



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### City of Issaquah

King County

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

Published September 30, 2015

Report No. 1015260





## Washington State Auditor's Office

September 30, 2015

Mayor and City 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,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

**City of Issaquah  
King County  
January 1, 2014 through December 31, 2014**

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

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

## Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

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 did not qualify as a low-risk auditee under OMB Circular A-133.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**City of Issaquah  
King County  
January 1, 2014 through December 31, 2014**

**2014-001 The City's controls over financial statement preparation are inadequate to ensure accurate and complete financial reporting.**

***Background***

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

*Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies as defined below in the Applicable Laws and Regulations section, as a finding.

***Description of Condition***

The City's financial statement preparation process is complex. The City's yearend financial statements are primarily prepared by the Senior Accountant who left the City in March 2015. This is when the financial statements are prepared. As a result, the financial statements were prepared by different individuals for fiscal year 2014. We noted a sufficiently detailed review and reconciliation of the financial statements were not performed to ensure the statements were accurate and complete.

As a result, the City's financial statement preparation and review process was not sufficiently detailed to detect the misstatements identified. We identified the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a significant deficiency:

- The City did not have adequate controls in place to ensure financial statement balances are properly classified as restricted or unrestricted balances, major funds are appropriately reported as required by *Governmentally Accepted Accounting Principles (GAAP)*, *balances reported are complete and that calculations are accurate.*

### *Cause of Condition*

The City experienced turnover in an accountant position that was responsible for preparing the financial statements and ensuring adequate documentation to support transactions.

The City has procedures in place to ensure the accuracy of the financial statement package; however, the review was not effective in detecting the errors.

### *Effect of Condition*

The control deficiencies identified above represent a significant deficiency. We noted the City:

- Reported \$1.4 million as Capital Contributions in the Aggregate Remaining Funds when it should have been a prior period adjustment.
- Reported the Debt Service Fund as a non-major fund even though it met the required threshold to report as a major fund.
- Overstated Net Investment in Capital Assets by \$10.3 million in the Governmental Activities. As a result of the overstatement, the following Restricted Net Position balances were reclassified: Debt Service Fund increased by \$1.7 million and Other Purposes increased by \$778,966. Unrestricted net position also increased by \$8.1 million.
- Reported \$294,493 as a committed fund balance for the LID Guaranty Fund. However, the use of these funds is externally imposed by state law. Therefore, the balance should have been reported as a restricted fund balance.
- Reported \$3.8 million as unrestricted cash and investments when it should have been reported as restricted cash and investments in the Aggregate Remaining Fund.
- Omitted \$600,000 of Due from Other Funds in the Governmental Activities associated with an interfund loan to the Storm Water Fund. As a result, the Business Type Activities did not have a Due to Other Funds reported as the offsetting liability.
- Overstated the ending cash balance for the Aggregate Remaining Funds by \$19 million in the Statement of Cash Flow due to a clerical error.

With the exception of the restricted fund balance, the City corrected the errors identified above. We noted additional less significant errors in the financial statements that we communicated to the City's management during the audit.

## ***Recommendation***

We recommend the City establish and follow effective internal controls to ensure:

- The year-end financial statement preparation and review process is adequate to ensure financial statement balances are properly classified, major funds are appropriately reported as required by *Governmentally Accepted Accounting Principles (GAAP)*, reported balances are complete and calculations are accurate.
- Significant account balances are evaluated to determine whether the current method of reporting is accurate.

## ***City's Response***

*The City of Issaquah appreciates the opportunity to respond to the observations and conclusions drawn by the staff of the Washington State Auditor's Office. Also, we would like to thank the audit staff for their open dialogue and communications throughout the audit.*

*As background, the City of Issaquah started the implementation of a new ERP system the last part of 2014. At the start of 2015, a great deal of time and resources were dedicated to setting up and configuring the budget module in the new system. This was to enable the City to use the new system for the preparation of the FY2016 budget. In addition to the implementation of the new ERP system the Finance Department's Senior Accountant who was primarily responsible for preparing the financial statements left in the middle of March 2015. As a result, the Finance Department staff was faced with completing the closing out of FY2014 and preparing for the filing of the financial statements by the state deadline and the subsequent state audit; as well as, implementing the new budget module.*

*The City does have procedures in place for the preparation and review of financial statements to ensure their accuracy, but due to the departure of the Senior Accountant who prepared the financial statements and the additional demands due to the system implementation we were unable to complete our review process by the state deadline for submitting the financial statements. This did cause some errors in reporting to be undetected at the time the financial statements were submitted. Subsequent to that time the errors were discovered and corrected.*

*The City understands its responsibilities to have adequate procedures in place for the preparation and review of the financial statements to*

*ensure the accuracy of the financial statements. The City has hired a Senior Accountant position who is responsible for the preparation of the City of Issaquah's financial statements. This individual has previous experience in preparing financial statements. The City will provide continuing professional education to this individual to ensure the financial statements are prepared according to all applicable accounting standards. Steps are being taken to make sure the established procedures and review process over the financial statement process are completed for the 2015 financial statements.*

*In addition, our new ERP system will provides us with a web-based tool that will assist in the preparation of the financial statements. This tool will provide an easy interface between the general ledger and the financial statements and will help improve our process for the preparation and review of the financial data presented in the City of Issaquah's financial statements.*

### ***Auditor's Remarks***

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

### ***Applicable Laws and Regulations***

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states in part:

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

*Budgeting, Accounting and Reporting System (BARS) Manual - Accounting, Accounting Principles and General Procedures, Internal Control, states in part:*

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

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

*Government Auditing Standards*, July 2007 Revision - Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, processor report financial data reliably in accordance with generally accepted accounting principles such that there is a more than 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.

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

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards, Section 265 as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

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

Significant deficiency. 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.

.09 If the auditor has identified one or more deficiencies in internal control, the auditor should evaluate each deficiency to determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies or material weaknesses.

.10 If the auditor determines that a deficiency, or a combination of deficiencies, in internal control is not a material weakness, the auditor should consider whether prudent officials, having knowledge of the same facts and circumstances, would likely reach the same conclusion.

Governmental Accounting Standards Board, Statement no. 54, paragraph 8 – 9 states:

#### Restricted Fund Balance

8. Except as provided for in paragraph 7, amounts that are restricted to specific purposes, pursuant to the definition of *restricted* in paragraph 34 of Statement 34, as amended by Statement No. 46, *Net Assets Restricted by Enabling Legislation*, should be reported as *restricted fund balance*. Fund balance should be reported as restricted when constraints placed on the use of resource are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation.

9. *Enabling legislation*, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise

mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. *Legal enforceability* means that a government can be compelled by an external party such as citizen, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

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

**City of Issaquah  
King County  
January 1, 2014 through December 31, 2014**

Mayor and City Council  
City of Issaquah  
Issaquah, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 28, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 that we consider to be significant deficiencies.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **CITY'S REPOSENSE TO FINDINGS**

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

## **PURPOSE OF THIS REPORT**

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

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

A handwritten signature in blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 28, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**City of Issaquah  
King County  
January 1, 2014 through December 31, 2014**

Mayor and City Council  
City of Issaquah  
Issaquah, Washington

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

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, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 28, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Issaquah King County January 1, 2014 through December 31, 2014

Mayor and City Council  
City of Issaquah  
Issaquah, Washington

### REPORT ON THE FINANCIAL STATEMENTS

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 21.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, as of December 31, 2014, 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 accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 22 through 30 and information on postemployment benefits other than pensions on page 83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 28, 2015

## FINANCIAL SECTION

**City of Issaquah  
King County  
January 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress – LEOFF 1 Retiree Medical & Long-term Care Benefits – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Issaquah's management presents this Management's Discussion and Analysis (MD&A) as an overview and analysis of the City's financial activities for fiscal year ended December 31, 2014. To best understand the City's financial activities, we encourage readers to consider the information in this discussion and analysis in conjunction with the basic financial statements that follow.

## FINANCIAL HIGHLIGHTS

- As of December 31, 2014, the City's total assets exceed liabilities and deferred inflow of resources by \$637,295,521. Of this amount, \$44,134,030 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies. The City's total net position increased by \$8,623,984 or 1.37 percent as a result of this year's operations.
- At the close of the fiscal year ended December 31, 2014, the City's governmental funds reported combined ending fund balances of \$37,585,112, an increase of \$6,549,117 in comparison with the prior year. Approximately 27.29 percent of the combined ending fund balance, in the amount of \$10,256,031, is available for use (unassigned fund balance).
- The unassigned fund balance for the general fund was \$10,256,031 or 26.14 percent of total general fund expenditures plus other financing sources and uses. This represents a \$718,108 increase from prior fiscal year.
- At the end of the current fiscal year, unrestricted fund balance (the total of assigned and unassigned components of fund balance) for the general fund was \$13,413,193, or approximately 34.19 percent of total general fund expenditures plus other financing sources and uses.
- The City of Issaquah's total liabilities increased by \$6,554,273. The increase in total liabilities is due an increase long-term debt of \$4,070,869 and an increase of \$2,859,668 in accounts payable. The City of Issaquah issued \$10,690,000 in new general obligation bond debt and reduced debt principal in the amount of \$5,620,000; of this amount \$3,225,000 was used to refund two general obligation bond issues which provides the City of Issaquah savings on future debt payments.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements

Other supplementary information, in addition to the basic financial statements, is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the City's basic financial statements.

### Government-Wide Financial Statements

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

The *Statement of Net Position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the current fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences,).

Both of the government-wide financial statements distinguish governmental activities of the City (activities which are principally supported by taxes and intergovernmental revenue), and business-type activities of the City (activities which 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, judicial, public safety, utilities, transportation, social services, natural and economic environment, and culture and recreation. The equipment rental and insurance internal service funds are also reported as governmental activities. The business-type activities of the City include water utility, sewer utility and stormwater utility funds.

