Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Issaquah
King County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008476

Issue Date
September 26, 2012

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 26, 2012

Council
City of Issaquah
Issaquah, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Issaquah'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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Table of Contents

City of Issaquah
King County
January 1, 2011 through December 31, 2011

Federal Summary

City of Issaquah
King County
January 1, 2011 through December 31, 2011

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

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
97.039	Hazard Mitigation Grant Program

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

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

Schedule of Audit Findings and Responses

City of Issaquah
King County
January 1, 2011 through December 31, 2011

1. The City did not have adequate internal controls in place to ensure accurate accounting and timely financial reporting.

Background

City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. We identified a significant deficiency in controls that adversely affect the City's ability to safeguard cash and produce reliable financial statements.

Description of Condition

Our audit identified the following weaknesses in internal controls that, when taken together, we consider a significant deficiency:

- There was a lack of oversight of the City's day-to-day accounting to ensure accurate and complete recording of transactions.
- The City lacked procedures to ensure monthly bank reconciliations were completed from July 2011 to August 2012.
- A review process was not in place to ensure that all journal entries posted were accurate.

Cause of Condition

The City experienced turnover in staff in key financial positions. The City did not prioritize ensuring internal controls were in place to ensure accurate accounting and financial reporting by the City.

Effect of Condition

The City did not have sufficient controls over cash balances and journal entries to ensure that public funds were safeguarded or that the general ledger was accurate.

Further, due to turnover in finance staff, the City was unable to prepare its financial statements in a timely manner. As a result, the City did not comply with statutory requirements the financial statements be submitted to the State Auditor's Office within 150 days of year-end.

Recommendation

We recommend the City implement internal controls to ensure:

- Adequate oversight of the City's day-to-day accounting and timely financial reporting.
- Procedures are in place for cash monitoring, including monthly bank reconciliations, taking place in a timely manner.
- A review process is performed for journal entries to verify they are accurate and posted timely to the general ledger.

City's Response

The City of Issaquah acknowledges the weaknesses that are identified in the audit report and has made significant progress toward strengthening our internal controls. We place a high value on integrity, stewardship and accountability. As a result, we are continually making improvements to our business processes.

The City agrees that during the audit period, there was not sufficient oversight of day-to-day operations. Beginning in 2012, a deputy finance director and senior accountant were hired to specifically address this issue. We have made a number of changes to our daily operations that have streamlined processes while increasing oversight and accountability.

During the audit period, Issaquah was also in the process of changing our primary bank. The City also maintains a many bank accounts. Both of these conditions contributed to the difficulty in timely reconciling of the City's bank accounts. All of the bank reconciliations are now current and completed. Moving forward, timely bank reconciliations will be a priority for the Finance Department.

We are also performing reviews of all journal entries in a timely manner.

The City appreciates the positive working relationship we have with the Auditor's Office. Thank you for your assistance.

Auditor's Remarks

We thank the City for their efforts to improve their controls.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

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

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Internal Control states in part:

> Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:
>
> > Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
> >
> > - Effectiveness and efficiency of operations
> > - Compliance with applicable laws and regulations
> > - Reliability of financial reporting
>
> Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control, which it defines as:

> a. Significant deficiency: a deficiency in internal control or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
>
> b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

RCW 43.09.230, Local government accounting — annual reports — comparative statistics, states in part:

> The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.
>
> Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

City of Issaquah
King County
January 1, 2011 through December 31, 2011

Council
City of Issaquah
Issaquah, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 24, 2012. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Responses as Finding 1, that we consider to be significant deficiencies in internal control over financial reporting. 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.

COMPLIANCE AND OTHER MATTERS

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

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

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Council, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 24, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Issaquah
King County
January 1, 2011 through December 31, 2011

Council
City of Issaquah
Issaquah, Washington

COMPLIANCE

We have audited the compliance of the City of Issaquah, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Council, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 24, 2012

Independent Auditor's Report on Financial Statements

City of Issaquah
King County
January 1, 2011 through December 31, 2011

Council
City of Issaquah
Issaquah, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed on page 12. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 24, 2012

Financial Section

City of Issaquah
King County
January 1, 2011 through December 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Issaquah's annual financial statements provides a narrative overview of the City's financial activities for and financial position at the end of December 31, 2011. This information should be read in conjunction with the preceding letter of transmittal, the financial statements, and notes to the financial statements that follow.

FINANCIAL HIGHLIGHTS

At the end of 2011 the City of Issaquah had a fund balance in the General Fund equal to 39% of 2012 budgeted expenditures. The 2012 Council budget goal was to not let this ratio level drop below 15%. With the final budget, the cash reserves through 2012 are expected to remain at or near current levels. The Administration will monitor this benchmark and, if needed, come back with additional expenditure reductions during the next fiscal year.

At the end of 2011, the primary government net assets, the amount by which total assets exceeded total liabilities, equal $604 million. A total of 94%, or $566 million, of total net assets is invested in capital assets. Of the net assets, $9 million is restricted for debt service and capital projects, $29 million is available to meet the City's ongoing activities and obligations.

Governmental fund balances at year-end were $24 million. Of this amount, a total of $11 million (or 47%) of the governmental fund balance is unassigned and $13 million is nonspendable, or restricted, committed, and assigned to specific activities.

In 2011 the City decreased debt by $6 million. Total debt at year-end was $42 million, not including compensated absences or other post employment benefits.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Issaquah's basic financial statements. The City of Issaquah's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Issaquah's financial condition, in a manner similar to a private-sector business.

The government-wide financial statements distinguish governmental activities that are primarily supported by taxes and intergovernmental revenues, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities of the City include general government (finance, executive, and human resources), judicial, public safety (police and fire), physical and economic environment, transportation, mental and physical health, and culture and recreation. The City's business-type activities are limited to water, sewer, and stormwater utilities.

The *Statement of Net Assets* presents information on all of the City of Issaquah's assets and liabilities, highlighting the difference between the two reported as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the City's overall financial health.

The *Statement of Activities* presents information designed to show how the City's net assets changed during the most recent fiscal year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support.

All activity on the statement of activities is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred. As such, items such as taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

Fund Financial Statements. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are set up in accordance with special regulations, restrictions, or limitations. The City of Issaquah, 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 of Issaquah can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The annual financial statements include fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, governmental versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, capital project funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term 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 City's near-term 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 facilitate this comparison between governmental funds and governmental activities.

The City maintains budgetary control over its operating funds through the adoption of an annual budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Issaquah maintains two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various City departments.

The City of Issaquah uses enterprise funds to report the same functions presented as business-type activities in the government-wide financial statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the City's water, sewer, and stormwater utilities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Issaquah uses internal service funds to account for its fleet of vehicles and equipment, unemployment insurance, insurance premiums, and Public Works Engineering operations fund.

Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities column of the government-wide statement of net assets.

Fiduciary funds. Fiduciary funds account for resources held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

At year-end, the City maintains an expendable trust fund and an agency/deposits fund. The trust fund's purpose is to make an annual award in the aggregate sum of $500 to an individual person or persons whose environmental activism, on behalf of the community, deserves special recognition. The agency/deposits fund is a clearing mechanism for cash resources that are collected by the City, held for a brief period, and then disbursed to authorized recipients.

Notes to the Financial Statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The City of Issaquah's net assets at December 31, 2011, total $604 million. The following is a condensed version of the government-wide statement of net assets.

City of Issaquah's Net Assets
(in thousands)

	Governmental Activities		Business Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and other assets	$ 42,289	$ 35,199	$ 12,594	$ 12,540	$ 54,883	$ 47,739
Capital assets, net of depreciation	487,844	499,139	115,193	108,586	603,037	607,725
Total Assets	530,133	534,338	127,787	121,126	657,920	655,464
Current liabilities	8,176	5,229	277	542	8,453	5,771
Liabilities payable from restricted assets	4,073	-	-	-	4,073	-
Noncurrent liabilities	42,599	39,458	9,476	6,393	52,075	45,851
Total liabilities	54,848	44,687	9,753	6,935	64,601	51,622
Net Assets:						
Invested in capital assets net of debt	448,884	465,657	104,567	100,276	553,451	565,933
Restricted	10,220	4,221	4,779	4,782	14,999	9,003
Unrestricted	16,181	19,773	8,688	9,133	24,869	28,906
Total net assets	$ 475,285	$ 489,651	$118,034	$114,191	$ 593,319	$ 603,842

The largest component of the City's net assets, 94% or $566 million is its investment in capital assets, net of related debt. These capital assets such as streets, trails, parks, utilities, and police vehicles are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

At the end of the fiscal year, the City of Issaquah reported positive balances in all three categories of net assets, for the government as a whole, as well as for the separate governmental and business-type activities.

Changes in Net Assets

The City of Issaquah's net assets increased approximately $11 million in 2011. The change in governmental activities was an increase of $15 million and a decrease of $3.9 million in the business-type activities. The following table shows the revenues, expenses and related changes in net assets for the governmental activities separate from the business-type activities.

City of Issaquah Statement of Activities
(in thousands)

	Governmental Activities		Business Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program Revenues						
Charges for services	$ 7,195	$ 10,191	$ 16,291	$ 18,363	$ 23,486	$ 28,554
Operating grants & contributions	3,352	4,423	-	-	3,352	4,423
Capital grants & contributions	7,181	14,357	4,414	6,061	11,595	20,418
General revenues:					-	-
Property taxes	8,493	8,151	-	-	8,493	8,151
Sales taxes	10,686	10,446	-	-	10,686	10,446
Business taxes	6,709	6,538	-	-	6,709	6,538
Other taxes	1,756	2,427	-	-	1,756	2,427
Investment earnings	315	486	10	74	325	560
Total revenues	45,687	57,019	20,715	24,498	66,402	81,517
Expenses:						-
Judicial	545	584	-	-	545	584
General government	7,144	8,851	-	-	7,144	8,851
Public safety	12,505	13,082	-	-	12,505	13,082
Physical environment	964	1,162	-	-	964	1,162
Transportation	12,017	9,903	-	-	12,017	9,903
Health and human services	7	6	-	-	7	6
Economic environment	3,223	3,299	-	-	3,223	3,299
Culture and recreation	5,174	5,528	-	-	5,174	5,528
Interest on long term debt	1,542	1,762	-	-	1,542	1,762
Water	-	-	6,153	7,424	6,153	7,424
Sewer	-	-	6,250	7,123	6,250	7,123
Storm Water	-	-	4,021	6,173	4,021	6,173
Total expenses	43,121	44,177	16,424	20,720	59,545	64,897
Increase (decrease) in net assets before transfers	2,566	12,842	4,291	3,778	6,857	16,620
Transfers, net	363	88	(363)	(88)	-	-
Miscellaneous Revenue/(expense)	659	1,436	-	-	659	1,436
Increase (decrease) in net assets	3,588	14,366	3,928	3,690	7,516	18,056
Net Assets - beginning	471,697	475,285	114,562	118,034	586,259	593,319
Prior period adjustment	-	-	(456)	(7,533)	(456)	(7,533)
Net Assets - ending	$ 475,285	$ 489,651	$ 118,034	$ 114,191	$ 593,319	$ 603,842

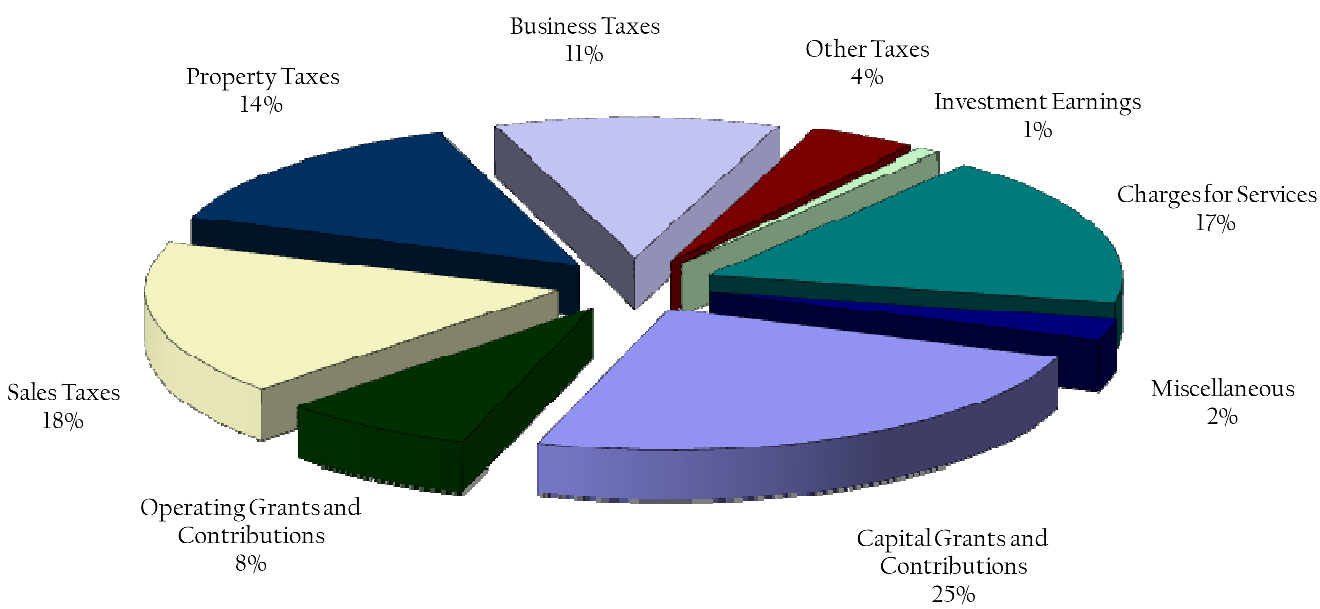
Governmental activities. Governmental activities contributed $15 million of the total change in net assets of $11 million. Key elements of the increase are as follows:

- Governmental revenues increased $13 million.
  - Charges for services increased $3 million.
  - Operating grants and contributions increased $1 million.
  - Capital Grants and contributions increased $7 million.
  - Overall tax revenue decreased $82,000.

