 1,737,800 | 845,415 | 968,181 | 1,813,596 | 75,796 |
| Intergovernmental | 6,142,212 | 21,232,121 | 7,833,429 | 10,211,800 | 18,045,229 | (3,186,892) |
| Charges for services | 21,499,779 | 24,255,777 | 5,145,561 | 7,375,316 | 12,520,877 | (11,734,900) |
| Fines and penalties | 1,198,992 | 898,992 | 299,524 | 285,823 | 585,347 | (313,645) |
| Investment income | 634,230 | 834,230 | (233,300) | (1,916,166) | (2,149,466) | (2,983,696) |
| Miscellaneous | 1,112,703 | 1,272,703 | 645,705 | 1,353,072 | 1,998,777 | 726,074 |
| Total revenues | 164,768,089 | 199,590,733 | 89,790,474 | 100,642,942 | 190,433,416 | (9,157,317) |
| EXPENDITURES | | | | | | |
| <i>Current</i> | | | | | | |
| General government | 28,914,680 | 45,077,429 | 8,794,849 | 15,944,514 | 24,739,363 | (20,338,066) |
| Public safety | 102,390,546 | 113,350,202 | 54,214,044 | 58,303,144 | 112,517,188 | (833,014) |
| Transportation | - | 700,000 | - | - | - | (700,000) |
| Natural and economic environment | 9,733,268 | 11,134,693 | 3,646,288 | 4,645,137 | 8,291,425 | (2,843,268) |
| Social services | 499,922 | 1,036,094 | 600,198 | 490,839 | 1,091,037 | 54,943 |
| Cultural and recreation | 30,380,445 | 34,257,640 | 15,728,406 | 17,983,132 | 33,711,538 | (546,102) |
| <i>Debt service:</i> | | | | | | |
| Principal | - | 5,500,000 | - | - | - | (5,500,000) |
| Interest and related charges | - | - | - | 96 | 96 | - |
| Capital outlay | - | 840,000 | 102,569 | 838,699 | 941,268 | 101,268 |
| Total expenditures | 171,918,861 | 211,896,058 | 83,086,354 | 98,205,561 | 181,291,915 | (30,604,239) |
| Revenues over (under) expenditures | (7,150,772) | (12,305,325) | 6,704,120 | 2,437,381 | 9,141,501 | 21,446,922 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from sale of capital assets | - | - | 1,414,073 | - | 1,414,073 | 1,414,073 |
| Transfers out | (1,178,994) | (3,147,172) | (872,876) | (2,274,290) | (3,147,166) | 6 |
| Total other financing sources and (uses) | (1,178,994) | (3,147,172) | 541,197 | (2,274,290) | (1,733,093) | 1,414,079 |
| Net change in fund balances | (8,329,766) | (15,452,497) | 7,245,317 | 163,091 | 7,408,408 | 22,861,001 |
| Fund balances - beginning | 21,188,322 | 31,954,796 | 41,211,712 | 48,457,023 | 41,211,706 | 9,256,910 |
| Fund balances - ending | \$ 12,858,556 | \$ 16,502,299 | \$ 48,457,029 | \$ 48,620,114 | \$ 48,620,114 | \$ 32,117,911 |

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, 2022

REVENUES

| | |
|---|---------------------------|
| General Fund legal basis | \$100,642,942 |
| <i>Budgeted separately and consolidated for GASB 54 reporting</i> | |
| Street | 15,877,827 |
| First 1/4% Real Estate Excise Tax | 3,080,396 |
| Second 1/4% Real Estate Excise Tax | 2,638,329 |
| Greenway III Levy | 4,961,229 |
| Park Impact Fees | 1,633,365 |
| Sportsplex | (1,342) |
| Fire Pension | 1,994,852 |
| Police Pension | (361,422) |
| General Fund GAAP Basis | <u><u>130,466,176</u></u> |