## Fund Financial Statements

The fund financial statements are the traditional reporting format for governments. 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. There are three types of funds: governmental, proprietary and fiduciary. The fund financial statements focus on major funds separately which are presented by fund type, such as the general fund, capital project funds, debt service funds and proprietary funds. All funds are included in the above fund types and there are no non-major fund information presented in this report.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The focus of governmental fund financial statements is on near term inflows and outflows of available financial resources and on balances of resources available at the end of the fiscal year. Such information is useful in evaluating whether there are more or less financial resources that can be used in the near future to finance City services.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it can be used to evaluate the City's near-term financing requirements and immediate fiscal health. Comparing the governmental fund financial statements with the government-wide financial statements can help the reader better understand the long-term impact of the City's current financing decisions.

Because the basis of accounting is different between the governmental fund financial statements and the government-wide financial statements, reconciliations are provided. The reconciliation between the governmental fund Balance Sheets and the government-wide Statement of Net Position is found directly following the governmental funds' Balance Sheet and the reconciliation between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities is found directly following the governmental funds' Statement of Revenues, Expenditures and Changes in Fund Balances.

The City maintains budgetary control over its governmental funds through the adoption of an annual budget. Budgets are adopted at the fund level according to state law. A budgetary comparison statement has been provided for the General Fund as part of the basic financial statements. The General Fund includes the following budgetary funds: General Fund, Street Fund, Cemetery Fund, Municipal Art Fund, Resource Conservation Fund, Cable TV Fund and Lodging Tax Fund.

*Proprietary funds* are used by governments to account for their business-type activities and use the same basis of accounting utilized in private industry. 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 has two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens, while internal service funds are used to account for goods and services provided internally to various City departments.

Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements, but in greater detail. The City's enterprise fund statements provide information for the City's water utility, sewer utility, and stormwater utility.

Internal service funds are an essential accounting tool used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment, unemployment insurance, insurance premiums and self-insured medical costs. The revenues and expenses of internal service funds that support governmental activities are eliminated in the government-wide statements and the remaining activity is combined within the governmental activities in the government-wide statements.

*Fiduciary funds* account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City's activities.

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 provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. The notes to the financial statements can be found at the end of the Financial Statements section.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplemental information (RSI) of the Schedule of Funding Progress for the LEOFF I Retiree Medical & Long-term Care Benefits.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position**

The following is a summary of the City's net position as of December 31, 2014, with a comparison to 2013:

	CONDENSED STATEMENT OF NET POSITION					
	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 57,151,655	\$ 48,518,633	\$ 22,080,976	\$ 18,567,593	\$ 79,232,631	\$ 67,086,226
Capital assets, net of depreciation	503,951,118	500,248,277	111,337,588	112,026,974	615,288,706	612,275,251
Total Assets	561,102,773	548,766,910	133,418,564	130,594,567	694,521,337	679,361,477
Current liabilities	6,383,389	3,821,810	1,921,242	987,088	8,304,631	4,808,898
Noncurrent liabilities	41,682,689	37,689,995	4,634,378	5,192,268	46,317,067	42,882,263
Total liabilities	48,066,078	41,511,805	6,555,620	6,179,356	54,621,698	47,691,161
Unavailable revenue- special assessments	2,797,607	2,998,779	-	-	2,797,607	2,998,779
Unavailable revenue- receivables	(193,489)	-	-	-	(193,489)	-
Total deferred inflows of resources	2,604,118	2,998,779	-	-	2,604,118	2,998,779
Net Position:						
Invested in capital assets net of debt	466,611,985	470,397,509	106,637,976	107,390,317	573,249,961	577,787,826
Restricted	19,137,239	17,280,990	774,291	541,691	19,911,530	17,822,681
Unrestricted	24,683,353	16,577,827	19,450,677	16,483,203	44,134,030	33,061,030
Total net position	\$ 510,432,577	\$ 504,256,326	\$ 126,862,944	\$ 124,415,211	\$ 637,295,521	\$ 628,671,537

The change in net position over time, may serve as a useful indicator of a government's financial position. At the close of the current fiscal year, assets exceeded liabilities and deferred inflows of resources by \$637,295,521.

As of December 31, 2014, the City's overall financial net position was \$637,295,521, an \$8,623,984 increase over 2013. The largest portion of the City's combined net position (89.95 percent) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total restricted net position accounts for \$19,911,530 of the City's net position, which was a 3.12% increase over 2013. The majority of the restricted net position is comprised of \$13,248,785 in unspent bond proceeds and mitigation and impact fees collected for the express purpose of expending on a specific capital project in the Police, Fire, Parks and General Services area in the City of Issaquah, as well as \$5,799,110 in debt service obligations in both governmental activities and business-type activities (\$5,242,819 and \$556,291, respectively). The remaining \$44,134,030 is unrestricted may be used to meet the City's ongoing obligations for governmental and business-type activities (\$24,683,353 and \$16,577,827, respectively).

At the end of the current fiscal year, the City of Issaquah reports a positive net position in all net position categories, for both governmental activities and business-type activities. The same was true for the prior fiscal year.

Statement of Activities and Change in Net Position

As discussed earlier, the Statement of Net Position provides a measure of the financial health of the City at The Statement of Activities provides details on how the City's net position changed from the beginning of the year to the end of the year and whether net position increased or decreased. Therefore the Statement of Activities provides information as to whether the City as a whole is better off financially by year end.

The following is a condensed summary statement of activities and change in net position as of December 31, 2014, with a comparison to 2013:

CONDENSED STATEMENT OF ACTIVITIES						
	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues						
Charges for services	\$ 13,951,493	\$ 19,928,065	\$ 19,344,638	\$ 18,810,820	\$ 33,296,131	\$ 38,738,885
Operating grants & contributions	1,972,617	2,151,832	-	-	1,972,617	2,151,832
Capital grants & contributions	5,833,631	7,446,071	4,854,279	4,362,167	10,687,910	11,808,238
General revenues:						
Property taxes	9,067,371	8,479,032	-	-	9,067,371	8,479,032
Sales taxes	10,746,285	10,705,122	-	-	10,746,285	10,705,122
Business taxes	6,793,380	6,927,282	-	-	6,793,380	6,927,282
Other taxes	4,526,248	4,654,464	-	-	4,526,248	4,654,464
Rents and leases	1,144,427	977,021	-	-	1,144,427	977,021
Investment earnings	398,248	298,725	183,236	129,490	581,484	428,215
Total revenues	54,433,700	61,567,614	24,382,153	23,302,477	78,815,853	84,870,091
Expenses:						
Judicial	853,594	774,778	-	-	853,594	774,778
General government	7,910,195	8,714,949	-	-	7,910,195	8,714,949
Public safety	15,265,119	14,269,327	-	-	15,265,119	14,269,327
Physical environment	301,090	222,652	-	-	301,090	222,652
Transportation	9,822,978	12,628,414	-	-	9,822,978	12,628,414
Health and human services	588,008	450,709	-	-	588,008	450,709
Economic environment	7,681,586	7,489,418	-	-	7,681,586	7,489,418
Culture and recreation	6,277,268	6,080,049	-	-	6,277,268	6,080,049
Interest on long term debt	1,473,599	1,307,176	-	-	1,473,599	1,307,176
Water	-	-	8,840,417	8,502,453	8,840,417	8,502,453
Sewer	-	-	7,480,811	7,333,463	7,480,811	7,333,463
Storm Water	-	-	4,669,029	4,991,084	4,669,029	4,991,084
Total expenses	50,173,437	51,937,473	20,990,257	20,827,000	71,165,694	72,764,473
Increase (decrease) in net position before other financing sources (uses) and extraordinary items	4,258,263	9,630,141	3,391,896	2,475,477	7,650,159	12,105,618
Other financing sources (uses):						
Transfers, net	249,120	323,500	(249,120)	(323,500)	-	-
Miscellaneous revenue (expense)	120,300	38,300	11,685	50,024	131,985	88,324
Sale of capital assets	-	-	(477,157)	-	(477,157)	-
Total other financing sources (uses)	369,420	361,800	(714,592)	(273,476)	(345,172)	88,324
Increase (decrease) in net position	4,627,683	9,991,942	2,677,304	2,202,001	7,304,986	12,193,942
Net position - beginning	504,412,944	497,800,000	124,185,640	121,384,320	628,598,585	619,184,321
Prior period adjustment	1,391,950	(3,378,998)	-	599,319	1,391,950	(2,779,679)
Restated net position - beginning	505,804,894	494,421,002	124,185,640	121,983,639	629,990,535	616,404,642
Net position - ending	\$ 510,432,577	\$ 504,412,944	\$ 126,862,944	\$ 124,185,640	\$ 637,295,521	\$ 628,598,584

The City of Issaquah's net position increased by \$8,696,937, or 1.38% in 2014; the change in governmental activities is an increase of \$6,019,633 and the change in business-type activities is an increase of \$2,677,304. The above condensed summary statement of activities and change in net position displays the revenues, expenses and related changes in net position for the governmental activities separate from the business-type activities.

Total revenues for the governmental activities decreased by \$7,133,914 compared to prior year. The revenue for 2014 shows charges for services decreased \$5,976,572, operating and capital grants & contributions decreased by

\$1,791,655, property taxes, sales taxes, business taxes, other taxes, rents & leases, and investment earnings increased by \$634,313 compared to 2013. The decrease in charges for services in 2014 is primarily due to the normal collections of mitigation and impact fees related to a development agreement, whereas in 2013 there was receipt of \$9,000,000 related to a specific development agreement.