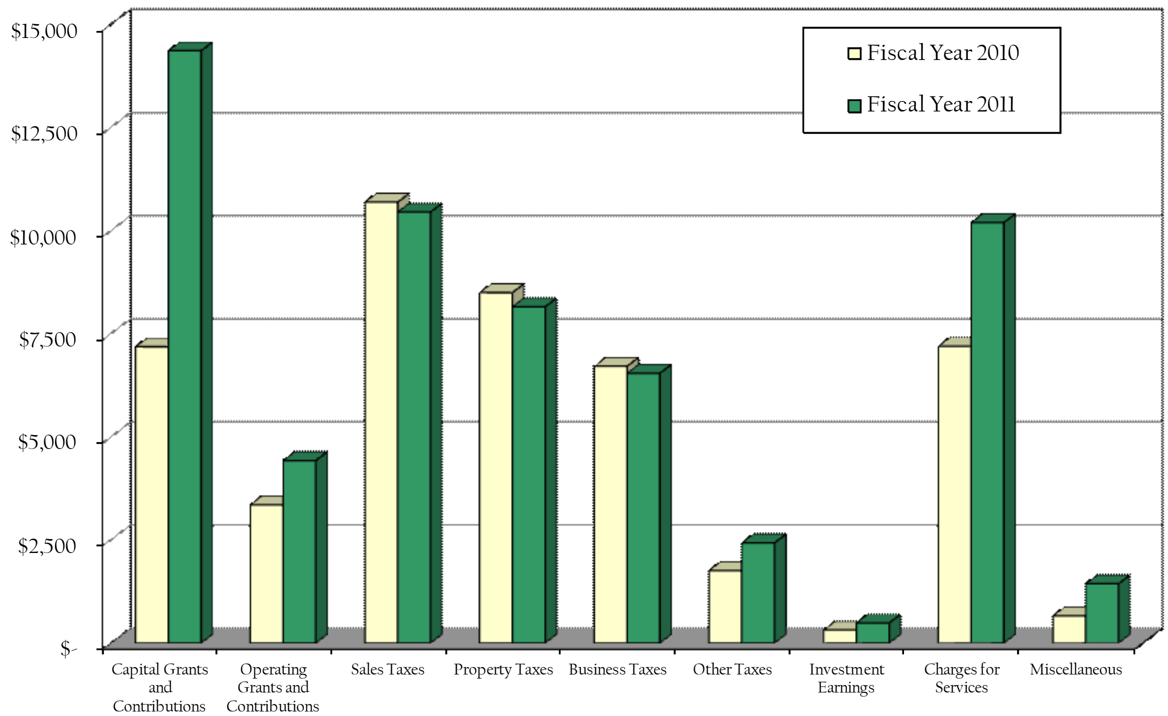
In 2011, the City of Issaquah continues its focus on sustainability forming the Sustainability Indicators Sounding Board charged with developing recommendations on how the City can measure the progress of sustainability within the community. In 2011 the City supported protecting the natural environment – including water quality, creeks and wildlife – while providing needed services to citizens through improved productivity.

The charts that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities.

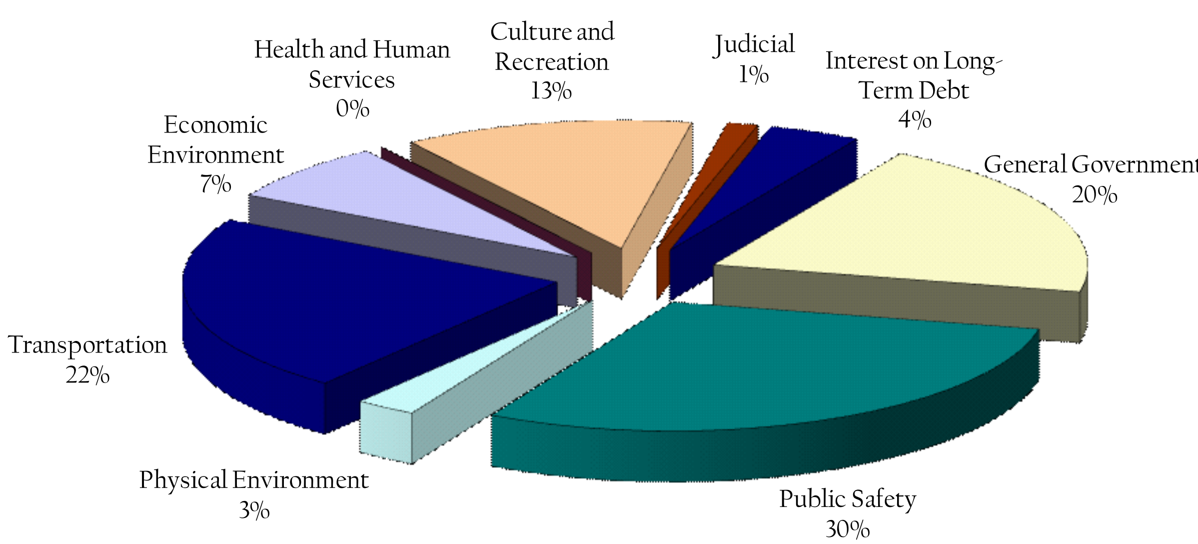
Revenues by Source - Government Activities



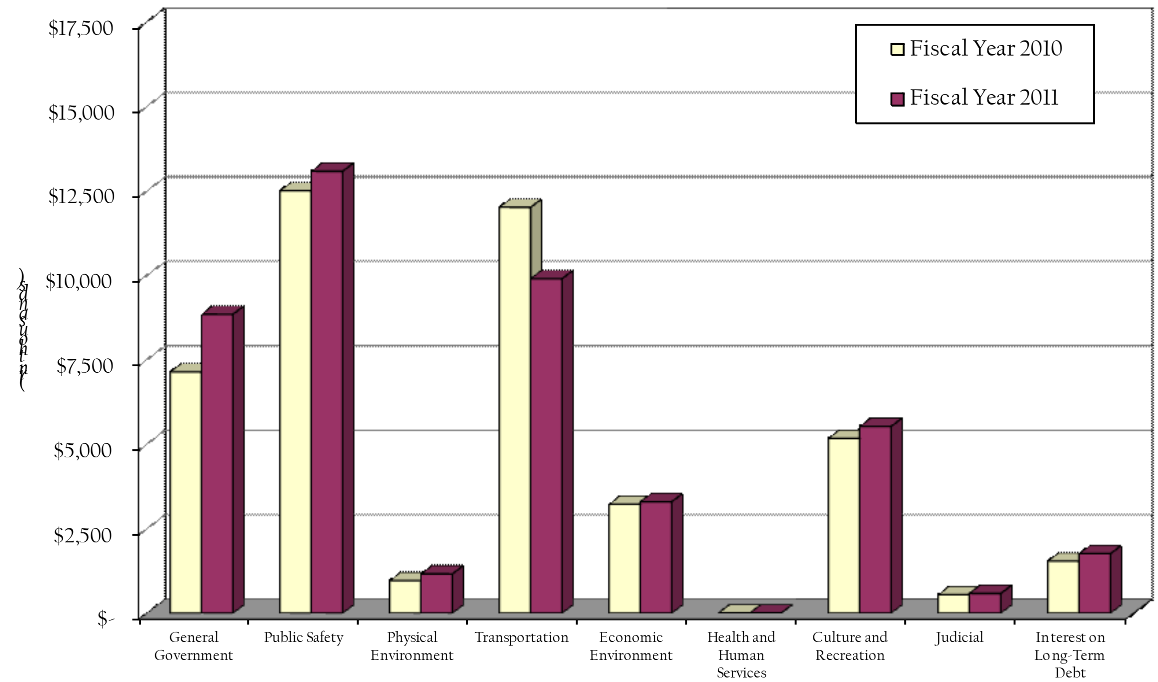
Revenues by Source Comparison - Governmental Activities



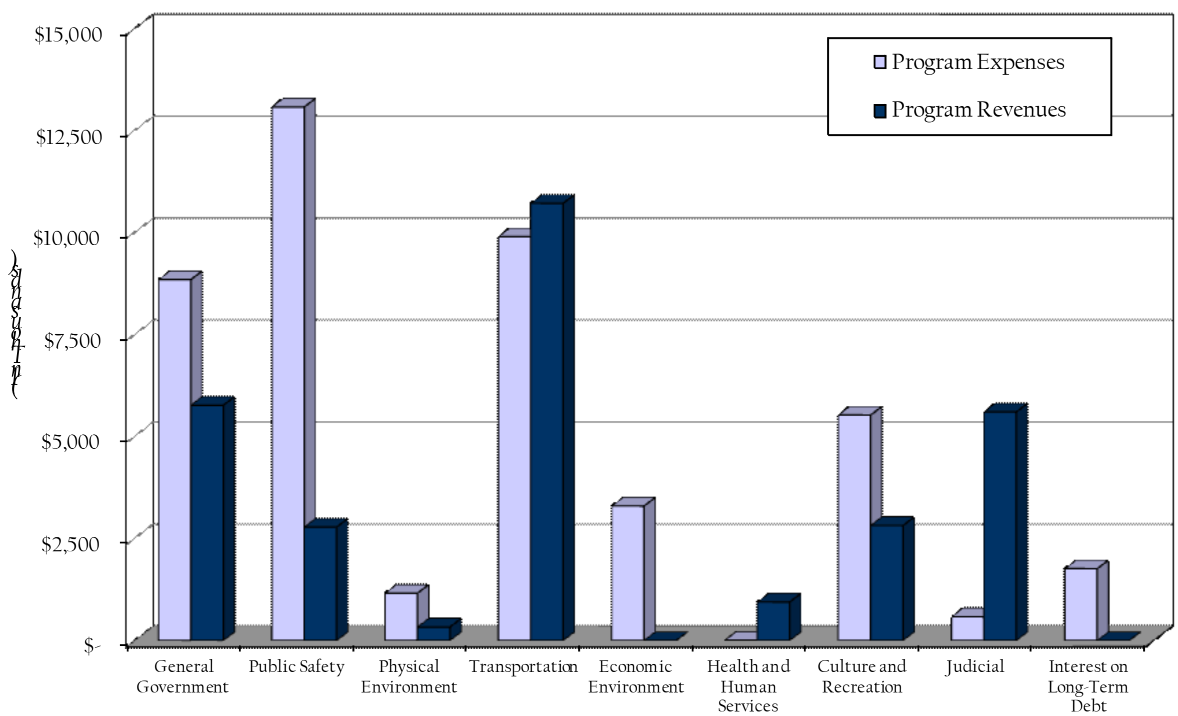
Program Expenses - Governmental Activities



Expenditure Comparison by Program - Governmental Activities

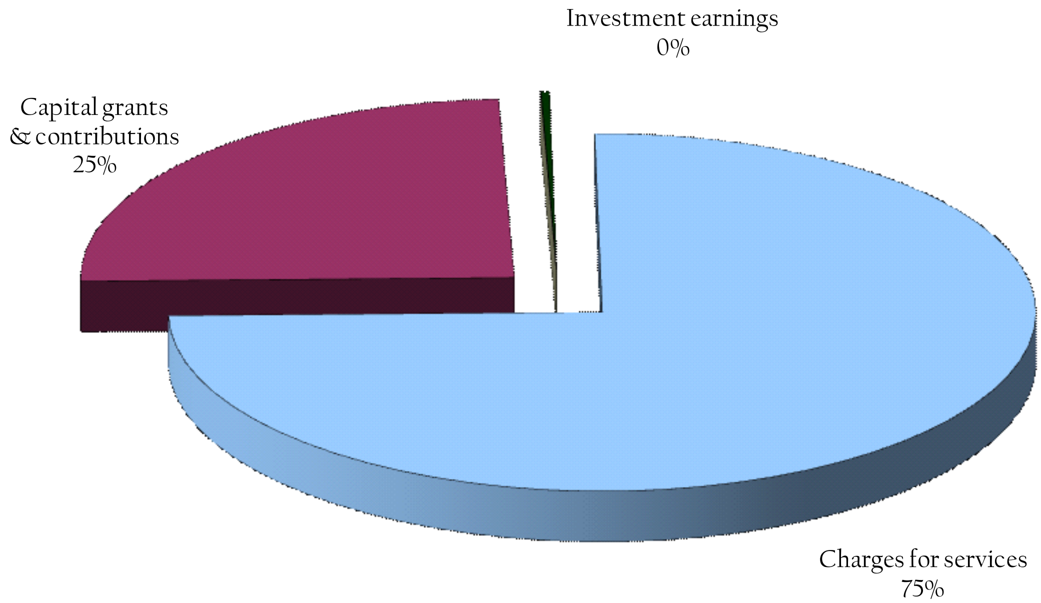


Program Expenses vs. Revenues - Governmental Activities

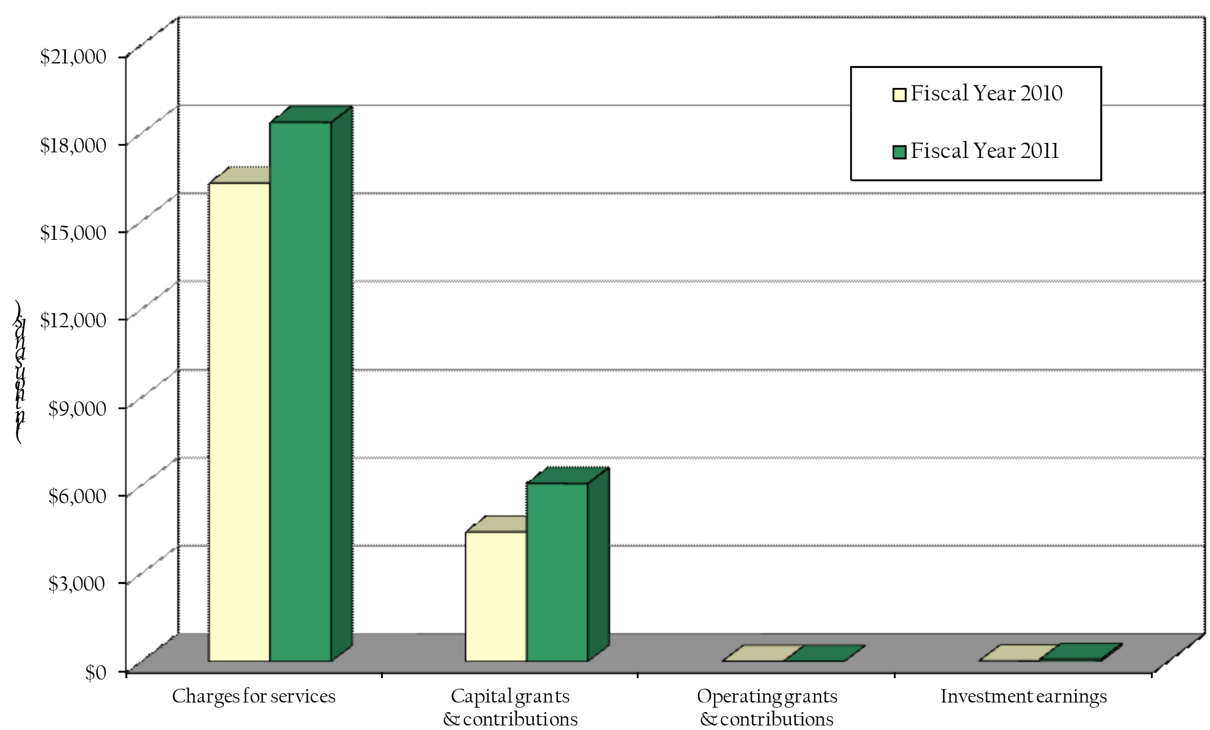


Business-type activities the City's utilities decreased the City of Issaquah's net assets by $4million.