EXPENDITURES

| | |
|---|---------------------------|
| General Fund legal basis | 98,205,561 |
| <i>Budgeted separately and consolidated for GASB 54 reporting</i> | |
| Street | 11,998,104 |
| First 1/4% Real Estate Excise Tax | 1,364,930 |
| Second 1/4% Real Estate Excise Tax | 963,614 |
| Greenway III Levy | 3,892,934 |
| Park Impact Fees | 1,462,506 |
| Sportsplex | - |
| Fire Pension | 1,169,876 |
| Police Pension | 758,476 |
| General Fund GAAP Basis | <u><u>119,816,001</u></u> |

OTHER FINANCING SOURCES (USES)

| | |
|---|---------------------------|
| General Fund legal basis | (2,274,290) |
| <i>Budgeted separately and consolidated for GASB 54 reporting</i> | (1,215,372) |
| General Fund GAAP Basis | <u><u>(3,489,662)</u></u> |

NET CHANGES IN FUND BALANCES

| | |
|---|----------------------------|
| General Fund legal basis | 163,091 |
| <i>Budgeted separately and consolidated for GASB 54 reporting</i> | 6,997,422 |
| General Fund GAAP Basis | <u><u>\$ 7,160,513</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

| | 6/30/2022 | 6/30/2021 | 6/30/2020 | 6/30/2019 | 6/30/2018 | 6/30/2017 | 6/30/2016 | 6/30/2015 | 6/30/2014 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| PERS 1 | | | | | | | | | |
| Proportionate % of Net pension liability (NPL) | 0.252220% | 0.259443% | 0.255879% | 0.273189% | 0.271961% | 0.276119% | 0.283775% | 0.283816% | 0.292219% |
| Proportionate share of NPL | \$ 7,022,730 | \$ 3,168,406 | \$ 9,033,910 | \$ 10,505,087 | \$ 12,145,871 | \$ 13,102,062 | \$ 15,240,054 | \$ 14,846,216 | \$ 14,720,669 |
| Covered payroll | \$ 41,411,629 | \$ 39,912,886 | \$ 38,770,071 | \$ 36,571,870 | \$ 35,588,234 | \$ 34,095,019 | \$ 33,129,932 | \$ 31,529,976 | \$ 30,954,423 |
| Proportionate share of NPL as a % of covered payroll | 16.96% | 7.94% | 23.30% | 28.72% | 34.13% | 38.43% | 46.00% | 47.09% | 47.56% |
| Fiduciary net position (FNP) | \$ 22,935,005 | \$ 24,973,547 | \$ 19,769,867 | \$ 21,448,831 | \$ 20,879,474 | \$ 20,700,421 | \$ 20,222,944 | \$ 21,451,699 | \$ 23,206,738 |
| Total pension liability (TPL) | \$ 29,957,736 | \$ 28,141,953 | \$ 28,803,777 | \$ 31,953,917 | \$ 33,025,345 | \$ 33,802,482 | \$ 35,462,999 | \$ 36,297,915 | \$ 37,927,408 |
| FNP as a % of TPL | 76.56% | 88.74% | 68.64% | 67.12% | 63.22% | 61.24% | 57.03% | 59.10% | 61.19% |
| PERS 2/3 | | | | | | | | | |
| Proportionate % of Net pension asset (NPA) | 0.329094% | 0.333354% | 0.331595% | 0.348783% | 0.338229% | 0.340802% | 0.346439% | 0.345119% | 0.347973% |
| Proportionate share of NPA(NPL) | \$ 12,205,376 | \$ 33,207,422 | \$ 4,240,911 | \$ 3,387,869 | \$ 5,774,959 | \$ 11,841,240 | \$ 17,442,930 | \$ 12,331,299 | \$ 7,033,791 |
| Covered payroll | \$ 41,411,629 | \$ 39,912,886 | \$ 38,704,809 | \$ 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 | 29.47% | 83.20% | 10.96% | 9.31% | 16.43% | 35.37% | 53.78% | 40.17% | 23.54% |