Total revenues of the business-type activities increased \$1,079,676 which is due to an increase of \$533,818 in charges for services, an increase of \$492,112 in capital grants & contributions and an increase of \$53,746 in investment earnings in 2014 compared to 2013.

Chart 1 portrays the cost of each of the City's governmental programs along with each program's generated revenue (fees and intergovernmental revenues specifically related to that program).

Chart 1  
Program Expenses vs. Revenues - Governmental Activities

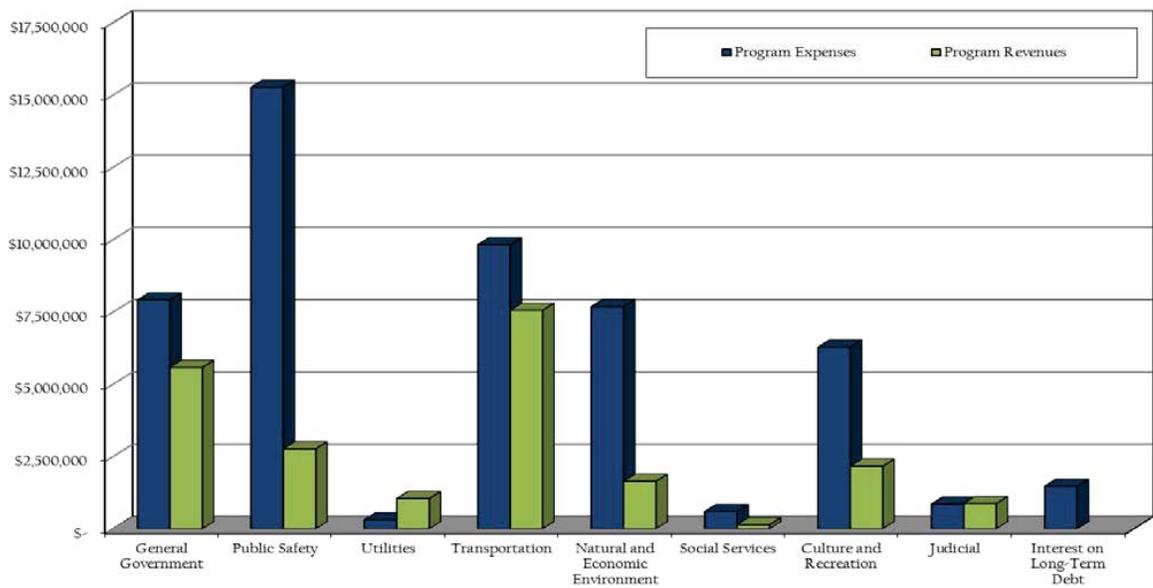
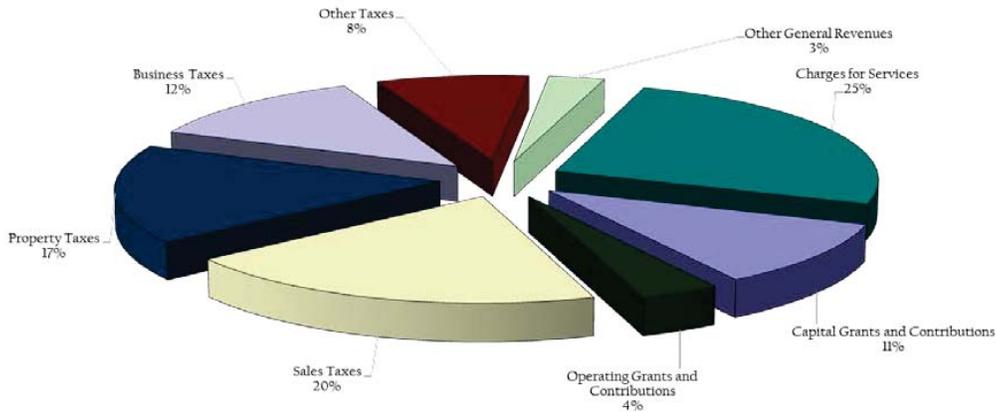


Chart 2 illustrates the sources of revenue that funds governmental activities. Approximately, sixty percent (60%) is from various taxes and other general revenues. Charges for services, operating and capital grants and contributions generate forty percent (40%) of total revenue for governmental activities.

Chart 2  
Revenues by Source - Governmental Activities



**Business-type Activities Analysis** – Charts 3 and 4 present the same information for business-type activities as previously illustrated for governmental activities.

Chart 3  
Program Expenses vs. Revenues - Business-Type Activities

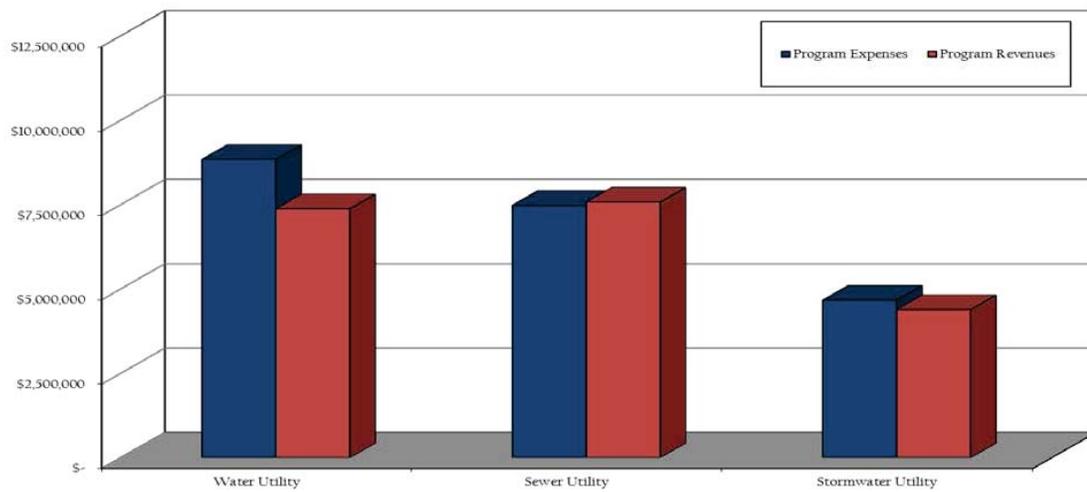


Chart 3 shows the expense of each of the City’s business-type programs along with each programs’ revenue (fees and intergovernmental revenue specifically related to that program).

Chart 4  
Revenues by Source - Business-Type Activities

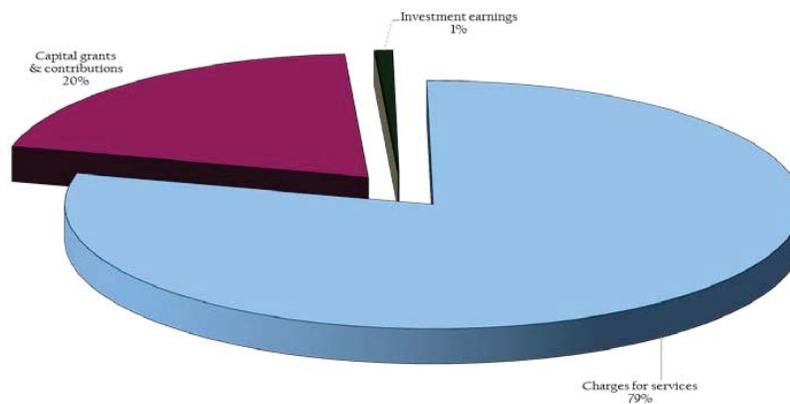


Chart 4 shows business-type activities are primarily supported from charges for services. The City generated \$19,344,638 from charges for services in the business-type activities. These comprise 79% of the total financial support for these activities. Capital grants & contributions generated \$4,854,279 or 20% in 2014. Of this amount \$406,218 was received from state and county grants; \$3,110,194 was received in cash capital contributions and \$1,337,867 in donated capital assets.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

### Governmental Funds

The governmental fund statements provide information on near term inflows, outflows, and balances of spendable resources. This information is useful in determining the City's ability to meet 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.

The City's General Fund contains the following funds: the general fund which is the primary operating fund of the city and special revenue funds for streets, cemetery, municipal art, sustainability, cable television and lodging tax activities. At the end of the fiscal year, the City's General Fund had a combined fund balance of \$14,492,292, which is an increase of \$718,108 from a year ago.

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. Sales taxes, property taxes and business & occupation taxes are the major sources of revenue for this fund. As a measure of the fund's liquidity, the ending fund balance is 36.95% of 2014 expenditures. In the current year, revenues exceeded expenditures in the general fund by \$533,988. Net transfers in to the general fund totaled \$184,120.

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

The Debt Service Fund was created to account for all principal and interest payments used for the retirement of long-term debt which was issued for general government purposes.

### 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 \$721,707 (or 1.8%) less than budgeted and expenditures were \$1,645,042 (or 4.0%) less than budgeted. The City has made a commitment to sustainability. From the day-to-day expenses, to larger onetime initiatives, the City manages its finances with this commitment in mind. The General Fund budget for 2014 had a planned use of \$742,680 of ending fund balance to fund general government services to the citizens. This planned use of ending fund balance was primarily for supporting transportation operations in the City of Issaquah's Street Fund, which is part of the General Fund definition for financial reporting purposes. The City continues to closely monitor and control its expenses; which is part of the City's commitment to its citizens for long-term fiscal sustainability.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City of Issaquah's investment in capital assets for its government-wide activities as of December 31, 2014, amounts to \$615,288,706 (net of accumulated depreciation). This investment in capital assets includes land & other nondepreciables, infrastructure, intangible property, buildings & improvements, machinery & equipment and construction in progress as shown in the following table 1.