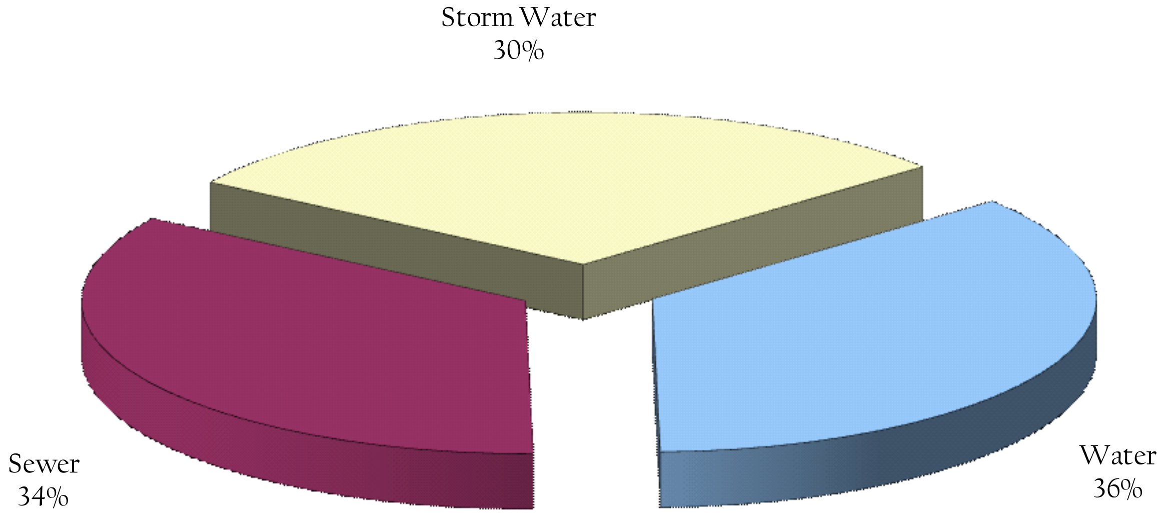
Revenues by Source - Business Type Activities



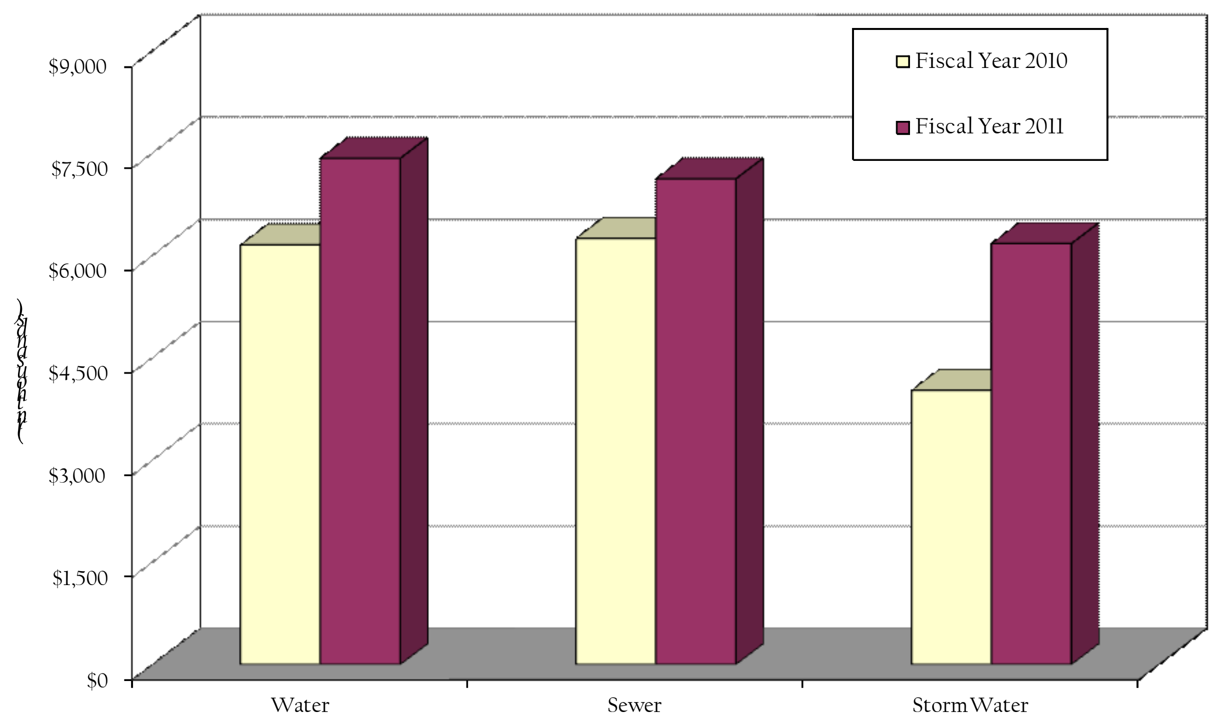
Revenues by Source Comparison - Business Type Activities



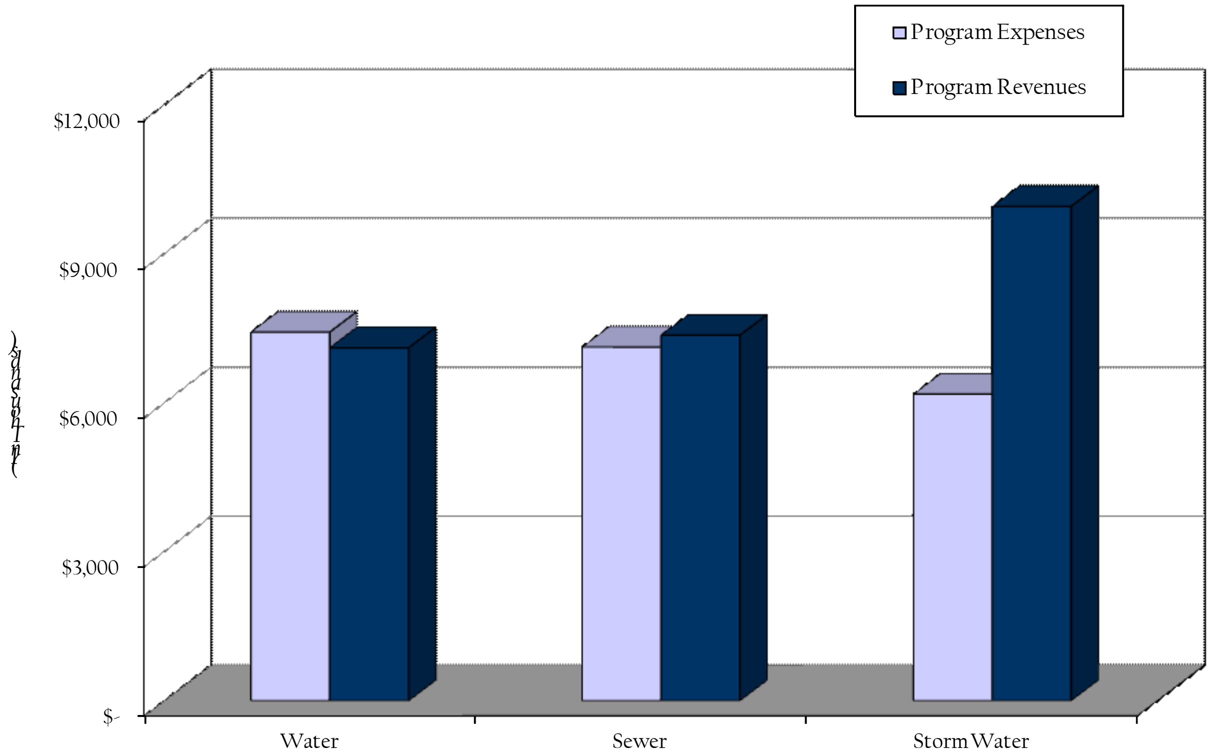
Program Expenses Including Depreciation - Business Type Activities



Expenditure Comparison by Program - Business Type Activities



Program Expenses vs. Revenues - Business Type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As previously discussed, the City of Issaquah uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The purpose of the City of Issaquah's governmental funds is to report on near term revenues/financial resources and expenditures basis. This information helps determine the City's financial requirements in the near future. In particular, unassigned fund balance is a good indicator of the City's resources available for spending at the end of the year.

At the end of 2011, the City's combined ending governmental fund balance was $24 million. Of the total ending fund balance, $13 million is nonspendable, restricted, committed, or assigned and $11 million is unassigned. Additionally, Internal Service Funds have $11 million net assets with $3 million invested in capital assets, net of depreciation.

The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. The fund balance at the end of 2011 of the general fund was $15 million. As a measure of the fund's liquidity, the ending fund balance is 46% of the fund's 2011 expenditures. The General Fund, fund balance increased $1.5 million from the prior year. In the current year, revenues exceeded expenditures in the general fund by $1 million. Net transfers out of the general fund totaled $91,000.

The Capital Projects Fund was created to account for all city capital improvement projects. Primary revenue sources are taxes, as well as federal, state, and local grant funding.

Proprietary Funds. The City of Issaquah's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the City's proprietary funds have already been addressed.

BUDGETARY HIGHLIGHTS

The City of Issaquah budgets annually on a cash basis. A comparison of the actual performance of the General Fund on a budgetary basis to the final budget indicates that total revenues were $1.5 million (or 8%) more than budgeted and expenditures were $529,000 (or 3%) less than budgeted. The increase in revenues resulted primarily from $3 million more than budgeted in tax revenues. The decrease in expenditures resulted from diligent cost controls implemented over the past several years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Issaquah's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to approximately $608 million (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, construction in progress, infrastructure, and plant in service.

Major capital assets changes during 2011 included the following:

- At December 31, 2011, $13 million of construction was under way.
- Developers donated capital of approximately $11 million in the governmental activities and $4.5 million in utilities during 2011.

The following table shows the increases/decreases by category for governmental activities, business-type activities and the City as a whole:

City of Issaquah's Capital Assets
(net of depreciation – in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Land & other nondepreciables	$ 291,060	$ 299,898	$ 12,104	$ 15,517	$ 303,164	$ 315,415
Infrastructure	133,829	140,542	-	-	133,829	140,542
Intangible property	1,290	1,178	42	47	1,332	1,225
Buildings & improvements	35,908	38,202	95,732	91,965	131,640	130,167
Machinery & equipment	3,982	6,836	395	364	4,377	7,200
Construction in progress	21,775	12,483	6,920	693	28,695	13,176
Total	$ 487,844	$ 499,139	$ 115,193	$ 108,586	$ 603,037	$ 607,725

Additional information on the City of Issaquah's capital assets can be found in *Note 7*.

Long-Term Debt. At the end of 2011, the City of Issaquah had total bonded debt outstanding of $37 million and other long-term debt of $5 million. The total bonded debt is distributed as follows.

City of Issaquah's Outstanding Bonded Debt
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
General obligation bonds	$ 33,850	$ 31,480	$ -	$ -	$ 33,850	$ 31,480
Revenue bonds	-	-	8,780	5,765	8,780	5,765
Total	$ 33,850	$ 31,480	$ 8,780	$ 5,765	$ 42,630	$ 37,245

The City of Issaquah enjoys an AA+ rating from Standard and Poor's for both its limited and unlimited general obligation debt.

Washington State statutes limit the amount of debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and the combination of voted and non-voted general purpose indebtedness cannot exceed 2.5% of assessed valuation.

The City's assessed valuation as of December 31, 2011, was $5,825,625,221 and the total amount of debt the City may issue is $406,153,210. Remaining debt capacity is as follows:

City of Issaquah's Debt Capacity[1]
(in thousands)

	General Capacity		Special Purpose Capacity		
	Councilmanic (Non-Voted)	Excess Levy (Voted-in)	Parks & Open Space (Voted-in)	Utility Purposes (Voted-in)	Total Capacity
December 31, 2011, Assessed Value[1]:					$5,825,625
2.50% of Assessed Value	$ -	$ 145,641	$ 145,641	$ 145,641	$ 436,922
1.50% of Assessed Value	87,384	(87,384)	-	-	-
Statutory Debt Limit	$ 87,384	$ 58,256	$ 145,641	$ 145,641	$ 436,922
Less Debt Outstanding *(General Obligation Bonds)*	(18,570)	(7,815)	(5,095)	-	(31,480)
Add amount available in Debt Service Fund	23	417	272	-	711
Remaining Debt Capacity	$ 68,837	$ 50,858	$ 140,817	$ 145,641	$ 406,153

Additional information on the City of Issaquah's long-term debt can be found in *Note 13* in the Notes to the Basic Financial Statements section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Governmental Activities. In 2012, General Fund budgeted expenditures total $38 million, which represents a $5 million decrease over year 2011 operating levels.

The final budget does not contain any new positions or property tax increases.

In 2011, the voted-in excess property tax rate was $0.24 per $1,000 of assessed valuation. The excess property tax rate is expected to increase $0.01 per $1,000 in 2012 to $0.25 per $1,000.