| Fiduciary net position (FNP) | \$ 193,619,092 | \$ 196,869,995 | \$ 148,394,045 | \$ 148,343,786 | \$ 130,844,961 | \$ 119,283,437 | \$ 105,603,698 | \$ 101,851,378 | \$ 97,776,269 |
| Total pension liability (TPL) | \$ 181,413,716 | \$ 163,662,573 | \$ 152,634,956 | \$ 151,731,654 | \$ 136,619,920 | \$ 131,124,677 | \$ 123,046,628 | \$ 114,182,676 | \$ 104,810,059 |
| FNP as a % of TPL | 106.73% | 120.29% | 97.22% | 97.77% | 95.77% | 90.97% | 85.82% | 89.20% | 93.29% |
| LEOFF 1 | | | | | | | | | |
| Proportionate % of Net pension asset (NPA) | 0.274078% | 0.268987% | 0.270001% | 0.264289% | 0.261836% | 0.264742% | 0.263337% | 0.259501% | 0.254508% |
| Proportionate share of NPA | \$ 7,862,237 | \$ 9,214,316 | \$ 5,098,993 | \$ 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 | \$ 53,179,977 | \$ 62,325,408 | \$ 34,489,463 | \$ 35,334,772 | \$ 32,153,488 | \$ 27,168,985 | \$ 18,351,505 | \$ 21,154,742 | \$ 20,878,024 |
| Total proportionate share | \$ 61,042,214 | \$ 71,539,724 | \$ 39,588,456 | \$ 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 | 0.00% | 0.00% | 0.00% | 6473.34% | 7087.15% | 3320.31% | 2054.94% | 2161.45% | 662.54% |
| Fiduciary net position (FNP) | \$ 19,156,005 | \$ 19,751,449 | \$ 15,976,397 | \$ 15,933,553 | \$ 15,455,480 | \$ 15,186,917 | \$ 14,143,483 | \$ 14,558,393 | \$ 14,554,819 |
| Total pension liability (TPL) | \$ 11,293,768 | \$ 10,537,133 | \$ 10,877,403 | \$ 10,709,588 | \$ 10,701,842 | \$ 11,170,198 | \$ 11,430,358 | \$ 11,430,832 | \$ 11,468,169 |
| FNP as a % of TPL | 169.62% | 187.45% | 146.88% | 148.78% | 144.42% | 135.96% | 123.74% | 127.36% | 126.91% |
| LEOFF 2 | | | | | | | | | |
| Proportionate % of Net pension asset (NPA) | 0.887442% | 0.887241% | 0.903138% | 0.902086% | 0.881963% | 0.918952% | 0.828452% | 0.816862% | 0.853588% |
| Proportionate share of NPA | \$ 24,117,993 | \$ 51,534,630 | \$ 18,422,697 | \$ 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 | \$ 15,623,111 | \$ 33,245,462 | \$ 11,779,919 | \$ 13,685,759 | \$ 11,593,649 | \$ 8,272,034 | \$ 3,141,323 | \$ 5,551,241 | \$ 7,401,154 |
| Total proportionate share | \$ 39,741,104 | \$ 84,780,092 | \$ 30,202,615 | \$ 34,584,322 | \$ 29,499,421 | \$ 21,024,110 | \$ 7,959,848 | \$ 13,946,948 | \$ 18,728,634 |
| Covered payroll | \$ 35,829,901 | \$ 34,446,012 | \$ 34,319,549 | \$ 31,668,870 | \$ 29,121,105 | \$ 28,930,093 | \$ 25,125,355 | \$ 23,723,220 | \$ 23,786,119 |
| Proportionate share of NPA as a % of covered payroll | 67.31% | 149.61% | 53.68% | 66.12% | 61.49% | 44.08% | 19.18% | 35.39% | 47.62% |
| Fiduciary net position (FNP) | \$ 174,047,033 | \$ 174,224,907 | \$ 134,804,247 | \$ 128,443,199 | \$ 114,704,157 | \$ 108,216,955 | \$ 84,590,086 | \$ 80,319,337 | \$ 78,963,736 |
| Total pension liability (TPL) | \$ 149,929,040 | \$ 122,690,276 | \$ 116,381,551 | \$ 107,544,636 | \$ 96,798,385 | \$ 95,464,878 | \$ 79,771,560 | \$ 71,923,629 | \$ 67,636,256 |
| FNP as a % of TPL | 116.09% | 142.00% | 115.83% | 119.43% | 118.50% | 113.36% | 106.04% | 111.67% | 116.75% |