**Table 1**  
**City of Issaquah's Capital Assets**  
*(net of depreciation)*

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land & other nondepreciables	\$ 310,787,251	\$ 308,165,386	16,537,721	\$ 16,537,722	\$ 327,324,972	\$ 324,703,108
Infrastructure	135,884,171	137,901,806	-	-	135,884,171	137,901,806
Intangible property	866,707	1,129,375	309,161	338,687	1,175,868	1,468,062
Buildings & improvements	44,048,156	45,107,401	91,297,138	94,095,720	135,345,294	139,203,121
Machinery & equipment	7,303,902	6,086,652	297,973	310,513	7,601,875	6,397,165
Construction in progress	5,060,931	1,858,657	2,895,595	744,534	7,956,526	2,603,191
<b>Total</b>	<b>\$ 503,951,118</b>	<b>\$ 500,249,277</b>	<b>111,337,588</b>	<b>\$ 112,027,176</b>	<b>\$ 615,288,706</b>	<b>\$ 612,276,453</b>

Major capital assets events during 2014 included the following:

- An interlocal agreement with Sammamish Plateau Water and Sewer district was reached and it was agreed the City of Issaquah will decommission the LRIG (Lower Reid Infiltration Gallery) which results in a net decrease of utility assets of \$477,157. Per the interlocal agreement the City of Sammamish has agreed to reimburse the City of Issaquah for costs to install other stormwater management projects, facilities or systems at a cost up to \$1,000,000.
- Completion of Rainier Blvd Improvements.
- Developers donated capital of 4,232,603 in the governmental activities and \$1,337,867 in business-type activities during 2014.

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

**Debt Administration**

The City of Issaquah's total outstanding bonded debt at December 31, 2014, was \$35,385,000 as shown in table 2. This was a \$5,070,000 increase in governmental activities for bonded debt from the prior year. This reflects the issuance of \$8,380,000 principal amount of Unlimited Tax General Obligation Improvement and Refunding Bonds

on June 5, 2014. The aggregate principal amount of New Money Bonds of \$7,745,000 and premium of \$255,000 for a total of \$8,000,000 was issued for the purpose of paying the costs of the renovation of the Julius Boehm Pool, improvements of Central Park, Tibbetts Valley Park, Meerwood Park and Gibson Park. Funding was also included for preservation of open space to protect, creeks, natural areas and wildlife habitat, and other capital projects, as deemed necessary and advisable by the City. Also included in this transaction was a refunding of a 2001 Unlimited Tax General Obligation Bond of \$635,000 that resulted in a net present value savings of \$110,978. The City of Issaquah is authorized but has not issued \$2,000,000 of Unlimited Tax General Obligation Bonds.

Table 2  
City of Issaquah's Outstanding Bonded Debt

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 31,535,000	\$ 26,465,000	\$ -	\$ -	\$ 31,535,000	\$ 26,465,000
Revenue bonds	-	-	3,850,000	4,330,000	3,850,000	4,330,000
Total	\$ 31,535,000	\$ 26,465,000	\$ 3,850,000	\$ 4,330,000	\$ 35,385,000	\$ 30,795,000

Additional information on the City of Issaquah's long-term debt can be found in *Note 14* in the Notes to the Financial Statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City has developed a budget for fiscal year 2015 which continues to follow sound financial management practices; reflects our vision and priorities for the community and continues to build on our successes. The budget reflects the challenging economic times by focusing on essential services and demonstrates our commitment to effectively allocate our resources to provide the highest possible customer service to our community.

The General Fund plans to use \$13,050 of previous ending fund balance for a re-appropriation of a 2013 program item. The City of Issaquah makes a strong commitment to financial sustainability by staying within planned revenues for budgeted expenditures in fiscal year 2015.

**Requests for Information**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Finance Director at P.O. Box 1307, Issaquah, WA 98027-1307.

City of Issaquah, Washington  
Statement of Net Position  
December 31, 2014

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash and investments	\$ 48,170,326	\$ 19,551,032	\$ 67,721,358
Restricted cash	10,859	-	10,859
Deposit with trustee	38,044	-	38,044
Receivables	5,672,977	2,426,718	8,099,695
Internal balances	(323,982)	323,982	-
Advances to/from other funds	600,000	(600,000)	-
Non-current receivables	2,299,214	-	2,299,214
Inventory and prepaids	684,217	379,244	1,063,461
Capital assets not being depreciated:			
Land	310,513,643	16,537,721	327,051,364
Construction in progress	5,060,931	2,895,595	7,956,526
Art	273,608	-	273,608
Capital assets, net of accumulated depreciation:			
Buildings	29,561,962	7,525,945	37,087,907
Improvements other than buildings	14,486,194	-	14,486,194
Infrastructure	135,884,171	-	135,884,171
Intangible property	866,707	309,161	1,175,868
Plant in service	-	83,771,193	83,771,193
Machinery and equipment	7,303,902	297,973	7,601,875
Total Assets	<u>561,102,773</u>	<u>133,418,564</u>	<u>694,521,337</u>
<b>LIABILITIES</b>			
Accounts payable	6,383,389	1,909,246	8,292,635
Accrued interest	-	11,996	11,996
Noncurrent liabilities:			
Due within one year	5,242,819	849,512	6,092,331
Due in more than one year	36,327,873	3,784,866	40,112,739
Unearned revenue	101,138	-	101,138
Restricted deposits	10,859	-	10,859
Total Liabilities	<u>48,066,078</u>	<u>6,555,620</u>	<u>54,621,698</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unavailable revenue-special assessments	2,797,607	-	2,797,607
Unavailable revenue-receivables	(193,489)	-	(193,489)
Total deferred inflows of resources	<u>2,604,118</u>	<u>-</u>	<u>2,604,118</u>
<b>NET POSITION</b>			
Net investment in capital assets	466,611,985	106,637,976	573,249,961
Restricted for:			
Capital	13,030,785	218,000	13,248,785
Debt service	5,242,819	556,291	5,799,110
Other purposes	863,635	-	863,635
Unrestricted	24,683,353	19,450,677	44,134,030
Total Net Position	<u>\$ 510,432,577</u>	<u>\$ 126,862,944</u>	<u>\$ 637,295,521</u>

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

City of Issaquah, Washington  
Statement of Activities  
For the Fiscal Year Ended December 31, 2014

Page 1 of 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Judicial	\$ 855,594	\$ 789,213	\$ -	\$ 84,214
General government	7,910,195	4,650,954	926,063	-
Public safety	15,265,119	2,712,571	50,855	-
Utilities	301,090	1,006,164	38,325	-
Transportation	9,822,978	1,016,603	792,664	5,748,759
Social services	588,008	-	133,431	-
Natural and economic environment	7,681,586	1,642,408	-	-
Culture and recreation	6,277,268	2,133,580	31,279	658
Interest on long-term debt	1,473,599	-	-	-
Total governmental activities:	50,175,437	13,951,493	1,972,617	5,833,631
Business-type activities:				
Water	8,840,417	7,378,542	-	3,638,491
Sewer	7,480,811	7,577,713	-	316,656
Stormwater	4,669,029	4,388,383	-	899,132
Total business-type activities:	20,990,257	19,344,638	-	4,854,279
Total primary government	\$ 71,165,694	\$ 33,296,131	\$ 1,972,617	\$ 10,687,910

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

City of Issaquah, Washington  
Statement of Activities  
For the Fiscal Year Ended December 31, 2014

Page 2 of 2

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>			
Primary government:			
Governmental activities:			
Judicial	\$ 17,833	\$ -	\$ 17,833
General government	(2,333,178)	-	(2,333,178)
Public safety	(12,501,693)	-	(12,501,693)
Utilities	743,399	-	743,399
Transportation	(2,264,952)	-	(2,264,952)
Social services	(454,577)	-	(454,577)
Natural and economic environment	(6,039,178)	-	(6,039,178)
Culture and recreation	(4,111,751)	-	(4,111,751)
Interest on long-term debt	(1,473,599)	-	(1,473,599)
Total governmental activities:	<u>(28,417,696)</u>	<u>-</u>	<u>(28,417,696)</u>
Business-type activities:			
Water	-	2,176,616	2,176,616
Sewer	-	413,558	413,558
Stormwater	-	618,486	618,486
Total business-type activities:	<u>-</u>	<u>3,208,660</u>	<u>3,208,660</u>
Total primary government	<u>(28,417,696)</u>	<u>3,208,660</u>	<u>(25,209,036)</u>
General revenues:			
Property taxes	\$ 9,067,371	\$ -	\$ 9,067,371
Sales taxes	10,746,285	-	10,746,285
B&O taxes	6,793,380	-	6,793,380
Other taxes and assessments	4,526,248	-	4,526,248
Interest earnings	398,248	183,236	581,484
Rents and leases	1,144,427	-	1,144,427
Miscellaneous revenue	120,300	11,685	131,985
Gain (loss) on sale of capital assets	-	(477,157)	(477,157)
Transfers	249,120	(249,120)	-
Total general revenues and transfers	<u>33,045,379</u>	<u>(531,356)</u>	<u>32,514,023</u>
Change in net position	4,627,683	2,677,304	7,304,987
Net position - beginning	504,412,944	124,185,640	628,598,584
Prior period adjustment	1,391,950	-	1,391,950
Restated net position - beginning	<u>505,804,894</u>	<u>124,185,640</u>	<u>629,990,534</u>
Net position - ending	<u>\$ 510,432,577</u>	<u>\$ 126,862,944</u>	<u>\$ 637,295,521</u>

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

City of Issaquah, Washington  
Balance Sheet  
Governmental Funds  
December 31, 2014