A large portion of capital expenditures in this fund are prior commitments, including debt payments of $1.5 million for Councilmanic bonds, which were used to construct a variety of public facilities.

Major non-bond funded capital projects budgeted include:

[1] *Property assessed at 100% of the estimated value.*

- Confluence Park Improvements $1,710,800
- Black Nugget Retaining Wall Repair $1,000,000
- North Issaquah Pre-LID #25 .... $600,000
- Complete Streets Program $463,000
- Fire Station #71 and #73 Improvements $200,000

Business-Type Activities. This budget also includes a number of water, sewer and stormwater improvement projects. During 2011, there was a 9% water utility rate increase that began with the December 1, 2011, billing cycle.

Water Capital Projects budgeted in 2012 include:

- Annual Water Main Replacement $575,000
- Water Blending Phase II Construction $400,000
- Water System Improvements $340,000
- Seismic Retrofits $200,000
- Water/Sewer System Evaluation $200,000

Sewer. Capital projects budgeted in 2012 include:

- Annual Sewer Main Rehabilitation Program $350,000

Major Stormwater projects budgeted in 2012 include:

- Cemetery Transfer Site (NPDES) .... $260,000[2]
- Storm Drainage Rehabilitation and Improvements $250,000
- Confluence Park Stream Habitat Restoration .... $210,000[2]

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Issaquah's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or request for additional information, may be addressed to the Finance Director, City of Issaquah, P.O. Box 1307, Issaquah, WA 98027-1307.

[2] *The City-funded portion of these projects are $50,000 and $100,000, respectively. The remainder of the estimated project costs are funded through grants.*

Statement of Net Assets
December 31, 2011
(in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments	$ 31,128	$ 9,565	$ 40,693
Receivables	3,616	2,407	6,023
Internal balances	58	(58)	-
Advances to/from other funds	(245)	245	-
Inventory	642	381	1,023
Capital Assets not being depreciated:			
Land	299,681	15,517	315,198
Construction in progress	12,483	693	13,176
Art	217	-	217
Capital Assets (net of accumulated depreciation):			
Buildings	25,392	7,927	33,319
Improvements other than buildings	12,810	-	12,810
Infrastructure	140,542	-	140,542
Intangible property	1,178	47	1,225
Plant in service	-	84,038	84,038
Machinery and equipment	6,836	364	7,200
Total assets	534,338	121,126	655,464
Liabilities:			
Accounts payable	2,727	526	3,253
Accrued interest	-	16	16
Unearned revenue	2,122	-	2,122
Deferred revenue	380	-	380
Noncurrent liabilities:			
Due within one year	2,855	766	3,621
Due in more than one year	36,603	5,627	42,230
Total liabilities	44,687	6,935	51,622
Net assets:			
Invested in capital assets, net of related debt	465,657	100,276	565,933
Restricted for:			
Debt service	2,855	766	3,621
Capital projects	1,322	4,016	5,338
Other	44	-	44
Unrestricted	19,773	9,133	28,906
Total net assets	$ 489,651	$ 114,191	$ 603,842

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

Statement of Activities
For the Fiscal Year Ended December 31, 2011
(in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Operating	Capital	Primary Government		
		Charges for	Grants and	Grants and	Governmental	Business-type	
	Expenses	Services	Contributions	Contributions	Activities	Activities	Total
Functions/Programs							
Primary government:							
Governmental activities:							
Judicial	$ 584	$ 976	$ 112	$ 4,517	$ 5,021	$ -	$ 5,021
General government	8,851	5,094	675	-	(3,082)	-	(3,082)
Public safety	13,082	819	1,948	14	(10,301)	-	(10,301)
Physical environment	1,162	290	40	-	(832)	-	(832)
Transportation	9,903	162	735	9,824	818	-	818
Health and human services	6	945	-	-	939	-	939
Economic environment	3,299	-	-	-	(3,299)	-	(3,299)
Culture and recreation	5,528	1,905	913	2	(2,708)	-	(2,708)
Interest on long-term debt	1,762	-	-	-	(1,762)	-	(1,762)
Total governmental activities:	44,177	10,191	4,423	14,357	(15,206)	-	(15,206)
Business-type activities:							
Water	7,424	6,872	-	236	-	(316)	(316)
Sewer	7,123	7,242	-	119	-	238	238
Storm Water	6,173	4,249	-	5,706	-	3,782	3,782
Total business-type activities:	20,720	18,363	-	6,061	-	3,704	3,704
Total primary government	$ 64,897	$ 28,554	$ 4,423	$ 20,418	$ (15,206)	$ 3,704	$ (11,502)
		General revenues:					
		Property taxes			$ 8,151	$ -	$ 8,151
		Sales taxes			10,446	-	10,446
		B&O taxes			6,538	-	6,538
		Other taxes			2,427	-	2,427
		Investment earnings			486	74	560
		Rents and leases			843	-	843
		Miscellaneous Revenue			593	-	593
		Transfers			88	(88)	-
		Total general revenues and transfers			29,572	(14)	29,558
		Change in net assets			14,366	3,690	18,056
		Net assets - beginning			475,285	118,034	593,319
		Prior period adjustment			-	(7,533)	(7,533)
		Net assets - ending			$ 489,651	$ 114,191	$ 603,842

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

Balance Sheet
Governmental Funds
As of December 31, 2011
(in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 12,726	$ 10,771	$ 1,744	$ 25,241
Receivables (net)	3,004	587	3	3,594
Inventory	481	-	-	481
Total assets	$ 16,211	$ 11,358	$ 1,747	$ 29,316
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts payable and accruals	1,391	411	229	2,031
Advances to other funds	-	3,045	-	3,045
Deferred revenue	-	380	-	380
Total liabilities	1,391	3,836	229	5,456
Fund balances:				
Nonspendable	481	-	-	481
Restricted	359	1,007	487	1,853
Committed	162	-	473	635
Assigned	2,595	6,515	558	9,668
Unassigned	11,223	-	-	11,223
Total fund balances	14,820	7,522	1,518	23,860
Total liabilities and fund balances	$ 16,211	$ 11,358	$ 1,747	$ 29,316

Total fund balances	$ 23,860
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	496,232
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(38,899)
Permit fees collected; service not performed	(2,122)
Internal service funds - used by management to charge the costs of certain activities	10,522
Internal balance liability with asset in Enterprise Funds for services provided by Internal Service Funds	58
Net assets of governmental activities	$ 489,651

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Twelve Months Ending December 31, 2011
(in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 6,712	$ -	$ 1,439	$ 8,151
Sales	7,859	2,587	-	10,446
Business and occupation	6,538	-	-	6,538
Other	975	1,452	-	2,427
Licenses and permits	2,150	-	-	2,150
Intergovernmental	3,921	2,423	52	6,396
Charges for services	3,230	729	-	3,959
Fines and penalties	976	-	-	976
Investment earnings	269	38	6	313
Rents and leases	714	129	-	843
Contributions and donations	14	1,379	-	1,393
Miscellaneous revenues	19	531	-	550
Total revenues	33,377	9,268	1,497	44,142
Expenditures				
General government	6,978	1,203	-	8,181
Judicial	573	-	-	573
Public safety	12,297	26	-	12,323
Physical environment	1,085	-	-	1,085
Transportation	3,287	159	-	3,446
Economic environment	3,184	-	-	3,184
Health and human services	6	-	-	6
Culture and recreation	4,907	20	-	4,927
Debt service:	-	-	-	-
Principal	-	350	2,450	2,800
Interest and other debt costs	-	112	1,650	1,762
Capital outlay:	-	-	-	-
General government	-	281	-	281
Public safety	50	4,102	-	4,152
Transportation	-	3,810	-	3,810
Culture and recreation	-	136	-	136
Total expenditures	32,367	10,199	4,100	46,666
Excess (deficiency) of revenues over (under) expenditures	1,010	(931)	(2,603)	(2,524)
OTHER FINANCING SOURCES (USES)				
Transfers in	341	31	2,298	2,670
(Transfers out)	(91)	(2,674)	-	(2,765)
Principal repayment LID	-	-	65	65
Interest LID	-	-	51	51
Total other financing sources and uses	250	(2,643)	2,414	21
Net change in fund balances	1,260	(3,574)	(189)	(2,503)
Fund balance - beginning	13,560	11,096	1,707	26,363
Fund balance - ending	$ 14,820	$ 7,522	$ 1,518	$ 23,860

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2011
(in thousands)

Net changes in fund balances for governmental funds		$ (2,503)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. This consists of:		
Capital outlays	7,985	
Depreciation	(7,557)	
		428
Developers construct and then donate infrastructure to the government. Infrastructure is not reported in the governmental funds.		
Developer donated infrastructure current year		10,990
The issuance of long-term debt (e.g., bonds) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net assets. This consists of:		
Debt retired		2,800
Some revenue reported in the statement of activities is not yet available and therefore are not reported as revenues in the governmental funds. This consists of:		
Permit center collected for services not yet performed		3,294
Change in deferred revenue - Governmental Funds		(187)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds. This consists of:		
Compensated absences	32	
Post Employment Benefit Obligation	(76)	
		(44)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities. This consists of:		
Internal service fund allocation of profits and losses	(811)	
Non-operating revenues from outside sources	216	
Intergovernmental transfers	183	
		(412)
Change in net assets of governmental activities		$ 14,366

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

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budgetary Comparison Schedule
For the Fiscal Year Ended December 31, 2011
(in thousands)

The General Fund includes the following budgetary funds as adopted in the budget; General Fund, Special Revenue Street Fund, Special Revenue Cemetery Fund, Special Revenue Municipal Art Fund, Special Revenue Resource Conservation Fund, Special Revenue Cable TV Fund, Special Revenue Lodging Tax Fund.

	Original Budget	Final Budget	Actual on Budgetary Basis		Budget to GAAP Differences	Actual on GAAP Basis
Revenues:						
Taxes:						
Property	$ 6,763	$ 6,763	$ 6,724		$ (12)	$ 6,712
Sales	7,736	7,736	8,673		(814)	7,859
Business and occupation	7,020	7,020	6,928		(390)	6,538
Other	180	180	188		787	975
Licenses and permits	1,749	1,749	2,174		(24)	2,150
Intergovernmental	3,169	3,169	3,913		8	3,921
Charges for services	2,754	2,754	3,668		(438)	3,230
Fines and penalties	1,020	1,020	978		(2)	976
Investment earnings	151	151	175		94	269
Rents and leases	762	762	718		(4)	714
Contributions and donations	4	4	14		-	14
Miscellaneous revenues	60	60	51		(32)	19
Total revenues	31,368	31,368	34,204	(1)	(827)	33,377
Expenditures:						
Current:						
General government services	7,047	7,047	6,870		108	6,978
Judicial	588	588	566		7	573
Public safety	12,567	12,627	12,345		2	12,347
Physical environment	1,106	1,186	1,109		(24)	1,085
Transportation	3,798	3,798	3,534		(247)	3,287
Economic environment	3,134	3,134	3,201		(17)	3,184
Health and human services	7	7	7		(1)	6
Culture and recreation	5,085	5,137	4,902		5	4,907
Total expenditures	33,332	33,524	32,534	(1)	(167)	32,367
Excess(deficiency) of revenues over (under) expenditures	(1,964)	(2,156)	1,670		(660)	1,010
Other financing sources (uses):						
Transfers in	941	1,025	341		-	341
Transfers out	(79)	(79)	(91)		-	(91)
Total other financing sources and uses	862	946	250		-	250
Net change in fund balances	(1,102)	(1,210)	1,920	(1)	(660)	1,260
Fund balances-beginning	9,168	9,168	9,937		3,623	13,560
Fund balances-ending	$ 8,066	$ 7,958	$ 11,857		$ 2,963	$ 14,820

(1) The City's budget is prepared primarily on the cash basis of accounting, therefore, the increase (decrease) between actual on a budgetary basis and actual on a GAAP basis is due to accruals.

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

Statement of Fund Net Assets
Proprietary Funds
As of December 31, 2011
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities Internal
	Water	Sewer	Storm	Totals	Service Funds
Assets:					
Current assets:					
Cash and investments	$ 4,931	$ 1,860	$ 2,774	$ 9,565	$ 5,887
Accounts receivable	565	799	1,043	2,407	22
Advances to other funds	-	2,345	-	2,345	2,800
Other receivables	-	-	-	-	-
Inventory	337	10	34	381	161
Total current assets	5,833	5,014	3,851	14,698	8,870
Noncurrent assets:					
Capital assets:					
Construction in progress	665	15	13	693	11
Land and land rights	9,186	-	6,331	15,517	-
Intangible property	47	-	-	47	-
Buildings and improvements	7,927	-	-	7,927	155
Plant in service	32,028	15,524	36,486	84,038	-
Machinery and equipment	157	207	-	364	2,741
Total capital assets, net depreciation	50,010	15,746	42,830	108,586	2,907
Total noncurrent assets	50,010	15,746	42,830	108,586	2,907
Total assets	55,843	20,760	46,681	123,284	11,777
Liabilities:					
Current liabilities:					
Accounts payable	102	24	272	398	281
Accrued wages	67	17	44	128	415
Bonds payable	705	-	-	705	-
Advance from other funds	300	-	600	900	-
Public works trust current payable	-	-	61	61	-
Matured interest	16	-	-	16	-
Total current liabilities	1,190	41	977	2,208	696
Noncurrent liabilities					
Compensated absences	98	33	68	199	559
Revenue bonds payable	5,060	-	-	5,060	-
Advance from other funds	-	-	1,200	1,200	-
Public works trust fund debt	-	-	368	368	-
Total noncurrent liabilities	5,158	33	1,636	6,827	559
Total liabilities	6,348	74	2,613	9,035	1,255
Net assets:					
Invested in capital assets, net of related debt	43,945	15,746	40,601	100,292	2,907
Restricted for:					
Debt service	705	-	61	766	-
Capital assets	2,166	560	1,290	4,016	-
Unrestricted	2,679	4,380	2,116	9,175	7,615
Total net assets	$ 49,495	$ 20,686	$ 44,068	$ 114,249	$ 10,522

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	(58)
Net assets of business-type activities	$ 114,191