* Information for this 10 year table is available beginning no earlier than 2014. There are no active employees in DRS plans LEOFF 1 and PERS 1.

Pension Plans

Washington State Department of Retirement Systems - PERS and LEOFF

Schedule of contributions for the year ended December 31

| Plan | Year | Statutorily 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 | \$ - | \$ 31,370,215 | 4.19% |
| | 2015 | 1,435,640 | 1,435,640 | - | 31,814,277 | 4.51% |
| | 2016 | 1,655,872 | 1,655,872 | - | 33,913,177 | 4.88% |
| | 2017 | 1,853,370 | 1,853,370 | - | 37,248,276 | 4.98% |
| | 2018 | 1,897,144 | 1,897,144 | - | 37,339,174 | 5.08% |
| | 2019 | 1,899,391 | 1,899,391 | - | 38,780,875 | 4.90% |
| | 2020 | 1,905,959 | 1,905,959 | - | 40,398,885 | 4.72% |
| | 2021 | 1,711,673 | 1,711,673 | - | 39,544,338 | 4.33% |
| | 2022 | 1,647,787 | 1,647,787 | - | 43,920,312 | 3.75% |
| 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% |
| | 2020 | 3,143,590 | 3,143,590 | - | 39,691,849 | 7.92% |
| | 2021 | 2,843,978 | 2,843,978 | - | 39,544,338 | 7.19% |
| | 2022 | 2,793,380 | 2,793,380 | - | 43,920,312 | 6.36% |
| 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% |
| | 2020 | - | - | - | - | 0.00% |
| | 2021 | - | - | - | - | 0.00% |
| | 2022 | - | - | - | - | 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% |
| | 2020 | 1,748,999 | 1,748,999 | - | 33,958,049 | 5.15% |
| | 2021 | 1,806,863 | 1,806,863 | - | 35,180,242 | 5.14% |
| | 2022 | 1,969,267 | 1,969,267 | - | 38,461,898 | 5.12% |

* Information for this 10 year table is available beginning no earlier than 2014. There are no active employees in DRS plans LEOFF 1 and PERS 1.

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

The Firefighter's (FFP) and the Police Officer's (POP) pension plans have been funded and accumulating assets, however these plans do not meet the qualifying trust requirement that plan assets be legally protected from creditors. Therefore, reporting requirements dictate that the total liability be reported as opposed to the liability net of plan assets.

| |
|--|
| Schedule of Changes in Total Pension Liability and Related Ratios |
|--|