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 12,635,840	\$ 23,833,152	\$ 1,840,404	\$ 38,309,396
Restricted cash	10,859	-	-	10,859
Current receivables (net)	4,151,763	998,211	502,600	5,652,574
Due from other funds	-	4,447	-	4,447
Non-current receivables (net)	-	-	2,299,214	2,299,214
Inventory and prepaids	522,513	-	-	522,513
Total assets	<u>\$ 17,320,975</u>	<u>\$ 24,835,810</u>	<u>\$ 4,642,218</u>	<u>\$ 46,799,003</u>
<b>LIABILITIES</b>				
Accounts payable and accruals	2,512,200	2,628,692	384,854	5,525,746
Due to other funds - short term	-	112,500	-	112,500
Restricted deposits	10,859	-	-	10,859
Unearned revenue	46,249	304,510	-	350,759
Total liabilities	<u>2,569,308</u>	<u>3,045,702</u>	<u>384,854</u>	<u>5,999,864</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-special assessments	-	-	2,797,607	2,797,607
Unavailable revenue-receivables	259,375	157,045	-	416,420
Total deferred inflow of resource	<u>259,375</u>	<u>157,045</u>	<u>2,797,607</u>	<u>3,214,027</u>
<b>FUND BALANCES</b>				
Nonspendable	522,513	-	-	522,513
Restricted	147,633	13,030,785	396,478	13,574,896
Committed	408,953	-	978,260	1,387,213
Assigned	3,157,162	8,602,278	85,019	11,844,459
Unassigned	10,256,031	-	-	10,256,031
Total fund balances	<u>14,492,292</u>	<u>21,633,063</u>	<u>1,459,757</u>	<u>37,585,112</u>
Total liabilities and fund balances	<u>\$ 17,320,975</u>	<u>\$ 24,835,810</u>	<u>\$ 4,642,218</u>	<u>\$ 46,799,003</u>

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

City of Issaquah, Washington  
 Reconciliation of the Balance Sheet of Governmental Funds  
 To the Statement of Net Position  
 December 31, 2014

Total fund balances	\$	37,585,112
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, therefore, are not reported in the funds.		499,525,144
Other long-term assets are not available to pay for current period expenditures and, therefore are not reported in the funds.		706,861
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(41,319,666)
Unearned revenue for permit fees collected, but, services not yet performed.		(169,056)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and self-insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		14,428,164
Internal balance liability, with asset in enterprise funds, for services provided by internal service funds.		(323,982)
Net position of governmental activities	\$	510,432,577

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

City of Issaquah, Washington  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 7,574,992	\$ -	\$ 1,492,379	\$ 9,067,371
Sales taxes	8,307,666	2,475,854	-	10,783,520
Business and occupation taxes	6,793,380	-	-	6,793,380
Other taxes and assessments	1,510,811	2,878,390	137,047	4,526,248
Licenses and permits	4,806,049	-	-	4,806,049
Intergovernmental	1,961,898	1,620,688	49,344	3,631,930
Charges for services	6,544,732	1,389,804	-	7,934,536
Fines and forfeitures	789,213	-	-	789,213
Interest earnings	249,175	70,553	78,520	398,248
Rents and leases	1,043,588	105,240	-	1,148,828
Contributions and donations	30,469	39,000	-	69,469
Miscellaneous revenues	79,811	52,838	-	132,649
<b>Total revenues</b>	<u>39,691,784</u>	<u>8,632,367</u>	<u>1,757,290</u>	<u>50,081,441</u>
<b>EXPENDITURES</b>				
General government	5,974,714	1,260,329	-	7,235,043
Judicial	845,444	-	-	845,444
Public safety	14,625,901	4,227	-	14,630,128
Utilities	260,670	31,311	-	291,981
Transportation	3,134,152	406,139	-	3,540,291
Natural and economic environment	7,636,561	-	-	7,636,561
Social services	588,008	-	-	588,008
Culture and recreation	6,038,972	948	-	6,039,920
Debt service:				
Principal	-	376,259	5,701,581	6,077,840
Interest and other debt costs	-	107,402	1,366,197	1,473,599
Capital outlay:				
General government	21,639	-	-	21,639
Public safety	7,230	97,985	-	105,215
Transportation	-	4,890,042	-	4,890,042
Culture and recreation	24,505	1,132,932	-	1,157,437
<b>Total expenditures</b>	<u>39,157,796</u>	<u>8,307,574</u>	<u>7,067,778</u>	<u>54,533,148</u>
Excess (deficiency) of revenues over expenditures	<u>533,988</u>	<u>324,793</u>	<u>(5,310,488)</u>	<u>(4,451,707)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	249,120	-	2,300,000	2,549,120
Transfers out	(65,000)	(2,300,000)	-	(2,365,000)
Premium on bonds sold	-	478,400	50,364	528,764
Proceeds on bonds issued	-	7,745,000	2,945,000	10,690,000
<b>Total other financing sources (uses)</b>	<u>184,120</u>	<u>5,923,400</u>	<u>5,295,364</u>	<u>11,402,884</u>
Net change in fund balances	718,108	6,248,193	(15,124)	6,951,177
Fund balances - beginning	<u>13,774,184</u>	<u>15,384,870</u>	<u>1,474,881</u>	<u>30,633,935</u>
Fund balances - ending	<u>\$ 14,492,292</u>	<u>\$ 21,633,063</u>	<u>\$ 1,459,757</u>	<u>\$ 37,585,112</u>

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

City of Issaquah, Washington  
 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, 2014

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

Net changes in fund balances for governmental funds	\$ 6,951,177
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	(2,722,969)
Developers construct and then donate infrastructure to the government. Infrastructure is not reported in the governmental funds.	4,232,603
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(4,612,160)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	696,425
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, is not reported as expenditures in the government funds.	85,891
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and self-insurance, to individual funds. The net revenue of most of these activities is reported with governmental activities. This consists of:	(3,284)
Change in net position of governmental activities	\$ 4,627,683

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

City of Issaquah, Washington  
 General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
 For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis
<b>REVENUES</b>					
Property taxes	\$ 7,344,600	\$ 7,344,600	\$ 7,572,353	\$ 2,639	\$ 7,574,992
Sales taxes	8,698,000	8,698,000	8,223,918	83,748	8,307,666
Business and occupation taxes	7,213,000	7,213,000	6,795,748	(2,368)	6,793,380
Other taxes and assessments	1,261,300	1,261,300	1,415,593	95,218	1,510,811
Licenses and permits	3,123,900	4,223,900	4,808,426	(2,377)	4,806,049
Intergovernmental	1,806,400	1,931,400	1,924,836	37,062	1,961,898
Charges for services	7,189,600	7,694,600	6,601,239	(56,507)	6,544,732
Fines and penalties	546,500	546,500	789,213	-	789,213
Interest earnings	171,300	171,300	154,427	94,748	249,175
Rents and leases	851,600	1,011,600	1,045,461	(1,873)	1,043,588
Contributions and donations	18,000	18,000	30,469	-	30,469
Miscellaneous revenues	55,000	55,000	85,810	(5,999)	79,811
Total revenues	<u>38,279,200</u>	<u>40,169,200</u>	<u>39,447,493</u>	<u>244,291</u>	<u>39,691,784</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
General government	6,066,280	6,176,430	5,991,563	4,790	5,996,353
Judicial	861,810	861,810	840,782	4,662	845,444
Public safety	14,738,450	14,767,950	14,634,633	(1,502)	14,633,131
Utilities	290,420	295,420	260,340	330	260,670
Transportation	3,492,135	3,492,135	3,227,009	(92,857)	3,134,152
Natural and economic environment	6,770,870	8,375,870	7,660,810	(24,249)	7,636,561
Social services	476,560	585,910	588,240	(232)	588,008
Culture and recreation	6,290,855	6,356,355	6,063,461	16	6,063,477
Total expenditures	<u>38,987,380</u>	<u>40,911,880</u>	<u>39,266,838</u>	<u>(109,042)</u>	<u>39,157,796</u>
Excess(deficiency) of revenues over (under) expenditures	<u>(708,180)</u>	<u>(742,680)</u>	<u>180,655</u>	<u>353,333</u>	<u>533,988</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	2,422,775	2,422,775	2,422,775	(2,173,655)	249,120
Transfers out	(2,332,275)	(2,332,275)	(2,332,275)	2,267,275	(65,000)
Total other financing sources (uses)	<u>90,500</u>	<u>90,500</u>	<u>90,500</u>	<u>93,620</u>	<u>184,120</u>
Net change in fund balances	(617,680)	(652,180)	271,155	446,953	718,108
Fund balance-beginning	10,227,637	10,227,637	10,227,637	3,546,547	13,774,184
Prior period adjustment	-	-	-	-	-
Restated fund balance-beginning	<u>10,227,637</u>	<u>10,227,637</u>	<u>10,227,637</u>	<u>3,546,547</u>	<u>13,774,184</u>
Fund balance-ending	<u>\$ 9,609,957</u>	<u>\$ 9,575,457</u>	<u>\$ 10,498,792</u>	<u>\$ 3,993,500</u>	<u>\$ 14,492,292</u>

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

City of Issaquah, Washington  
Statement of Net Position  
Proprietary Funds  
December 31, 2014