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

Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended December 31, 2011
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities Internal
	Water	Sewer	Storm	Totals	Service Funds
Operating revenues:					
Charges for services	$ 6,872	$ 7,242	$ 4,249	$ 18,363	$ 7,189
Intergovernmental Revenue	-	-	-	-	63
Total operating revenues	6,872	7,242	4,249	18,363	7,252
Operating expenses:					
Maintenance and operation	4,980	6,316	4,545	15,841	7,915
Depreciation	1,712	673	1,384	3,769	676
Total operating expenses	6,692	6,989	5,929	19,610	8,591
Operating Income (loss)	180	253	(1,680)	(1,247)	(1,339)
Nonoperating revenues (expenses):					
Intergovernmental	-	-	1,445	1,445	-
Investment earnings	31	27	16	74	173
Interest expense	2	-	(128)	(126)	-
Other nonoperating	(454)	(1)	(1)	(456)	43
Total nonoperating revenue (expenses)	(421)	26	1,332	937	216
Income (loss) before contributions and transfers	(241)	279	(348)	(310)	(1,123)
Capital contributions	8	67	12	87	-
Developer donated assets	228	52	4,249	4,529	-
Transfers in	-	72	290	362	183
Transfers out	(144)	(162)	(144)	(450)	-
Change in net assets	(149)	308	4,059	4,218	(940)
Total net assets - beginning	57,177	20,378	40,009	117,564	11,462
Prior period adjustment	(7,533)	-	-	(7,533)	
Total net assets - ending	$ 49,495	$ 20,686	$ 44,068	$ 114,249	$ 10,522
Change in net assets	$ (149)	$ 308	$ 4,059	$ 4,218	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(528)	
Adjusted change in net assets of business-type activities				$ 3,690	

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

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2011
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Sewer	Storm	Totals	Internal Service Funds
Cash flows from operating activities					
Cash received from:					
Customers	$ 6,740	$ 6,869	$ 4,032	$ 17,641	$ 1,948
Interfund services provided	-	-	-	-	5,339
Other governments	-	-	-	-	63
Cash payments to:					
Suppliers for goods and services	(3,527)	(1,017)	(3,368)	(7,912)	(3,420)
Employees	(1,424)	(436)	(950)	(2,810)	(3,909)
Other governments	-	(4,870)	-	(4,870)	(309)
Net cash provided (used) by operating activities	1,789	546	(286)	2,049	(288)
Cash flows from noncapital financing activities					
Operating transfers in	-	72	290	362	183
Operating transfers out	(144)	(162)	(144)	(450)	-
Net cash provided (used) by noncapital financing activities	(144)	(90)	146	(88)	183
Cash flows from capital and related financing activities					
Proceeds from:					
Capital debt	5,350	-	-	5,350	-
Advances to/from other funds	-	-	1,500	1,500	2,550
Capital contributions	8	67	12	87	-
Other governments	-	-	1,445	1,445	-
Proceeds from retirement of capital assets	-	-	-	-	61
Payments for:					
Principal on capital debt	(6,355)	-	(2,072)	(8,427)	-
Interest and related costs on capital debt	(11)	-	(137)	(148)	-
Advances to/from other funds	(300)	(2,345)	(250)	(2,895)	(1,400)
Capital assets	(275)	(275)	(72)	(622)	(572)
Net cash provided (used) by capital related financing activities	(1,583)	(2,553)	426	(3,710)	639
Cash flows from investment activities:					
Interest received	33	27	16	76	173
Net cash provided (used) by investing related activities	33	27	16	76	173
Net increase (decrease) in cash balance	95	(2,070)	302	(1,673)	707
Cash balance at beginning of year	4,836	3,930	2,472	11,238	5,180
Cash balance at end of year	$ 4,931	$ 1,860	$ 2,774	$ 9,565	$ 5,887

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

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2011
(in thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities
	Water	Sewer	Storm	Totals	Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	$ 180	$ 253	$ (1,680)	$ (1,247)	$ (1,339)
Adjustment to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,712	673	1,384	3,769	676
Decrease (increase) in accounts receivable	(132)	(373)	(217)	(722)	98
Decrease (increase) in inventory	(34)	(3)	7	(30)	(10)
Increase (decrease) in accounts payable	61	7	231	299	38
Increase (decrease) in employee benefits	2	(11)	(11)	(20)	249
Net cash provided by operating activities	$ 1,789	$ 546	$ (286)	$ 2,049	$ (288)
Noncash investing, capital, and financing activities:					
Contributions of capital assets from developers and annexations	$ 228	$ 52	$ 4,249	$ 4,529	$ -

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

Statement of Fiduciary Net Assets
Fiduciary Funds
As of December 31, 2011
(in thousands)

	Ruth Kees Award - Sustainable Environ. Fund	Agency Funds	Total Fiduciary Funds
ASSETS			
Cash and investments	$ 29	$ 2,777	$ 2,806
Total assets	29	2,777	2,806
LIABILITIES			
Liabilities payable from restricted assets	-	2,777	2,777
Total liabilities	-	2,777	2,777
NET ASSETS			
Held in trust for annual award in the furtherance of environmental purpose or objective	$ 29	$ -	$ 29

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
As of December 31, 2011
(in thousands)

	Ruth Kees Award - Sustainable Environ. Fund
ADDITIONS	
Contributions:	
Private donations	$ -
Total contributions	-
Investment earnings:	
Interest	-
Total investment earnings	-
Total additions	-
DEDUCTIONS	
Awards	1
Total deductions	1
Change in net assets	(1)
Net assets - beginning	30
Net assets - ending	$ 29

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

NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Issaquah have been prepared in conformity with U.S. 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. The City's significant accounting policies are described below.

A. REPORTING ENTITY

The City of Issaquah is a municipal government incorporated on April 27, 1892, and operates under the laws of the State of Washington as a non-charter Mayor-Council form of government. In this form, the at large elected Mayor serves as the City's chief administrative officer, and an at large elected seven-member council serves as the City's legislative body. The City provides a full range of municipal services and operates water, sewer and storm water utilities.

As required by GAAP the City's financial statements present the City of Issaquah – the primary government. There are no component units (either blended or discretely presented) included in these statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund and internal service fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Both the governmental and business-type activities are reported on full accrual, economic resource measurement focus basis of accounting, which recognized all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts - investment in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues in the governmental activities and net cost or revenue of each business activity. Direct expenses are those that are clearly identifiable with a specific function or segment. The City of Issaquah does not 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The governmental major fund statements in the fund financial statement are presented on *current financial resources measurement focus* and *modified accrual basis of accounting*. Since governmental fund statements are presented on a different measurement focus and basis of accounting than the government–wide statements' governmental column, reconciliation is presented at the end of the statement, which briefly explains the adjustments necessary to transform the fund statements into the government-wide presentation.

Internal service funds are presented in summary form as part of the proprietary fund financial statements. Financial statements for internal service funds are consolidated into the governmental column and the proprietary column based on usage when presented at the government-wide level.

Interfund activity has been eliminated from the government-wide financial statements. Exceptions are revenue and expense for interest or services provided which would distort the direct cost and program revenues for these functions.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for all City capital projects.

The City reports the following non-major governmental fund types:

Debt service funds account for resources set aside to meet current and future debt service requirements on debt.

The government reports the following major proprietary funds:

The w*ater fund* accounts for the operations, capital improvement and debt service activity of the government's water department.

The *sewer fund* accounts for the operations, capital improvement and debt service activity of the government's sewer department.

The s*torm water fund* accounts for the operations, capital improvement and debt service activity of the government's storm water department.

Additionally, the government reports the following fund type:

The *internal service funds* account for operations that provide services to other departments or funds of the government on a cost reimbursement basis.

The expendable *trust fund* is used to account for the donation and earnings to be spent for the trust's intended purpose.

The *agency fund* is a clearing mechanism for cash resources that are collected by the government, held a brief period, and then disbursed to authorized recipients. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable 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.

In 2011, the City implemented the new *GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement establishes five fund balance classifications (*nonspendable, restricted, committed, assigned and unassigned*) that comprise a hierarchy based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. In addition, this Statement clarifies the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type.

D. BUDGET AND BUDGETARY ACCOUNTING

1. Scope of the Budget

The City budgets all funds in accordance with the Revised Code of Washington 35A.33. In compliance with the code, budgets for all funds are established with the exception of the L.I.D. Debt Service Funds, and the L.I.D. Guaranty Debt Service Funds, and agency funds. Budgets established for Proprietary Funds are "management budgets" and, as such, are not required to be reported. The budget as adopted constitutes the legal authority for expenditures. It is adopted at the fund level so that expenditures may not legally exceed appropriations at that level of detail.

Budgetary accounts are integrated in fund ledgers for all budgeted funds.

Appropriations for general and special revenue funds lapse at year-end. The City of Issaquah's budget procedures are in compliance with the Revised Code of Washington, Chapter 35A.33. The City follows the procedure outlined below to establish its annual budget.

(1) By the second Monday in September, the Mayor requests all Department Heads to prepare detailed estimates of revenues and expenditures for next fiscal year.

(2) By the fourth Monday in September, budget estimates are filed with the Finance Director.

(3) By the first business day in October, estimates are presented to the Mayor.

(4) At least 60 days before the ensuing fiscal year, the Mayor prepares preliminary budget and budget message and files with the City Clerk.

(5) No later than the first two weeks in November, the City Clerk publishes notice of filing of preliminary budget with City Clerk and publishes notice of public hearing on final budget once a week for two consecutive weeks.

(6) No later than six weeks before January 1, copies of proposed (preliminary) budget is made available to the public.

(7) On or before the first Monday of December, and may be continued from day-to-day but no later than the 25th day prior to next fiscal year, final hearings are commenced.

(8) Following the public hearing and prior to beginning of the ensuing fiscal year, the City Council adopts the final budget.

2. Amending the Budget

The City budget is adopted at the fund level. Amendments to the final budget must be adopted by the Council through an Ordinance, which is usually done mid-year and year-end.

The budgetary basis is substantially the same as the basis of accounting in all governmental fund types.

Transfers or revisions within budgeted funds are allowed; however, any revision which alters the total expenditures of a fund, or which affect the number of authorized employee positions or salary ranges must be approved by Ordinance of the City Council following public hearings. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Original budgets and supplementary appropriation adjustments adopted during the year are presented in *Note 4.*

E. ASSETS, LIABILITIES, AND NET ASSETS AND FUND BALANCES

1. Cash and Cash Equivalents

The City pools cash resources of its various funds with the State Investment Pool in order to facilitate the management of cash. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the day of purchase, they have a maturity date no longer than three months.

The City's deposits are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Depository Protection Commission (PDPC).

2. Investments

It is the City's policy to invest all temporary cash surplus. At December 31, 2011, the treasurer was holding short-term deposits with the State Investment Pool. The interest on this deposit is prorated to the various funds. *(See Note 5)*

Investments are reported at fair market value in accordance with GASB Statement 31 and are held separately by each fund with interest earned directly for benefit of each fund.

3. Receivables

The government recognized receivables in its financial statements based on the accounting requirements for that statement. Receivables are as follows:

Property Taxes. Property taxes received within 60 days of year end are reported as receivable at year-end. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected; therefore no allowance for uncollectible taxes is recorded. *(See Note 6)*

Sales Taxes. Taxes collected for November and December but not remitted by the state to the government until January and February of the following year are reported as receivables at year-end. There is no allowance for uncollectible sales taxes because all sales taxes are required by law to be collected by businesses at the time of sale and remitted to the state.

Special Assessments. Special assessments are levied against certain property owners and become liens against the property benefited by the improvement. At year end all are current.

Accounts Receivable. Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided. Uncollectible amounts are considered immaterial and the direct write-off method is used.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Due From Other Funds and Other Governments. Amounts due from other funds reported in the financial statements, represent outstanding billings to other funds for services provided in the current year. Amounts due from other governments represent outstanding balances due from granting agencies for cost-reimbursement grants and billings to other jurisdictions for intergovernmental services provided in the current year. In the entity-wide Statement of Net Assets, Due From Other Funds is not reported, but is eliminated in internal balances. Internal balances represent quasi-external transactions between governmental and business activities.

Advances to/from other funds. The Finance Director may authorize loans between funds. Advances to/from other funds outstanding at December 31, 2011 are reported in *Note 12*.

5. Inventories and Prepaid Items

Inventories are valued at the FIFO (first in, first out) method, which approximates the market value.

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

6. Restricted Assets and Liabilities

Net assets are segregated into three categories on the government-wide statement of net assets: investment in capital assets, net of related debt; restricted; and unrestricted. The flow assumption of the City is to use restricted assets before unrestricted assets. Restricted assets are usually set aside in a separate fund, specifically used for the purpose of debt service or capital replacement.

7. Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. The capital assets purchased or constructed by a governmental fund are recorded as expenditures in the fund at the time the related purchases are made. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as land, buildings, capital improvements, machinery and equipment, software and other improvements with an original cost of $5,500 or more each and an estimated useful life of more than one year; and all vehicles, artwork, transportation and utility infrastructure, regardless of their initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Per GASB 34, in 2007 the City capitalized retro-active "infrastructure" owned prior to 2003, such as roads, bridges, curbs and gutters, streets and sidewalks, bridges, and lighting systems.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Contributed assets are reported at donor cost or appraised value at the date of acquisition. The donor cost or appraised value of contributed fixed assets is included in contributed capital.

Land, construction in progress, and works of art are not depreciated. Property, plant, and equipment of the city are depreciated using the straight line method over the estimated useful lives as follows:

Asset Class	Estimated Service Life
Buildings	30-50 years
Plant in Service	30-40 years
Improvements Other Than Buildings and Infrastructure	20-50 years
Equipment	5-20 years

The Equipment Replacement Fund contains resources held for future equipment purchases.

Additional information on capital assets is provided in *Note 7*.

8. Compensated Absences

Eligible employees accumulate 12 to 28 days of vacation for each anniversary year, depending upon the employee's length of service, but they do not accumulate more than two-year's vacation. All outstanding vacation leave is payable upon resignation, retirement, or death. In accordance with NCGA Statement 4, the City accrues vacation pay. Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

In 1985, the City required all departments to record compensatory time in the payroll system as part of the Fair Labor Standards Act implementation.