| Firefighters' Pension Plan | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension liability | | | | | | | |
| Interest cost | \$ 83,151 | \$ 105,066 | \$ 132,937 | \$ 194,919 | \$ 166,745 | \$ 211,196 | \$ 184,397 |
| Differences, expected and actual experience | - | (260,303) | - | (124,920) | (194,368) | - | 887,308 |
| Changes in actuarial assumptions | (557,361) | 75,115 | 144,296 | 420,578 | (128,029) | 329,349 | (116,456) |
| Benefit payments, net of refunds | (440,594) | (423,307) | (460,113) | (598,816) | (460,310) | (768,196) | (415,501) |
| Net change in total Pension liability | (914,804) | (503,429) | (182,880) | (108,239) | (615,962) | (227,651) | 539,748 |
| Total Pension liability - beginning | 4,377,823 | 4,881,252 | 5,064,132 | 5,172,371 | 5,788,333 | 6,015,984 | 5,476,236 |
| Total Pension liability - ending | \$ 3,463,019 | \$ 4,377,823 | \$ 4,881,252 | \$ 5,064,132 | \$ 5,172,371 | \$ 5,788,333 | \$ 6,015,984 |
| Covered employee payroll | - | - | - | - | - | - | 132,470 |
| Total Pension liability as a % of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 4541.39% |
| Police Officers' Pension Plan | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
| Total Pension liability | | | | | | | |
| Interest cost | \$ 24,788 | \$ 27,293 | \$ 33,908 | \$ 39,621 | \$ 47,003 | \$ 57,571 | \$ 41,693 |
| Differences, expected and actual experience | - | 144,266 | - | 193,532 | (529,249) | - | 491,536 |
| Changes in actuarial assumptions | (154,508) | (17,394) | 53,238 | 120,269 | 15,153 | 90,031 | (31,736) |
| Benefit payments, net of refunds | (144,962) | (110,587) | (103,691) | (118,157) | (100,144) | (131,995) | (182,997) |
| Net change in total Pension liability | (274,682) | 43,578 | (16,545) | 235,265 | (567,237) | 15,607 | 318,496 |
| Total Pension liability - beginning | 1,311,894 | 1,268,316 | 1,284,861 | 1,049,596 | 1,616,833 | 1,601,226 | 1,282,730 |
| Total Pension liability - ending | \$ 1,037,212 | \$ 1,311,894 | \$ 1,268,316 | \$ 1,284,861 | \$ 1,049,596 | \$ 1,616,833 | \$ 1,601,226 |
| Covered employee payroll | - | - | - | - | - | - | 45,026 |
| Total Pension liability as a % of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 3556.23% |

* Information for this 10 year table is available beginning no earlier than 2016.

Other Post Employment Benefit Plans (OPEB)*Firefighters' (FHC) and Police Officers' (PHC) Healthcare Plans*

The Firefighter's (FHC) and the Police Officer's (PHC) OPEB plans have been funded and accumulating assets, however these plans do not meet the qualifying trust requirement that plan assets be legally protected from creditors. Therefore, reporting requirements dictate that the total OPEB liability be reported as opposed to the liability net of plan assets.

| Schedule of Changes in Total OPEB Liability and Related Ratios | | | | | |
|--|--|--|--|--|--|
|--|--|--|--|--|--|

| Firefighters' Healthcare Plan | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total OPEB liability | | | | | |
| Interest cost | \$ 322,304 | \$ 377,717 | \$ 435,574 | \$ 780,698 | \$ 648,081 |
| Differences, expected and actual experience | - | (940,875) | - | (1,916,676) | (1,524,971) |
| Changes in actuarial assumptions | (2,733,370) | 531,316 | 1,077,270 | (1,916,802) | (435,004) |
| Benefit payments, net of refunds | (660,615) | (620,198) | (508,704) | (742,516) | (804,209) |
| Net change in total OPEB liability | (3,071,681) | (652,040) | 1,004,140 | (3,795,296) | (2,116,103) |
| Total OPEB liability - beginning | 16,445,500 | 17,097,540 | 16,093,400 | 19,888,696 | 22,004,799 |
| Total OPEB liability - ending | \$ 13,373,819 | \$ 16,445,500 | \$ 17,097,540 | \$ 16,093,400 | \$ 19,888,696 |
| Covered employee payroll | - | - | - | - | 142,572 |
| Total OPEB liability as a % of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% | 13949.93% |
| Police Officers' Healthcare Plan | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total OPEB liability | | | | | |
| Interest cost | \$ 225,187 | \$ 286,866 | \$ 331,408 | \$ 493,707 | \$ 423,336 |
| Differences, expected and actual experience | - | (321,228) | - | (255,025) | (1,294,595) |
| Changes in actuarial assumptions | (1,877,139) | (946,008) | 824,663 | (49,254) | (422,055) |
| Benefit payments, net of refunds | (547,531) | (472,223) | (443,135) | (518,671) | (431,801) |
| Net change in total OPEB liability | (2,199,483) | (1,452,593) | 712,936 | (329,243) | (1,725,115) |
| Total OPEB liability - beginning | 11,533,098 | 12,985,691 | 12,272,755 | 12,601,998 | 14,327,113 |
| Total OPEB liability - ending | \$ 9,333,615 | \$ 11,533,098 | \$ 12,985,691 | \$ 12,272,755 | \$ 12,601,998 |
| Covered employee payroll | - | - | - | - | - |
| Total OPEB liability as a % of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