	Business-type Activities			Total Enterprise Funds	Governmental Activities
	Water	Sewer	Stormwater		Internal Service Funds
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 10,409,697	\$ 5,899,752	\$ 3,241,583	\$ 19,551,032	\$ 9,860,930
Deposit with trustee	-	-	-	-	\$ 38,044
Accounts receivable	728,223	943,785	754,710	2,426,718	20,603
Advances to other funds	-	-	-	-	712,500
Inventory	326,998	9,480	42,766	379,244	161,704
Total current assets	<u>11,464,918</u>	<u>6,853,017</u>	<u>4,039,059</u>	<u>22,356,994</u>	<u>10,793,781</u>
Noncurrent assets:					
Capital assets:					
Construction in progress	1,961,965	142,182	791,448	2,895,595	225,550
Land and land rights	9,186,183	-	7,351,538	16,537,721	-
Intangible property	162,572	146,589	-	309,161	120,562
Buildings and improvements	7,423,238	-	102,707	7,525,945	145,392
Plant in service	32,236,921	15,155,066	36,379,206	83,771,193	-
Machinery and equipment	140,519	157,454	-	297,973	3,934,470
Total capital assets, net depreciation	<u>51,111,398</u>	<u>15,601,291</u>	<u>44,624,899</u>	<u>111,337,588</u>	<u>4,425,974</u>
Total noncurrent assets	<u>51,111,398</u>	<u>15,601,291</u>	<u>44,624,899</u>	<u>111,337,588</u>	<u>4,425,974</u>
Total assets	<u>62,576,316</u>	<u>22,454,308</u>	<u>48,663,958</u>	<u>133,694,582</u>	<u>15,219,755</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	1,388,238	17,498	312,692	1,718,428	711,847
Accrued wages	83,764	30,852	76,202	190,818	29,884
Due to other funds	4,447	-	-	4,447	-
Advance from other funds	-	-	300,000	300,000	-
Bonds payable	495,000	-	-	495,000	-
Public works trust current payable	-	-	61,292	61,292	-
Compensated absences	114,605	46,298	127,870	288,773	26,924
Matured interest	11,996	-	-	11,996	-
Total current liabilities	<u>2,098,050</u>	<u>94,648</u>	<u>878,056</u>	<u>3,070,754</u>	<u>768,655</u>
Noncurrent liabilities					
Compensated absences	97,626	39,440	108,926	245,992	22,936
Bonds payable	3,355,000	-	-	3,355,000	-
Advance from other funds	-	-	300,000	300,000	-
Public works trust fund debt	-	-	183,874	183,874	-
Total noncurrent liabilities	<u>3,452,626</u>	<u>39,440</u>	<u>592,800</u>	<u>4,084,866</u>	<u>22,936</u>
Total liabilities	<u>5,550,676</u>	<u>134,088</u>	<u>1,470,856</u>	<u>7,155,620</u>	<u>791,591</u>
<b>NET POSITION</b>					
Net investment in capital assets	47,256,951	15,601,291	43,779,734	106,637,976	4,425,974
Restricted for:					
Debt service	495,000	-	61,291	556,291	-
Capital assets	218,000	-	-	218,000	-
Unrestricted	<u>9,055,689</u>	<u>6,718,929</u>	<u>3,352,077</u>	<u>19,126,695</u>	<u>10,002,190</u>
Total net position	<u>\$ 57,025,640</u>	<u>\$ 22,320,220</u>	<u>\$ 47,193,102</u>	<u>126,538,962</u>	<u>\$ 14,428,164</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				323,982	
Net position of business-type activities				<u>\$ 126,862,944</u>	

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

City of Issaquah, Washington  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2014

	Business-type Activities			Governmental Activities	
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
Operating revenues:					
Charges for services	7,378,542	7,577,713	4,388,383	19,344,638	6,742,349
Intergovernmental	-	-	406,218	406,218	-
Total operating revenues	<u>7,378,542</u>	<u>7,577,713</u>	<u>4,794,601</u>	<u>19,750,856</u>	<u>6,742,349</u>
Operating expenses:					
Maintenance and operation	7,187,422	6,775,960	3,157,593	17,120,975	5,919,260
Depreciation	1,634,229	751,464	1,624,556	4,010,249	679,444
Total operating expenses	<u>8,821,651</u>	<u>7,527,424</u>	<u>4,782,149</u>	<u>21,131,224</u>	<u>6,598,704</u>
Operating income (loss)	<u>(1,443,109)</u>	<u>50,289</u>	<u>12,452</u>	<u>(1,380,368)</u>	<u>143,645</u>
Non-operating revenues (expenses):					
Intergovernmental	-	-	-	-	-
Interest earnings	63,582	102,471	17,183	183,236	112,474
Interest expense	(157,450)	-	(25,565)	(183,015)	-
Other non-operating	11,685	-	-	11,685	(421)
Total non-operating revenue (expenses)	<u>(82,183)</u>	<u>102,471</u>	<u>(8,382)</u>	<u>11,906</u>	<u>112,053</u>
Income (loss) before contributions and transfers	(1,525,292)	152,760	4,070	(1,368,462)	255,698
Capital contributions	2,604,092	216,832	289,270	3,110,194	-
Developer donated assets	1,034,399	99,824	203,644	1,337,867	-
Gain (loss) on disposition of asset	-	-	(477,157)	(477,157)	-
Transfers in	22,800	-	-	22,800	65,000
Transfers out	(105,715)	(51,563)	(114,642)	(271,920)	-
Change in net position	<u>2,030,284</u>	<u>417,853</u>	<u>(94,815)</u>	<u>2,353,322</u>	<u>320,698</u>
Net position - beginning	54,995,356	21,902,367	47,287,917		12,715,516
Prior period adjustment	-	-	-		1,391,950
Restated net position - beginning	<u>54,995,356</u>	<u>21,902,367</u>	<u>47,287,917</u>		<u>14,107,466</u>
Net position - ending	<u>\$ 57,025,640</u>	<u>\$ 22,320,220</u>	<u>\$ 47,193,102</u>		<u>\$ 14,428,164</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>323,982</u>	
Changes in net position of business-type activities				<u>\$ 2,677,304</u>	

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

City of Issaquah, Washington  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

	Business-type Activities				Governmental Activities
	Water	Sewer	Stormwater	Totals	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from:					
Customers	\$ 7,317,404	\$ 7,547,501	\$ 4,290,511	\$ 19,155,416	\$ -
Interfund services provided	-	-	-	-	6,858,097
Other governments	-	-	406,218	406,218	-
Cash payments to:					
Suppliers for goods and services	(3,940,704)	(5,758,952)	(897,474)	(10,597,130)	(4,694,078)
Interfund services used	(564,804)	(321,196)	(448,576)	(1,334,576)	-
Employees	(1,935,486)	(740,250)	(1,673,104)	(4,348,840)	(708,752)
Other governments	-	-	-	-	-
Net cash provided by (used for) operating activities	<u>876,410</u>	<u>727,103</u>	<u>1,677,575</u>	<u>3,281,088</u>	<u>1,455,267</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in	22,800	-	-	22,800	65,000
Transfers out	(105,715)	(51,563)	(114,642)	(271,920)	-
Net cash provided by (used for) noncapital financing activities	<u>(82,915)</u>	<u>(51,563)</u>	<u>(114,642)</u>	<u>(249,120)</u>	<u>65,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from:					
Advances to/from other funds	-	-	-	-	412,500
Capital contributions	2,604,092	216,832	289,270	3,110,194	-
Proceeds from retirement of capital assets	-	-	(426,241)	(426,241)	-
Payments for:					
Principal on capital debt	(480,000)	-	(61,290)	(541,290)	-
Interest and related costs on capital debt	(158,650)	-	(25,565)	(184,215)	-
Advances to/from other funds	4,447	-	(300,000)	(295,553)	-
Capital assets	(1,794,237)	(76,021)	(151,772)	(2,022,030)	(812,426)
Net cash provided by (used for) capital related financing activities	<u>175,652</u>	<u>140,811</u>	<u>(675,598)</u>	<u>(359,135)</u>	<u>(399,926)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	63,581	102,470	17,183	183,234	106,498
Net cash provided by investing related activities	<u>63,581</u>	<u>102,470</u>	<u>17,183</u>	<u>183,234</u>	<u>106,498</u>
Net increase (decrease) in cash balance	1,032,728	918,821	904,518	2,856,067	1,226,839
Cash balance at beginning of year	9,376,969	4,980,931	2,337,065	16,694,965	8,634,091
Cash balance at end of year	<u>\$ 10,409,697</u>	<u>\$ 5,899,752</u>	<u>\$ 3,241,583</u>	<u>\$ 19,551,032</u>	<u>\$ 9,860,930</u>

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

City of Issaquah, Washington  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

	Business-type Activities				Governmental Activities
	Water	Sewer	Stormwater	Totals	Internal Service Funds
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (1,443,109)	\$ 50,289	\$ 12,452	\$ (1,380,368)	\$ 143,645
Adjustment to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,634,229	751,464	1,624,556	4,010,249	679,444
Decrease (increase) in accounts receivable	(61,138)	(30,212)	(97,872)	(189,222)	251,848
Decrease (increase) in inventory	(75,621)	1,124	(84)	(74,581)	60,140
Increase (decrease) in accounts payable	823,355	(34,945)	141,751	930,161	450,512
Increase (decrease) in employee benefits	(1,306)	(10,617)	(3,228)	(15,151)	5,778
Increase (decrease) in unearned revenue	-	-	-	-	(136,100)
Net cash provided by operating activities	<u>\$ 876,410</u>	<u>\$ 727,103</u>	<u>\$ 1,677,575</u>	<u>\$ 3,281,088</u>	<u>\$ 1,455,267</u>
Schedule of noncash capital, investing, and financing activities:					
Contributions of capital assets from developers and annexations	\$ 1,034,399	\$ 99,824	\$ 203,644	\$ 1,337,867	\$ -
Depreciation	(1,634,229)	(751,464)	(1,624,556)	(4,010,249)	(679,444)
Change in fair value of investments	16,741	449	2,253	19,443	(45,577)

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

City of Issaquah, Washington  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2014

	Ruth Kees Award - Sustainable Environment Fund	Agency Fund
<b>ASSETS</b>		
Restricted cash and investments	\$ 29,342	\$ 3,760,108
Accounts receivable	174	-
Total assets	29,516	3,760,108
<b>LIABILITIES</b>		
Liabilities payable from restricted assets	-	3,760,108
Total liabilities	\$ -	\$ 3,760,108
<b>NET POSITION</b>		
Net position held in trust	\$ 29,516	

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

City of Issaquah, Washington  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended December 31, 2014

		<u>Ruth Kees Award - Sustainable Environment Fund</u>
ADDITIONS		
Contributions:		
Private donations	\$	-
Total contributions		-
Investment earnings:		
Interest		174
Total investment earnings		174
Total additions		174
DEDUCTIONS		
Awards		-
Total deductions		-
Change in net position		174
Net position - beginning		29,342
Net position - ending	\$	29,516

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

CITY OF ISSAQUAH  
Notes to the Financial Statements  
December 31, 2014

**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 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 code city with a Mayor-Council form of government. A full-time Mayor and seven part-time Council members serve the City, all elected at large to four-year terms. The City provides a full range of municipal services authorized by state statutes, together with a Water Utility, a Sewer Utility and a Stormwater Utility.