The City accrues the maximum dollar amount payable, when incurred, in the government-wide and proprietary fund financial statements.

Sick leave accumulates at the rate of 8 to 12 days per year for employees. The maximum number of sick hours employees are allowed to accrue is 1,280 hours. However, starting in 1994, some contracts allow employees to convert a portion of unused sick leave earned in a calendar year to pay or vacation.

9. Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Prior to 2008, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bonds issued after January 01, 2008 recognize issuance costs, premiums, and discounts in entirety, in the year of issue.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Additional information on long-term debt is provided in *Note 13*.

10. Deferred Revenue

The deferred revenue account is used to offset receivables established in the governmental fund financial statement for certain revenues that are measurable but not considered available to finance payment of current obligations and, therefore, not susceptible to accrual on the modified accrual basis. When the receivable amounts are collected in future periods, this liability account is reduced and corresponding revenue is recorded. Deferred revenues presented in this manner on the accompanying financial statements are uncollected property taxes levied and an interlocal cooperation agreement between King County and the City for construction of a park-and-ride facility.

11. Fund Balances

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance. The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

Restricted Fund Balance. The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as grantors, bondholders and higher levels of government), constitutional provisions, or enabling legislation.

Committed Fund Balance. The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (i.e., City Council). The constraint may be removed or changed only through formal action of the same highest level of decision-making authority.

Assigned Fund Balance. The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance. The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, the City would typically use the most restrictive classification first.

12. Revenues, Expenditures and Expenses

Program Revenues. Amounts reported as program revenues include: Charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions, including special assessments.

General Revenues. In governmental funds amounts reported as general revenues include taxes, interest and investment earnings. In the governmental funds' statements debt proceeds are shown as other financing sources.

Transfers. Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the government-wide statements all interfund transfers between individual governmental funds have been eliminated.

Expenditures/Expenses. Expenses in the governmental funds are reported by function or as interest on long-term debt. In the governmental funds' statements debt issue costs are shown as other financing use.

13. Operating and Non-Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's utility funds and internal service funds are charges to customers for sales and services, vehicle replacement, and insurance. The government also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 2:
FUND BALANCES

The specific purposes for each fund balance classification on the balance sheet are detailed in the table below *in thousands*:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	$ 481	$ -	$ -	$ 481
Restricted:				
Captital projects	315	1,007	-	1,322
Debt service	-	-	487	487
Tourism	44	-	-	44
	359	1,007	487	1,853
Committed:				
Debt service	-	-	473	473
Art programs	162	-	-	162
	162	-	473	635
Assigned:				
Capital projects	1,028	763	-	1,791
Debt service	-	-	-	-
Cemetery maintenance	305	-	-	305
Communications	146	-	-	146
Resource conservation	104	-	-	104
Subsequent year's expenditures	1,012	5,752	558	7,322
	2,595	6,515	558	9,668
Unassigned:	11,223	-	-	11,223
Total fund balances	$ 14,820	$ 7,522	$ 1,518	$ 23,860

NOTE 3:
STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

NOTE 4:
SUPPLEMENTAL APPROPRIATIONS

The City Council annually adopts a budget by Ordinance establishing appropriations for City funds, and during the year, may authorize supplemental appropriations. Amounts shown in the accompanying financial statements represent the original budgeted amounts plus all supplemental appropriations.

Amounts presented here are *in thousands*:

	2011 Original Budget	Supplemental Appropriations
General Fund [3]	$ 35,843	$ 192
Capital Projects Fund [4]	16,097	4,427
Debt Service Funds		
Voted G.O. debt	1,465	-
Non-voted G.O. debt	2,286	-
L.I.D. debt service	508	-
L.I.D. guaranty	700	-
Total	$ 56,899	$ 4,619

3 The General Fund includes the following budgetary funds as adopted in the budget; general fund, special revenue Street fund, special revenue cemetery fund, special revenue municipal art fund, special revenue resource conservation fund, special revenue cable TV fund, special revenue lodging tax fund.

4 The Capital Projects Fund includes the following budgetary funds as adopted in the budget; capital improvements fund, mitigation fund, Newport Way improvement fund, street improvement fund, ITS traffic system fund, Highlands park facilities fund, LID #23 construction fund, LID #24 construction fund, transit center fire station #72, 2006 park bond fund.

NOTE 5:
DEPOSITS AND INVESTMENTS

Cash and investments as of December 31, 2011 consist of the following:

Deposits with financial institutions	$	3,944
Investments		36,749
Total cash and investments	$	40,693

DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial Credit Risk. Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the City would not be able to recover its deposits that are in the possession of outside parties.

At December 31, 2011, the City's cash deposits had a carrying balance of $7.3 million and a bank balance of $6.5 million. The Federal Deposit Insurance Corporation (FDIC) covers the City's insured deposits and the Washington Public Deposit Protection Commission (PDPC) provides collateral protection. State law restricts deposit of funds in financial institutions physically located in Washington unless otherwise expressly permitted by statute and authorized by the PDPC.

INVESTMENTS

Investment management responsibility is delegated to the Finance Director; primary objectives of the City investment activities are safety, liquidity, and return on investment. Allowable investments include; certificate deposits with qualified public depositories, United States government obligations, other government obligations, banker's acceptances, and the State Investment Pool.

As of December 31, 2011, the City had the following investments:

		Maturity				
Investment Type	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Rating
U.S. Agency Coupon Securities	$ 17,037	$ -	$ -	$ 17,037	$ -	AA+
Municipal Bonds	2,120	-	-	2,120	-	AA+
State of Washington Local Governmental Investment Pool (LGIP)	17,592	17,592	-	-	-	Unrated
	$ 36,749	$ 17,592	$ -	$ 19,157	$ -	

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The credit risk of the LGIP is limited to obligations of the U.S. government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The following table displays the City's investments in any one issuer (other than the LGIP) that represents 5% or more of the total portfolio:

Issuer	Investment Type	Fair Value
Federal Home Loan Mortgage Corporation	Fixed Rate Agency Coupon	$ 8,033
Federal Home Loan Bank	Fixed Rate Agency Coupon	9,004

NOTE 6:
RECEIVABLES

PROPERTY TAXES

The King County Treasurer acts as agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of the month.

PROPERTY TAX CALENDAR

January 1	Taxes are levied and become 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 established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections to be distributed by the County treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Under State law, the City may levy up to $3.375 per $1,000 of assessed valuation for general governmental services, subject to two limitations:

1. Chapter 84.55 of the State RCW as amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and State-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and

2. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation, or $10 per $1,000 of assessed value. If the combined taxes of all districts exceed this amount, each levy is proportionately reduced until the total is at or below the 1% limit.

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

The City's regular levy for 2011 was $1.14 per $1,000 of assessed valuation of $5,950,256,766 for a total regular levy of $6,755,590. Additionally, special levies for voter-approved General Obligation Bonds were $0.24 per $1,000 for an excess levy of $1,448,000.

NOTE 7:
CAPITAL ASSETS

Minor gains or losses occasionally occur on disposal of capital assets. When such minor gains or losses occur, the City reports them as miscellaneous revenues or expenditures. Governmental activities capital asset activity for the year ended December 31, 2011, was as follows *(in thousands):*

	Beginning Balance 01/01/2011	Increases	Decreases	Ending Balance 12/31/2011
Governmental activities:				
Capital assets, not being depreciated:				
Art	$ 217	$ -	$ -	$ 217
Land	290,842	8,869	(30)	299,681
Construction in progress	21,775	7,416	(16,708)	12,483
Total capital assets, not being depreciated	312,834	16,285	(16,738)	312,381
Capital assets, being depreciated/amortized:				
Buildings	36,297	44	(377)	35,964
Improvements other than buildings	11,589	3,618	(2)	15,205
Infrastructure	221,158	12,814	-	233,972
Intangible property	1,518	53	-	1,571
Machinery and equipment	11,597	3,817	(638)	14,776
Total capital assets, being depreciated	282,159	20,346	(1,017)	301,488
Less accumulated depreciation/amortization for:				
Buildings	(9,871)	(740)	38	(10,573)
Improvements other than buildings	(2,107)	(288)	-	(2,395)
Infrastructure	(87,329)	(6,101)	-	(93,430)
Intangible property	(228)	(166)	-	(394)
Machinery and equipment	(7,615)	(938)	614	(7,939)
Total accumulated depreciation	(107,150)	(8,233)	652	(114,731)
Total capital assets, being depreciated, net	175,009	12,113	(365)	186,757
Governmental activities capital assets, net	$ 487,843	$ 28,398	$ (17,103)	$ 499,138

Depreciation expense was charged to functions of the primary government as follows *(in thousands)*:

Governmental activities:	
General government	$ 227
Public safety	491
Physical environment	27
Transportation	7,003
Economic environment	1
Culture & recreation	484
Total depreciation expense	$ 8,233

Business-type activities capital asset activity for the year ended December 31, 2011, was as follows *(in thousands)*:

	Beginning Balance 01/01/2011	Increases	Decreases	Ending Balance 12/31/2011
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 12,104	$ 3,413	$ -	$ 15,517
Construction in progress	6,921	624	(6,852)	693
Total capital assets, not being depreciated	19,025	4,037	(6,852)	16,210
Capital assets, being depreciated:				
Buildings	9,321	-	-	9,321
Plant in service	121,929	7,958	(10,718)	119,169
Intangible property	49	11	-	60
Machinery & equipment	996	-	(136)	860
Total capital assets, being depreciated	132,295	7,969	(10,854)	129,410
Less accumulated depreciation for:				
Buildings	(1,208)	(186)	-	(1,394)
Plant in service	(34,312)	(3,549)	2,730	(35,131)
Intangible property	(7)	(6)	-	(13)
Machinery & equipment	(603)	(28)	135	(496)
Total accumulated depreciation	(36,130)	(3,769)	2,865	(37,034)
Total capital assets, being depreciated, net	96,165	4,200	(7,989)	92,376
Business-type capital assets, net	$ 115,190	$ 8,237	$ (14,841)	$ 108,586

Depreciation expense was charged to Business-type functions based on their usage of the assets as illustrated below (in thousands):

Business-type activities:	
Water	$ 1,712
Sewer	673
Storm	1,384
Total depreciation - business-type activities	$ 3,769

NOTE 8:
PENSION PLANS

Substantially all City of Issaquah full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans.

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

Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2, AND 3

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

Plan Description

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the

Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

Judicial Benefit Multiplier

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

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC, pay higher contributions; stop contributing to the Judicial Retirement Account (JRA); and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier;

continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and beneficiaries receiving benefits	76,899
Terminated plan members entitled to but not yet receiving benefits	28,860
Active plan members	105,521
Active plan members non-vested	51,005
Total	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	PERS Plan 1		PERS Plan 2		PERS Plan 3[6]	
	01/01 - 6/30	07/01 - 12/31	01/01 - 6/30	07/01 - 12/31	01/01 - 6/30	07/01 - 12/31
Employer[5]	5.31%	7.07%	5.31%	7.07%	5.31%	7.07%
Employee	6.00%	6.00%	3.90%	4.59%	5 - 15%	5 - 15%[7]

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31, were:

[5] *The employer rates include the employer administration expense fee currently at .16%*

[6] *Plan 3 defined benefit portion only*

[7] *Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member*

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	$ 8,983	$ 831,893	$ 111,404
2010	20,936	675,055	95,486
2009	35,888	896,648	136,460

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 AND 2

Plan Description

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

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

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

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

Term of Service	Percent of Final Average Salary
20 + years	2.0%
10 - 20 years	1.5%
5 - 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and beneficiaries receiving benefits	1,639
Terminated plan members entitled to but not yet receiving benefits	781
Active plan members vested	13,119
Active plan members non-vested	3,656
Total	19,195

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	LEOFF Plan 2
Employer[8]	5.24%
Employee	8.46%

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

	LEOFF Plan 2
2011	$162,356
2010	152,536
2009	17,937

PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS) PLAN 2

Plan Description

The Legislature created PSERS in 2004 and the system became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS

[8] *The employer rates include the employer administration expense fee currently at .16%*

eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

A "covered employer" is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Corrections departments of Washington State counties;
- Corrections departments of Washington State cities except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child (ren) may request service credit on behalf of the deceased member.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2010:

Retirees and beneficiaries receiving benefits	7
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	-
Active plan members non-vested	4,210
Total	4,217

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows: [9]

	PSERS Plan 2	
	01/01 - 06/30	**07/01 - 12/31**
Employer[9]	7.85%	8.73%
Employee	6.55%	6.36%

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

	PSERS Plan 2
2011	$ 20,198
2010	18,180
2009	2,236

[9] *The employer rates include the employer administration expense fee currently at .16%*

NOTE: 9
OTHER PERSONNEL BENEFITS

DEFERRED COMPENSATION:

The City offers employees two deferred compensation plans in accordance with Internal Revenue Code Sections 457 and 401. These plans enable employees to defer a portion of their compensation until future years. The City matches a portion of the employees' contribution and that match vests over five years. The deferred compensation is available to employees upon termination, retirement, or certain unforeseeable emergencies and available to their beneficiaries upon the employee's death.

RETIREMENT HEALTH SAVINGS ACCOUNT (RHS)

Exempt employees must contribute 1% of their monthly base pay to an ICMA Retirement Health Savings Account. This is an additional way to save for medical costs upon retirement. Employees are eligible to use this account at age 55, even if they are working. It is the employee's responsibility to comply with the regulations of the program

POST EMPLOYMENT BENEFITS:

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides lifetime medical care for law enforcement officers employed prior to October 1, 1977. Under this requirement, most coverage for eligible retirees is provided for in the City's employee medical insurance programs. However, under authorization of the Disability Board, direct payment is also made for some retiree medical expenses not covered by standard benefit plan provisions. When members turn 65, they go to Medicare for first provider and the City reimburses the cost of Medicare. The retiree does not contribute towards the cost of his/her medical care.