* Information for this 10 year table is available beginning no earlier than 2018.

City of Bellingham
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

| Federal Agency (Pass-Through Agency) | Federal Program | ALN 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 | COVID 19 - Community Development Block Grants/Entitlement Grants | 14.218 | - | 667,398 | 667,398 | 596,232 | 3 | |
| ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF | Community Development Block Grants/Entitlement Grants | 14.218 | - | 870,642 | 870,642 | 560,707 | 3 | |
| Total CDBG - Entitlement Grants Cluster: | | | | 1,538,040 | 1,538,040 | 1,156,939 | | |
| ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via WSDOC) | Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | 20-6221C-146 | 346,526 | - | 346,526 | - | |
| ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF | Home Investment Partnerships Program | 14.239 | - | 433,779 | 433,779 | 366,995 | 3 | |
| ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF | Home Investment Partnerships Program | 14.239 | - | 700 | 700 | - | - | |
| Total ALN 14.239: | | | | 434,479 | 434,479 | 366,995 | | |
| U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WSDOE) | Coastal Wetlands Planning, Protection and Restoration | 15.614 | SEANCWCP- 2021-BellPW- 00042 | 980,000 | - | 980,000 | - | |

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, 2022

| Federal Agency (Pass-Through Agency) | Federal Program | ALN Number | Other Award Number | Expenditures | | | Passed through to Subrecipients | Note |
|--|--|---------------|---------------------------|---------------------------------|-----------------------|--------------|---------------------------------------|------|
| | | | | From Pass- Through Awards | From Direct Awards | Total | | |
| NATIONAL PARK SERVICE, INTERIOR, DEPARTMENT OF THE (via WSDOA) | Historic Preservation Fund Grants-In-Aid | 15.904 | FY22-CLG- BELLINGHAM | 10,000 | - | 10,000 | - | |
| OJP BUREAU OF JUSTICE ASSISTANCE, JUSTICE, DEPARTMENT OF | COVID 19 - Coronavirus Emergency Supplemental Funding Program | 16.034 | | - | 23,623 | 23,623 | - | |
| OFFICE ON VIOLENCE AGAINST WOMEN, JUSTICE, DEPARTMENT OF (via DVSAS) | Violence Against Women Formula Grants | 16.588 | F19-31103-062 | 9,943 | - | 9,943 | - | |
| OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF | Bulletproof Vest Partnership Program | 16.607 | | - | 12,563 | 12,563 | - | |
| OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF | Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | | - | 6,100 | 6,100 | - | |
| OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF | Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | | - | 2,501 | 2,501 | - | |
| Highway Planning and Construction Cluster | | | | | | | | |
| FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT) | Highway Planning and Construction | 20.205 | RAIL-5510 (007)/LA9470 | 233,954 | - | 233,954 | - | |
| FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT) | Highway Planning and Construction | 20.205 | BRS-5501 (005)/LA9297 | 703,435 | - | 703,435 | - | |
| Total ALN 16.738: | | | | - | 8,601 | 8,601 | - | |