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

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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 position is reported in three parts - investment in capital assets, net of related debt; restricted net position; and unrestricted net position. 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 position 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.

As a general rule the effect of the 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 City'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 the acquisition and construction of all the City's major capital facilities, other than those financed by proprietary funds.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The City has no additional governmental fund types to report as non-major governmental funds.

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund type:

*Internal service funds* account for fleet management, self-insured medical insurance, unemployment and risk management services (including general liability and property damage) provided to other departments or funds of the City on a cost reimbursement basis.

The *trust fund* is used to account for the donation and earnings and to provide an annual award to an individual person or persons whose environmental activism on behalf of the community and areas affecting the Issaquah community deserve special recognition.

The *agency fund* is a clearing mechanism for cash resources that are collected by the City, 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. General capital asset acquisitions are reported as expenditures in governmental funds.

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

In accordance with GASB Statement No. 65, deferred inflows of resources related to special assessments have been recorded in both the Statement of Net Position and Governmental Funds Balance Sheet. Additionally, on the Governmental Funds Balance Sheet we have recorded a deferred inflow of resources related to revenue which was not available at December 31, 2014.

## 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, DEFERRED INFLOWS OF RESOURCES, NET POSITION 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, 2014, 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 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 City 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 City 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 recorded when levied against certain property owners and become liens against the property benefited by the improvement. Special assessments receivable consist of current and delinquent assessments and related interest and penalties.

**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, Advances to/from other funds

**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 position, 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, 2014 are reported in *Note 13*.

#### 5. Inventories and Prepaid Items

Inventories are valued at the FIFO (first in, first out) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

#### 6. Restricted Assets and Liabilities

Net position is segregated into three categories on the government-wide statement of net position: 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 position 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 position and in the respective funds.

Capital assets are defined by the City 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.

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

Compensated absences are absences for which employees will be paid, such as vacation, compensatory time in lieu of overtime and sick leave benefits. All vacation, compensatory time and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary financial statements.

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. 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 position. Prior to 2008, bond premiums and discounts, as well as issuance costs, were 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 14*.

### 10. Unearned revenue

Unearned revenue is a liability for resources obtained, that does not qualify for recognition as a revenue and therefore are not yet considered to be available. Unearned revenues presented in this manner on the accompanying financial statements are an interlocal cooperation agreement between King County and the City for construction of a park-and-ride facility in the capital projects fund, premiums collected in advance of insurance coverage in our self-insurance fund, and various deposits.

### 11. Deferred inflows

Deferred inflows are used to offset an increase in receivables due to outstanding special assessment receivables.

### 12. Restricted liabilities

Restricted liabilities include police seized deposits; a portion may be forfeited to the City but the amount is unknown as of December 31, 2014.

### 13. Fund Balances

Fund balance represents the difference between current assets and current liabilities in the governmental fund financial statements. Fund balance classifications 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. Fund balances are classified as follows:

**Nonspendable Fund Balance** – Items that cannot be spent due to form; prepaid amounts, inventories, or amounts that must be maintained intact legally.

**Restricted Fund Balance** – Amounts constrained for specific purposes by external parties (such as grantors, bondholders and higher levels of government), constitutional provisions, or enabling legislation.

**Committed Fund Balance** – Amounts which are constrained by the City Council. Only the City Council can, by ordinance, establish, modify, or rescind the constraints on committed fund balances.

**Assigned Fund Balance** – Amounts which are 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** – Any residual portion of fund balance that does not meet any of the criteria described above.

### 14. 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 is 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.

### 15. 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 for the year ended December 31, 2014:

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>Nonspendable:</b>				
Inventory	\$ 451,282	\$ -	\$ -	\$ 451,282
Prepaid expenses	71,231	-	-	71,231
	<u>522,513</u>	<u>-</u>	<u>-</u>	<u>522,513</u>
<b>Restricted:</b>				
Debt service	-	-	396,478	396,478
Capital	-	13,030,785	-	13,030,785
Tourism	136,774	-	-	136,774
Public Safety	10,859	-	-	10,859
Total restricted	<u>147,633</u>	<u>13,030,785</u>	<u>396,478</u>	<u>13,574,896</u>
<b>Committed:</b>				
Debt service	-	-	978,260	978,260
Art programs	408,953	-	-	408,953
Total committed	<u>408,953</u>	<u>-</u>	<u>978,260</u>	<u>1,387,213</u>
<b>Assigned:</b>				
Capital projects	(570,975)	2,766,584	-	2,195,609
Debt service	-	-	85,019	85,019
Cemetery maintenance	361,801	-	-	361,801
Communications	952,149	-	-	952,149
Sustainability	38,983	-	-	38,983
Reserves	2,769,697	-	-	2,769,697
Subsequent year's expenditures	(394,493)	5,835,694	-	5,441,201
Total assigned	<u>3,157,162</u>	<u>8,602,278</u>	<u>85,019</u>	<u>11,844,459</u>
Unassigned:	<u>10,256,031</u>	<u>-</u>	<u>-</u>	<u>10,256,031</u>
Total fund balances	<u>\$ 14,492,292</u>	<u>\$ 21,633,063</u>	<u>\$ 1,459,757</u>	<u>\$ 37,585,112</u>

Fund balance flow assumptions - If more than one classification of fund balance is available for use when expenditure is incurred, the City would typically use the most restrictive classification first before using any of the components of unrestricted fund balance (the total of committed, assigned, and unassigned fund balance).

The City of Issaquah's Comprehensive Financial and Budget Policies has a General Fund Reserve Policy which states the general fund (not including special revenue funds) will have a minimum reserve of eight percent of budgeted expenses to maintain operations. Recommended "best practice" is to maintain a maximum of fifteen percent reserve which will be the "target" reserve but no use of ending fund balance below the eight percent will be authorized without a vote of the majority plus one ("super majority") of the City Council.

**NOTE 3: 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 for the year ended December 31, 2014:

	<u>Original Budget</u>	<u>Supplemental Appropriations</u>	<u>Final Budget</u>
General Fund	\$ 50,929,612	\$ 1,890,000	\$ 52,819,612
Capital Projects Fund	31,921,916	8,000,000	39,921,916
Debt Service Funds	<u>5,547,753</u>	<u>3,194,000</u>	<u>8,741,753</u>
Total	<u>\$ 88,399,281</u>	<u>\$ 13,084,000</u>	<u>\$ 101,483,281</u>

**NOTE 5: DEPOSITS AND INVESTMENTS**

**DEPOSITS WITH FINANCIAL INSTITUTIONS**

Cash and investments as of December 31, 2014 consist of the following:

Deposits with financial institutions	\$ 22,749,809
Investments	<u>48,771,858</u>
Total cash and investments	<u>\$ 71,521,667</u>

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and investments	\$ 48,170,326	\$ 19,551,032	\$ 67,721,358
Restricted cash and investments	<u>10,859</u>	<u>-</u>	<u>10,859</u>
	<u>\$ 48,181,185</u>	<u>\$ 19,551,032</u>	<u>\$ 67,732,217</u>

*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, 2014, the City’s cash deposits had a carrying balance of \$22.8 million and a bank balance of \$22.9 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 of Washington Local Governmental Investment Pool (State of Washington LGIP).