The City provides costs on a pay-as-you-go basis and used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and six inactive members who have left service. At the end of 2011 average ages were as follows: two members average age of 62, three members average age of 70.667 and one member 81 years of age. Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 2011, actuarial valuation reported issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by OSA in the statewide LEOFF 1 medical study performed in 2007. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation. Results:

Information based on estimates from the OSA assuming Medical Inflation of +or- 5% and Amortization Period of 10 years. The following table shows the components of the City's annual other post employment benefits (OPEB) costs and Net OPEB obligation for 2011:

Amortization of Unfunded Actuarial Accrued Liability(UAAL)	$ 1,717,388

Annual Required Contribution	$ 159,913
Adjustment to ARC	(11,167)
Annual OPEB Cost	148,746
Contributions Made	73,277
Increase in Net OPEB Obligation	75,469
Net OPEB Obligation - Beginning of year	232,088
Net OPEB Obligation - End of year	$ 307,557

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

Year	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2011	$ 148,746	$ 73,277	49.26%	$ 307,557
2010	154,745	79,451	51.34%	232,088
2009	154,745	77,208	49.89%	156,794

NOTE 10:
RISK MANAGEMENT

The City of Issaquah is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 150 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 11:
LEASES AND OTHER CONTRACTUAL COMMITMENTS

At December 31, 2011, the City had no significant contractual obligations on construction projects.

NOTE 12:
INTERFUND TRANSFERS AND ADVANCES TO/FROM OTHER FUNDS

INTERFUND TRANSFERS

Transfers are legally authorized transfers of resources from funds receiving the resources to the funds through which the resources are to be expended. Such transfers are classified as “Other Financing Sources or Uses.”

The following provides the total interfund transfers for 2011 and transfers between the City and its component unit. Interfund Transfers are presented *in thousands*:

Fund	Transfers In	Transfers Out
General	$ 341	$ 91
Capital Projects	31	2,674
Debt Service	2,298	-
Water	-	144
Sewer	72	162
Storm Water	290	144
Unemployment Insurance	48	-
Equipment Rental	135	-
Total	$ 3,215	$ 3,215

ADVANCES TO/FROM OTHER FUNDS

Advances to/from other funds for the year ended December 31, 2011, were as follows *(in thousands)*:

	Beginning Balance	Additions	Deletions	Ending Balance
Receivable:				
Equipment Replacement Fund - short term portion	$ 3,100	$ 1,263	$ 3,100	$ 1,263
Sewer Water Fund - short term portion	-	156	-	156
Equipment Replacement Fund - long term portion	850	1,950	1,263	1,537
Sewer Water Fund - long term portion	-	2,345	156	2,189
Total receivable	$ 3,950	$ 5,714	$ 4,519	$ 5,145
Payable:				
Short term portion:				
Capital Projects Fund	$ 2,550	$ 519	$ 2,550	$ 519
Water Fund	300	300	300	300
Storm Water Fund	250	600	250	600
Total short term payable	3,100	1,419	3,100	1,419
Long term portion:				
Capital Projects Fund	250	2,795	519	2,526
Water Fund	300	-	300	-
Storm Water Fund	300	1,500	600	1,200
Total long term payable	850	4,295	1,419	3,726
Total payable	$ 3,950	$ 5,714	$ 4,519	$ 5,145

The following further describes the advances to/from other funds outstanding as of December 31, 2011, *(in thousands)*:

Amount of Loan	Purpose	From Fund	To Fund	Term
$ 2,345	LID #24 - Traffic Roundabout at E. Lake Sammamish Parkway and SE 43rd Way	Sewer Water	Capital Project	12/31/2028
1,500	Debt Called-in	Equipment Replacement	Storm Water	12/31/2016
450	SR-900 Regional Trail	Equipment Replacement	Capital Project	12/31/2015
300	Cougar Ridge Reservoir	Equipment Replacement	Water Capital	12/31/2012
300	Various Capital Projects	Equipment Replacement	Storm Water	12/31/2012
250	Land Acquisition	Equipment Replacement	Capital Project	12/31/2012

NOTE 13:
LONG-TERM DEBT

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities, or to refund debt previously issued for those purposes. "Councilmanic Bonds" are general obligation bonds issued by the City Council without voter approval. Under state law, repayment of these bonds must be paid from general City revenues. General obligation bonds approved by the voters are typically repaid through an annual voted property tax levy authorized for this purpose. Predominantly, general obligation bonds of the City have been issued for general governmental activity purposes. The general obligation bond issues are recorded under governmental activities in the statement of net assets.

Revenue bonds are payable from revenues generated by the City's various enterprise activities. Under the economic resources measurement focus used by the enterprise funds, debt for these bonds is recorded as a liability by the individual fund responsible for the related debt repayment.

Special assessment bonds are issued to finance construction of local improvement district (LID) and utility local improvement district (ULID) projects and are repaid through assessments collected from property owners benefiting from related improvements. The City is required under state law to establish a guaranty fund to provide a means of paying LID bond debt service obligations in the event there are insufficient resources in the LID Control Fund.

Other long-term debt incurred by the enterprise includes State Department of Community Development Public Works Trust Fund loans, which have been made to finance designated capital project construction costs.

In 2011, the remaining $950,000 debt for the 1998 Storm Water Revenue bond was retired, as well as the remaining $1,060,000 balance of the 2001 Storm Water Revenue Bond.

On September 15, 2011, the City issued $5.35 million in Refunding Bonds with an average interest rate of 3.18% to advance refund $5.60 million of outstanding 2001 Series Revenue bonds with an average interest rate of 4.85%. As a result, the 2001 Series bonds are considered to be defeased. On December 1, 2011, the defeased 2001 Series bonds were fully redeemed.

Other postemployment benefits results from the standards of GASB 45; see *Note 9*.

Long Term Debt – Governmental Activities
For the Fiscal Year Ended December 31, 2011
(in thousands)

	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
GENERAL OBLIGATION BONDS								
2000 Police Station & Capital Projects	12/21/2000	01/01/2011	5.00%	$ 555	$ 125	$ -	$ 125	$ -
2001 Fire Station [13]	12/01/2001	12/01/2011	4.38%	920	470	-	470	-
2001 Senior Center Construction (Voted)	12/01/2001	12/01/2021	4.42%	1,500	985	-	70	915
2004 Highland Park Facilities	12/01/2004	12/01/2024	4.14%	3,820	2,960	-	160	2,800
2005 ITS & Police Refunding Bond (Voted)	12/01/2005	12/01/2025	4.34%	4,745	3,095	-	375	2,720
2006 Parks Bond (Voted)	12/01/2006	12/01/2026	3.91%	6,250	5,340	-	245	5,095
2006 Police/Barn Refunding [10]	12/01/2006	01/01/2021	4.05%	3,485	3,010	-	170	2,840
2007 Police Station Refunding [11]	01/01/2007	01/01/2019	3.98%	5,100	4,625	-	435	4,190
2009 Bolliger Property	02/17/2009	12/01/2028	3.80%	2,780	2,600	-	110	2,490
2009A Fire Station #72 (Voted)	12/01/2009	12/01/2019	3.64%	1,840	1,685	-	165	1,520
2009B Fire Station Property [12]	12/01/2009	12/01/2021	3.80%	6,355	6,295	-	45	6,250
2009T BABs Fire Station #72 (Voted)	12/01/2009	12/01/2029	5.74%	2,660	2,660	-	-	2,660
Total General Obligation Bonds				40,010	33,850	-	2,370	31,480
SPECIAL ASSSESMENT BONDS								
LID #23 - Governmental	12/01/2009	12/01/2024	4.70%	977	910	-	80	830
Total Special Assessments				977	910	-	80	830
INTERLOCAL AGREEMENTS								
KC North SPAR Interlocal Agreement	1/1/2003	12/31/2023	0.00%	7,000	4,200	-	350	3,850
Total Interlocal Agreements				7,000	4,200	-	350	3,850
TOTAL GOVERNMENTAL ACTIVITIES				$ 47,987	$ 38,960	$ -	$ 2,800	$ 36,160

[10] *2001 Joint refunding of remaining 1997 and 2000 limited G.O. Bonds*

[11] *2007 Refunding of remaining 1999 Limited G.O. Bonds*

[12] *2009 B Refunding of 2001 Fire station property*

[13] *2009 A&T Refunding of remaining 2001 Fire station property*

Long Term Debt – Business-Type Activities
For the Fiscal Year Ended December 31, 2011
(in thousands)

	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
REVENUE BONDS								
1998 Storm Water Revenue Bonds	08/15/1998	12/01/2017	5.38%	$ 2,000	$ 950	$ -	$ 950	$ -
2001 Storm Water Revenue Bonds	12/01/2001	12/01/2021	5.25%	1,600	1,060	-	1,060	-
2001 Water Revenue Bonds	12/01/2001	12/01/2021	4.85%	9,200	6,030	-	6,030	-
2003 Water Revenue Bonds [14]	01/01/1994	12/01/2013	3.50%	3,600	740	-	240	500
2011 Water Revenue Bonds [15]	09/15/2011	12/01/2021	3.18%	5,350	-	5,350	85	5,265
Total Revenue Bonds				21,750	8,780	5,350	8,365	5,765
INSTALLMENT CONTRACTS								
PW Trust Fund - Newport Way Bridge	11/01/1998	07/01/2019	1.00%	1,143	491	-	62	429
Total Installment Contracts				1,143	491	-	62	429
TOTAL BUSINESS-TYPE ACTIVITIES				$ 22,893	$ 9,271	$ 5,350	$ 8,427	$ 6,194

[14] *The 1994 Water Revenue Bonds were refunded in 2003*

[15] *The 2001 Water Revenue Bonds were refunded in 2011*

GENERAL OBLIGATION BONDS

General Obligation Bonds outstanding at December 31, 2011, totaled $31,480,000. Debt service is paid from the General Obligation Debt Service Fund with special property tax levies for the voter-approved bond issues.

Debt Service for City Council-authorized issues is funded from other City taxes. Before 1981, the City's bond issues were not rated. Bonds issued subsequent to 1981 carry a Moody's A 1 rating until November of 2006 when the City changed to Standard and Poor's and received a AA rating on both unlimited and limited General Obligation Bonds. The City's most recent rating received in 2009 from Standard and Poor's is AA+.

The annual debt service requirements to maturity for general obligation are as follows *(in thousands)*:

Year Ending	Governmental Activities	
December 31,	Principal	Interest
2012	$ 2,455	$ 1,288
2013	2,560	1,192
2014	2,655	1,092
2015	2,765	989
2016	2,495	879
2017-2021	11,860	3,051
2022-2026	5,410	919
2027-2029	1,280	132
Total	$ 31,480	$ 9,542

REVENUE BONDS

Revenue Bonds are payable from pledged revenues generated by the respective Enterprise Funds. The City's revenue bonds are rated AA as of 2011.

As of December 31, 2011, the Water Fund's outstanding bond totaled $5,765,000.

The annual debt service requirements to maturity for revenue bonds are as follows *in thousands*:

Year Ending	Business - Type Activities	
December 31,	Principal	Interest
2012	$ 705	$ 197
2013	730	178
2014	480	158
2015	495	144
2016	510	129
2017-2021	2,845	350
Total	$ 5,765	$ 1,156

SPECIAL ASSESSMENT BONDS

Special Assessment Bonds are not a direct responsibility of the City, but paid through the collection of assessments levied against property owners. The assessments are liens against the property and are subject to foreclosure.

In December of 2010 the City issued LID #23, paid through the collection of assessments levied against the property owners of the Mall Street Sidewalk Improvements. In December of 2011 the City issued LID #24, paid through the collection of assessments levied against the property owners adjacent to the intersection of E. Lake Sammamish Parkway SE and SE 43rd Way.

The annual debt service requirements to maturity for governmental special assessment bonds are as follows *in thousands*:

Year Ending	Governmental Activities	
December 31,	Principal	Interest
2012	$ 50	$ 37
2013	65	36
2014	65	33
2015	65	31
2016	65	29
2017-2021	325	99
2022-2024	195	21
Total	$ 830	$ 286

INSTALLMENT AGREEMENTS

In 1998, the City was awarded a Public Works Trust Fund Loan not to exceed $1,143,103. The City received $171,465 in 1998, $857,327 in 1999, and the balance of $114,311 in 2002. As of December 31, 2011, the balance owing on the Trust Fund Loan is $429,040.

INTERLOCAL AGREEMENTS

During 2002 the City entered into an Interlocal Agreement with King County for funds for the North Spar. No interest accrues and the outstanding amount at December 31, 2011, was $3,850,000. The City pays King County $350,000 per year from the Street Fund.

CHANGES IN LONG-TERM LIABILITIES

The following is a summary of all long-term debt transactions for the year ended December 31, 2011 *(in thousands)*:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	$ 33,850	$ -	$ 2,370	$ 31,480	$ 2,455
Special assessment bonds	910	-	80	830	50
Interlocal agreements	4,200	-	350	3,850	350
Compensated absences-Gov[16]	2,463	378	410	2,431	-
Compensated absences-ISF[16]	564	181	186	559	-
Other postemployment benefits	232	76	-	308	-
Total governmental activity - long-term liabilities	42,219	635	3,396	39,458	2,855
Business-type activities:					
Revenue bonds	8,780	5,350	8,365	5,765	705
Installment contracts	491	-	62	429	61
Compensated absences-Bus[16]	206	17	24	199	-
Total business-type activites long-term liabilities	9,477	5,367	8,451	6,393	766
Total long-term liabilities	$ 51,696	$ 6,002	$ 11,847	$ 45,851	$ 3,621

[16] *Included sick leave liability in net calculation.*

NOTE 14:
CONTINGENCIES AND LITIGATION

As of December 31, 2011, there were several damage claims and lawsuits pending against the City. It is the opinion of management and the City Attorney that the disposition of these claims is not presently expected to have a material adverse effect on the City's financial statements.

NOTE 15:
JOINT VENTURES

EASTSIDE PUBLIC SAFETY COMMUNICATIONS AGENCY (EPSCA)

In May 1992, the cities of Bellevue, Redmond, Kirkland, and Mercer Island (Principals) joined to establish the Eastside Public Safety Communications Agency (EPSCA). The agreement was amended in 1993 to include the City of Issaquah.

The purpose of EPSCA is to develop, own, operate, and manage an Eastside radio communications system to be integrated with a regional radio communications network. Its capital budget is funded by a voter-approved county-wide property tax levy.

EPSCA is governed by an Executive Board composed of the chief executive officer of each Principal. The Executive Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters.