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, 2022

| Federal Agency (Pass-Through Agency) | Federal Program | ALN 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 | BRM-5531 (001)/LA9991 | 322,535 | - | 322,535 | - | |
| FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT) | Highway Planning and Construction | 20.205 | BRM-5532 (001)/LA9992 | 362,571 | - | 362,571 | - | |
| Total Highway Planning and Construction Cluster: | | | | 1,622,495 | - | 1,622,495 | - | |
| Highway Safety Cluster | | | | | | | | |
| NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WATSC) | National Priority Safety Programs | 20.616 | 2022-AG-4305- Bellingham Protecting Mobility for All | 11,943 | - | 11,943 | - | |
| Total Highway Safety Cluster: | | | | 11,943 | - | 11,943 | - | |
| DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via AOC) | COVID 19 - Coronavirus Relief Fund | 21.019 | COVID-19 CARES368 | 38,000 | - | 38,000 | - | |
| DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE | COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS | 21.027 | | - | 4,692,792 | 4,692,792 | - | |
| DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via WSDOC) | COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS | 21.027 | SWV#00000608- 01 | 494,189 | - | 494,189 | 494,189 | |
| Total ALN 21.027: | | | | 494,189 | 4,692,792 | 5,186,981 | 494,189 | |

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, 2022

| Federal Agency (Pass-Through Agency) | Federal Program | ALN Number | Other Award Number | Expenditures | | | Passed through to Subrecipients | Note |
|--|--|---------------|-----------------------|---------------------------------|-----------------------|-------------------|---------------------------------------|------|
| | | | | From Pass- Through Awards | From Direct Awards | Total | | |
| THE INSTITUTE OF MUSEUM AND LIBRARY SERVICES, THE INSTITUTE OF MUSEUM AND LIBRARY SERVICES (via OSOS) | Grants to States | 45.310 | G-7282 | 28,528 | - | 28,528 | - | |
| Student Financial Assistance Cluster | | | | | | | | |
| OFFICE OF FEDERAL STUDENT AID, EDUCATION, DEPARTMENT OF (via WWU) | Federal Work-Study Program | 84.033 | WWU | 2,430 | - | 2,430 | - | |
| Total Student Financial Assistance Cluster: | | | | 2,430 | - | 2,430 | - | |
| FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WSMD) | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | DEM - 131 | 13,055 | - | 13,055 | - | |
| FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WSMD) | Emergency Management Performance Grants | 97.042 | E22-163 | 49,870 | - | 49,870 | - | |
| FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WSMD) | Emergency Management Performance Grants | 97.042 | E22-177 | 17,010 | - | 17,010 | - | |
| Total ALN 97.042: | | | | 66,880 | - | 66,880 | - | |
| Total Federal Awards Expended: | | | | 3,623,989 | 6,710,098 | 10,334,087 | 2,018,123 | |

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, 2022

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 \$906,766.68 and \$250,172.28 respectively. The amount of revolving loan repayments and HUD CDBG funding received during the year totaled \$170,119.45 and \$1,356,068.78 respectively. Through the (HOME) program, grants were awarded and loans were extended during the year in the amounts of \$97,286.51, and \$269,708.18 respectively. The amount of revolving loan repayments and HUD HOME funding received during the year were \$268,270.05 and \$235,433.37 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.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Bellingham
January 1, 2022 through December 31, 2022

This schedule presents the corrective action planned by the City for findings reported in this report 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).

| | |
|--|--|
| Finding ref number: 2022-001 | Finding caption: The City did not have adequate internal controls for ensuring compliance with federal reporting requirements. |
| Name, address, and telephone of City contact person: Samya Lutz, 210 Lottie St, Bellingham WA 98225, 360-778-8385 | |
| Corrective action the auditee plans to take in response to the finding: <i>The City of Bellingham has corrected its oversight in failing to file FFATA reports related to Housing and Services Program federal funding, and all reports are now up to date. In the future, the City will ensure timely reporting with procedures in place for the responsible staff to report regularly and verify reporting is completed via email to the Housing and Services Program Manager.</i> | |
| Anticipated date to complete the corrective action: Completed 9/2023 | |

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

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

Other ways to stay in touch

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