The agreement provides for a weighted vote proportionate to each Principal's system radios in relation to the total number of system radios used by all Principals. As of December 31, 2011, the weighted vote was as follows:

Bellevue	51.70%
Redmond	20.07%
Kirkland	16.27%
Mercer Island	6.26%
Issaquah	5.70%
Total	100.00%

These percentages are reviewed and adjusted annually on January 1 based on the number of radios on the system in use by current Principals as of June 30 of the preceding year.

Operating revenues derive from assessments for start up costs and fees for communications services. The first full year of operations was 1997. Service fees for the last five years were as follows:

Year	Service Fees
2007	$ 32,852
2008	33,848
2009	35,358
2010	36,845
2011	47,029

Upon dissolution, the interlocal agreement provides for distribution of net assets among the Principals based on the weighted voting percentages in force at the time of dissolution.

In August 1993, EPSCA entered into an interlocal cooperation agreement (Agreement 2), with the subregions of King County, Seattle, and Valley Communications. Agreement 2 governs the development, acquisition, and installation of the emergency radio communication system funded by the King County Levy.

Agreement 2 provides that upon voluntary termination of any subregion's participation in the system, it surrenders its radio frequencies, relinquishes its equipment, and transfers any unexpended levy proceeds and equipment replacement reserves to another subregion or a consortium of subregions. Thus, in accordance with Agreement 2, the Principals of EPSCA have no equity interest in EPSCA's contributed capital ($10.0 million from King County levy proceeds).

While Agreement 1 provides that EPSCA's retained earnings of $498,488 as of December 31, 2011 are, upon dissolution, to be apportioned among the Principals, the City's share in 2011 of $28,414 is deemed immaterial and thus is not reflected in the financial statements. Compiled financial statements for EPSCA can be obtained from EPSCA, MS PSEPS, c/o Jessie Morgan, PO Box 97010, Redmond, WA 98073-9710.

EASTSIDE FIRE AND RESCUE (EF&R)

In 1999, through an Interlocal agreement as provided by RCW Title 39.34, the consolidation of several agencies created a new Fire and Emergency Medical Services agency called Eastside Fire and Rescue (EF&R). The agencies (principals) joining in this consolidation included King County Washington Fire Districts 10 and 38, and the Cities of Issaquah and North Bend, with the City of Sammamish joining in January 2000. The current Interlocal Agreement is in effect through December 31, 2014 and shall be renewed automatically thereafter for successive one-year terms. Any party may terminate this agreement at the end of the first term or any at the end of any one-year term by filing with the other parties a notice of termination three years prior to the termination date.

EF&R is a joint venture partnership. The entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2011, the equity percentage was as follows:

Fire District 10	42.65%
Fire District 38	6.20%
City of Issaquah	20.95%
City of North Bend	4.38%
City of Sammamish	25.82%
Total	100.00%

Eastside Fire and Rescue is governed by a Regional Board. The Regional Board is made up of representatives from each of the partner agencies that comprise EF&R. The Regional Board meets on the second Tuesday of each month at the Headquarters Offices in Issaquah.

Agency	Number of Board Members
Fire District 10	2
Fire District 38	1
City of Issaquah	2
City of North Bend	1
City of Sammamish	2
Total	8

The Districts shall levy regular real property and emergency medical service taxes at the maximum rate allowed by law. The Districts shall deposit taxes, as agreed upon and approved by the Directors with the Board of Directors in June and December.

The amount of annual contribution for the Cities, and the amount of additional services contribution, if any, shall be determined by the respective legislative bodies, after recommendation by the Board of Directors. Annually, Cities contribute financially according to a revenue formula developed on or before June 30 of each year. The revenue formula is based on certain criteria including: day/night population call volume, assessed valuation, service area, response time and number of equivalent residential units. Cities also annually contribute all emergency medical service taxes, together with all other designated fire service or fire department revenues which may include fire and emergency services related fees, mitigation and charges for building and land development.

The City's service fee contributions through 2011 are as follows *(in thousands)*:

Year	Service Fees
2007	$ 3,278
2008	4,297
2009	4,577
2010	5,277
2011	4,891

All real and personal property acquired prior to the Agreement remains property of the acquiring member, with exclusive access and control over the property by EF&R. All property acquired pursuant to the Agreement shall be identified by the Board upon acquisition as joint or separate property. Upon termination of the Agreement, all separate property shall be returned to the owner; the net value of all jointly owned property shall be calculated, and each party shall receive or pay, as applicable, the total net amount to the other, in cash or jointly owned property. The City records the capital assets in the Governmental Funds.

Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member. The City's remaining share of net assets is deemed immaterial and thus is not reflected in the financial statement.

Audited financial information can be obtained from Scott Faires, Budget Finance Analyst, Eastside Fire and Rescue, 175 NW Newport Way, Issaquah, WA 98027.

A REGIONAL COALITION FOR HOUSING (ARCH)

In November 1992, the City of Bellevue joined the cities of Redmond and Kirkland and King County to establish A Regional Coalition for Housing (ARCH). The agreement was amended in January 1993 and November 1999 to add clarifying language regarding responsibility and dissolution. Since its inception, the Cities of Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Medina, Mercer Island, Newcastle, Sammamish, Woodinville, Yarrow Point, and Beaux Arts Village joined ARCH.

The purpose of ARCH is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by combining public funding with private-sector resources. Operating funding is provided by the member cities. ARCH identifies and prioritizes projects which the member cities fund directly through their own grants, Community Development Block Grants, and HUD grants.

ARCH is governed by an Executive Board composed of the chief executive officer from each member. The Executive Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board.

Each member city is responsible for contributing operating revenues as determined from the ARCH annual budget. Contributions from the member cities are based on each member's population. In 2010 the City of Bellevue assumed all administrative functions relative to recording financial data for all the cities. The cities maintain independent decision making regarding activity and level of funding for specific projects. The result of this was the combining of all equities.

The City's equity share for the last five years was as follows:

Year	Equity	City's Share	Percentage
2007	$ 321,461	$ 13,582	4.23%
2008	424,705	13,736	3.23%
2009	465,312	14,698	3.16%
2010	2,565,030	14,698	0.57%
2011	2,706,906	14,698	0.54%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement, as amended, provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member. The City's share of net assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16225 NE 87th Street, Redmond, WA 98052.

EASTSIDE NARCOTICS TASK FORCE

In August 1998, the cities of Bellevue, Redmond, Kirkland, Mercer Island, and Issaquah (Principals) restructured the Eastside Narcotics Task Force. The purpose of the task force is to provide for the collaborative efforts of participants' detective staffs and to equitably benefit from asset forfeitures.

The task force is governed by an Executive Board consisting of the Police Chiefs and Directors of Public Safety. The Executive Board is responsible for formulating policy, establishing annual budgets, and acquiring, holding, and disposing of real and personal property. The Task Force is managed by a Commander who is responsible for the operation of the task force and the accomplishment of the goals and objectives of the task force.

Upon termination of the Task Force, equipment and proceeds will be divided equitably as determined by the board. Member agencies share in the costs and proceeds of the operation of the Task Force on a percentage basis. The member agencies shares are:

Bellevue	54.50%
King County	11.20%
Kirkland	10.60%
Redmond	9.80%
Mercer Island	9.40%
Issaquah	2.70%
WSP	1.80%
	100.00%

Total revenues for 2011 were $311,742 of which $8,417 was the City of Issaquah's share. Total expenditures for 2011 were $524,746 of which $14,168 was the City of Issaquah's share. The total decrease in net assets for 2011 was $213,005 of which $5,751 was the City of Issaquah's share. The City's share of the net assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from Eastside Narcotics Task Force, c/o Carl Krikorian, Police Finance Manager, Bellevue Police Department, 11511 Main Street, Bellevue, WA 98004.

CASCADE WATER ALLIANCE

In April 1999, the City of Issaquah entered into an Interlocal agreement with eight other water providers in the region to create the Cascade Water Alliance. The purpose of the Alliance is to provide water supply to meet current and future needs of the Alliance's Members in a cost-effective and environmentally responsible manner.

The Alliance is governed by a Board of Directors consisting of one individual representative appointed by resolution of the Member's legislative authority. Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction.

The Alliance collected 2011 membership dues totaling $1,444,763, of which Issaquah's share was $90,583. Issaquah also paid the Alliance $411,343 in 2011 for Regional Capital Facilities Charges for new residential hookups to the water distribution system.

A Member may withdraw from the Alliance with a resolution of its legislative authority expressing such intent. The Board will then determine the withdrawing Member's obligations to the Alliance, as well as the withdrawing Member's allocable share of the Alliance's then-existing obligations. The Member's withdrawal shall be effective upon payment of obligations. Members do not hold legal ownership rights in any assets owned by the Alliance.

On April 26, 2006, the Alliance issued Water System Revenue Bonds, 2006 for $55.2 million. The proceeds of the Bonds will be used to finance transmission and treatment facility planning and design, make payments to the City of Tacoma under the wholesale water purchase agreement, make payments to Puget Sound Energy, Inc. relating to acquisition of assets at Lake Tapps, and repay a loan from the Sammamish Plateau Water & Sewer District.

The bonds are payable solely from the Alliance's revenues and are not guaranteed by the City's assets or revenues.

On October 15, 2009, the Alliance issued Water System Revenue Bonds, 2009A (the "2009A Bonds") for $4.9 million and the Water System Revenue Bonds, 2009B (Taxable Build America Bonds) for $75.2 for a total of $80.1 million. The proceeds of the Bonds will be used to finance the acquisition of Lake Tapps, Tribal settlement agreements, and limited Tacoma Cascade Pipeline expenditures. The bonds will not pledge the full faith and credit or taxing power of the City. However, the City is responsible for paying a share of the debt service on the bonds through its Member Charges under the Cascade Inerlocal Contract.

Audited financial information can be obtained from Scott Hardin, Cascade Water Alliance, 1400 112th Avenue SE, Suite 220, Bellevue, WA 98004.

E-GOV ALLIANCE

On March 25, 2002, the City of Bellevue Council unanimously adopted a resolution establishing the E-Gov Alliance between the City of Bellevue and the cities of Bothell, Burien, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish, and Woodinville. Since 2002, additional cities have joined the Alliance. The Alliance establishes on-line services through a jointly operated internet portal. Additionally, the Alliance has established a partnership with Microsoft to help define the E-Gov architecture, provide consulting services, offer training, and donated software.

The interlocal agreement may be terminated if Principals holding at least sixty (60%) of the weighted vote of all of the Principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1) property contributed without charge by any member shall revert to the contributor; (2) all property purchased after the effective date of the interlocal agreement shall be distributed to the Principals based upon each Principal's proportional ownership interest at the time of the sale of the property. The City's share of the net assets is deemed immaterial and thus not reflected in the financial statements.

Budget monitoring information may be obtained from Mollie Purcell, City of Bellevue, Information Technology Department, P.O. Box 90012, Bellevue, WA 98009-9012.

Expenditures consist of capital and operations costs, per the budget adopted by the E-Gov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. Expenditures in 2011 were $1,168,111, revenues were $959,151.

Partner fees and voting are based on relative population, equity balances are as follows:

	City's Share	Percentage	Equity
Bellevue	$ 123,400	26.11%	$ 36,514
Renton	92,590	19.59%	27,397
Kirkland	80,836	17.11%	23,919
Sammamish	46,940	9.93%	13,889
Bothell	32,720	6.92%	9,682
Issaquah	30,690	6.49%	9,081
Mercer Island	22,710	4.81%	6,720
Kenmore	20,780	4.40%	6,149
Snoqualmie	10,950	2.32%	3,240
Woodinville	10,940	2.32%	3,237
Total	$ 472,556	100.00%	$ 139,828

NOTE 16:
OTHER DISCLOSURES

SUBSEQUENT EVENTS

No substantial subsequent events merit reporting.

PRIOR PERIOD ADJUSTMENT

The financial statements have been restated to correct an error in not recording the disposal of certain capital assets in a prior period. Net assets for business-type activities as of December 31, 2010, have been restated by $7.5 million to reflect the correction.

ISSAQUAH, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
City of Issaquah
For Year Ended December 31, 2011

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Footnote Reference
U.S. Department of Commerce (NOAA)	Habitat Conservation	11.463	NA10NMF4630224 City #g00908	-	150,903	150,903	2
U.S. Department of Justice Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607		-	4,307	4,307	2
U.S. Department of Transportation FHWA / Pass-Through from WA State Department of Transportation	Highway Planning and Construction	20.205	LA-6289 SR-900 Regional Trail City #t01707	1,636,484	-	1,636,484	2
			LA-6790 Issaquah Valley Trolley City #t03009	120,008	-	120,008	
			Subtotal	*1,756,492*	-	*1,756,492*	
U.S. Department of Transportation NHTSA / Pass-Through from WA State Traffic Safety Commission	Occupant Protection	20.602	Target Zero	14,646	-	14,646	2
U.S. Department of Energy / Pass-Through from WA State Department of Commerce (ARRA)	Energy Efficiency and Conservation Block Grant	81.128	F10-52110-031 ARRA EECBG City #rs1410	45,511	-	45,511	2, 3
U.S. Department of Homeland Security FEMA Hazard Mitigation / Pass-Through from WA State Military Department	Hazard Mitigation	97.039	FEMA-1817-DR-WA-19-R FEMA Hazard Mitigation City #g01610	525,725	-	525,725	2, 4
U.S. Environmental Protection Agency / Pass-Through from WA State Department of Commerce	Puget Sound Watershed Management Assistance	66.120	Agreement T11-63500-003	67,948	-	67,948	2
USDA Forest Servce / Pass-Through from WA State Department of Natural Resources	Cooperative Forestry Assistance	10.664	Agreement IAA-11-282/ K244-08-DG-014	6,969	-	6,969	
	Total Federal Awards Expended			2,417,291	155,210	2,572,501	

Note 1 - This schedule is prepared on the same basis of accounting as the City of Issaquah's financial statements. The City of Issaquah use the modified accrual basis.

Note 2 - The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, which include the City of Issaquah's matching share, are more than shown.

Note 3 - Expenditures for this program were funded by ARRA.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Performance Audit	**Larisa Benson**
Director of Special Investigations	**James E. Brittain, CPA, CFE**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
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