As of December 31, 2014, the City had the following investments:

Investment Type	Fair Value	Maturity			
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. agency fixed income	\$ 31,820,806	\$ -	\$ 31,820,806	\$ -	\$ -
State of Washington LGIP	12,651,114	12,651,114	-	-	-
Opus Bank	2,000,000	2,000,000	-	-	-
Installment note	2,299,937	-	-	-	2,299,937
	<u>\$ 48,771,857</u>	<u>\$ 14,651,114</u>	<u>\$ 31,820,806</u>	<u>\$ -</u>	<u>\$ 2,299,937</u>

*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 State of Washington 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 State of Washington LGIP) that represents 5% or more of the total portfolio as of December 31, 2014:

Issuer	Investment Type	Fair Value
State of Washington	Local Government Investment Pool	\$ 12,651,114
Federal National Mortgage Association	Fixed Income Agency Coupon	11,884,430
Federal Farm Credit Banks Funding Corporation	Fixed Income Agency Coupon	8,905,130
Federal Home Loan Mortgage Corporation	Fixed Income Agency Coupon	4,954,500
Federal Home Loan Banks	Fixed Income Agency Coupon	2,954,650
City of Issaquah	Installment Note	2,299,937
State of Washington	Fixed Income Agency Coupon	2,125,980
Opus Bank	Certificate of deposit	2,000,000
Financing Corporation	Fixed Income Agency Coupon	996,117

**NOTE 6: RECEIVABLES**

The City had the following receivable balances at December 31, 2014:

	Governmental Activities	Business-type Activities	Total
Taxes	\$ 4,141,448	\$ -	\$ 4,141,448
Customer accounts	20,404	2,426,718	2,447,122
Special assessments			
Current	184,655	-	184,655
Delinquent	313,738	-	313,738
Non-current	2,299,214	-	2,299,214
Other	1,012,732	-	1,012,732
	<u>\$ 7,972,191</u>	<u>\$ 2,426,718</u>	<u>\$ 10,398,909</u>

**PROPERTY TAXES**

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

PROPERTY TAX CALENDAR	
	Taxes are levied and become enforceable lien
January 1	against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
	Assessed value of property is established for next
May 31	year's levy at 100% 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:

- 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
- 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 2014 was \$1.22963 per \$1,000 of assessed valuation of \$5,755,559,143 for a total regular levy of \$7,076,973. Additionally, special levies for voter-approved General Obligation Bonds were \$0.25294 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, 2014, was as follows:

	Beginning Balance <u>01/01/2014</u>	Increases	Decreases	Ending Balance <u>12/31/2014</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 307,901,625	\$ 2,612,018	\$ -	\$ 310,513,643
Construction in progress	1,858,657	6,109,132	(2,906,858)	5,060,931
Art	263,761	9,847	-	273,608
Total capital assets, not being depreciated	<u>310,024,043</u>	<u>8,730,997</u>	<u>(2,906,858)</u>	<u>315,848,182</u>
Capital assets, being depreciated/ amortized:				
Buildings	42,753,999	49,388	(207,861)	42,595,526
Improvements other than buildings	17,178,774	283,182	-	17,461,956
Infrastructure	243,743,290	4,166,153	-	247,909,443
Intangible property	1,943,111	71,341	-	2,014,452
Machinery and equipment	15,435,996	3,316,062	(9,124)	18,742,934
Total capital assets, being depreciated	<u>321,055,170</u>	<u>7,886,126</u>	<u>(216,985)</u>	<u>328,724,311</u>
Less accumulated depreciation/ amortization for:				
Buildings	(12,216,990)	(868,468)	51,894	(13,033,564)
Improvements other than buildings	(2,608,382)	(367,380)	-	(2,975,762)
Infrastructure	(105,841,484)	(6,183,789)	-	(112,025,273)
Intangible property	(813,736)	(334,008)	-	(1,147,744)
Machinery and equipment	(9,349,344)	(2,095,043)	5,355	(11,439,032)
Total accumulated depreciation	<u>(130,829,936)</u>	<u>(9,848,688)</u>	<u>57,249</u>	<u>(140,621,375)</u>
Total capital assets, being depreciated, net	<u>190,225,234</u>	<u>(1,962,562)</u>	<u>(159,736)</u>	<u>188,102,936</u>
Governmental activities capital assets, net	<u>\$ 500,249,277</u>	<u>\$ 6,768,435</u>	<u>\$ (3,066,594)</u>	<u>\$ 503,951,118</u>

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

**Governmental activities:**

General government	\$	185,858
Public safety *		729,843
Utilities		4,585
Transportation		6,617,570
Natural & economic environment		4,481
Culture & recreation		524,270
* Public safety - assets owned by the City but held & used by E F&R. See prior period adjustment (see note 17)		1,102,637
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		679,444
Total depreciation expense	\$	<u>9,848,688</u>

Business-type activities capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance 01/01/2014	Increases	Decreases	Ending Balance 12/31/2014
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 16,537,722	\$ -	\$ -	\$ 16,537,722
Construction in progress	744,534	2,256,941	(105,879)	2,895,596
Total capital assets, not being depreciated	<u>17,282,256</u>	<u>2,256,941</u>	<u>(105,879)</u>	<u>19,433,318</u>
Capital assets, being depreciated:				
Buildings	9,473,257	11,771	-	9,485,028
Plant in service	128,490,778	1,599,661	(544,137)	129,546,302
Intangible property	363,514	-	-	363,514
Machinery & equipment	860,125	35,327	-	895,452
Total capital assets, being depreciated	<u>139,187,674</u>	<u>1,646,759</u>	<u>(544,137)</u>	<u>140,290,296</u>
Less accumulated depreciation for:				
Buildings	(1,768,077)	(191,005)	-	(1,959,082)
Plant in service	(42,100,238)	(3,741,851)	117,896	(45,724,193)
Intangible property	(24,827)	(29,526)	-	(54,353)
Machinery & equipment	(549,612)	(47,867)	-	(597,479)
Total accumulated depreciation	<u>(44,442,754)</u>	<u>(4,010,249)</u>	<u>117,896</u>	<u>(48,335,107)</u>
Total capital assets, being depreciated, net	<u>94,744,920</u>	<u>(2,363,490)</u>	<u>(426,241)</u>	<u>91,955,189</u>
Business-type capital assets, net	<u>\$ 112,027,176</u>	<u>\$ (106,549)</u>	<u>\$ (532,120)</u>	<u>\$ 111,388,507</u>

Depreciation expense was charged to Business-type functions based on their usage of the assets as follows:

**Business-type activities:**

Water	\$	1,634,229
Sewer		751,464
Stormwater		1,624,556
Total depreciation expense	\$	<u>4,010,249</u>

## **NOTE 8: PENSION PLANS**

Substantially all City of Issaquah (City) full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit 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](http://www.drs.wa.gov).

### **Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

#### **Plan Description**

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit 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. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 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, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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 by 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, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an 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.

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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	\$ 85,328
Terminated plan members entitled to but not yet receiving benefits	31,047
Active plan members vested	150,706
Active plan members non-vested	101,191
Total	<u>\$ 368,272</u>

#### 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. 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.

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, 2014, are as follows:

Members Not Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21%*	9.21%*	9.21%**
Employee	6%***	4.92%***	***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21%	9.21%	9.21%**
Employee	12.26%	12.30%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\*Minimum rate.

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2014	\$ 12,527	\$ 1,276,617	\$ 171,001
2013	\$ 10,777	\$ 1,095,150	\$ 155,859
2012	\$ 10,593	\$ 920,140	\$ 118,821

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

**Plan Description**

LEOFF was established in 1970 by the Legislature. Membership 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 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.

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.

LEOFF 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 legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

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:

<u>Term of Service</u>	<u>Percent of Final Average Salary</u>
20+ years	2.00%
10 - 20 years	1.50%
5 - 10 years	1.00%

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 there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit 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 benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced 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 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. 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 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 catastrophically

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 benefit 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.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by 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 eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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, 2013:

Retirees and beneficiaries receiving benefits	\$ 10,511
Terminated plan members entitled to but not yet receiving benefits	699
Active plan members vested	16,830
Active plan members non-vested	<u>1,600</u>
Total	<u>\$ 29,640</u>

#### Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. 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, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.18%	5.23%
Employee	0.00%	8.41%
State	N/A	3.36%

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

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

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2014	\$ -	\$ 195,711
2013	\$ -	\$ 177,721
2012	\$ -	\$ 169,570

### Public Safety Employees' Retirement System (PSERS) Plan 2

#### Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by 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 membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

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 limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) 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, or at age 53 with 20

years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. 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 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.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. 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). 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

Retirees and beneficiaries receiving benefits	\$ 43
Terminated plan members entitled to but not yet receiving benefits	119
Active plan members vested	4,513
Active plan members non-vested	1,383
Total	<u>\$ 6,058</u>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts 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.

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, 2014, are as follows:

	<u>PSERS Plan 2</u>
Employer*	10.54%
Employee	6.36%

\* The employer rate includes an employer administrative expense fee of 0.18%.

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

	<u>PSERS Plan 2</u>
2014	\$ 64,656
2013	\$ 49,588
2012	\$ 31,120

**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):**

All employees who leave the City with eligible sick leave receive a contribution 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 50. It is the employee's responsibility to comply with the regulations of the program

**POST EMPLOYMENT BENEFITS:**

**Plan Description**

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 the City provides medical prescription drug, dental, Medicare Part B premiums, long-term care, and vision expenses for LEOFF 1 retirees. Dependent spouses and children are not covered. The retiree does not contribute towards the cost of his/her medical care.

**Funding Policy**

Funding for LEOFF 1 retiree healthcare costs are provided entirely by the City as required by RCW. The City's funding policy is on a pay-as-you-go basis. Retirees are not required to contribute towards the cost of his/her medical care.

**Annual OPEB Cost and Net OPEB Obligation**

The basis for the City's annual other postemployment benefit (OPEB) cost (expense) is the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed ten years. The following table shows the components of the City's annual OPEB cost, the estimated amount contributed, and changes in the City's net OPEB obligation.

Annual Required Contribution and Net OPEB Obligation for years ended December 31, are as follows:

	Fiscal Year Ending		
	12/31/2012	12/31/2013	12/31/2014
Determination of Annual Required Contribution			
Normal Cost	\$ -	\$ -	\$ -
Amortization of Unfunded Actuarial Accrued Liability	151,787	136,020	193,889
Annual Required Contribution	151,787	136,020	193,889
Determination of Net OPEB Obligation			
Annual Required Contribution	151,787	136,020	193,889
Adjustment to Annual Required Contribution	(15,598)	(17,433)	(18,746)
Annual OPEB Cost	136,189	118,587	175,143
Contributions Made	82,227	105,527	72,915
Increase in Net OPEB Obligation	53,962	13,060	102,228
Net OPEB Obligation - beginning	308,357	362,319	375,379
Net OPEB Obligation - ending	\$ 362,319	\$ 375,379	\$ 477,607

The City's net OPEB obligation increased by \$102,228, in the year ending December 31, 2014. The entire net OPEB obligation of \$477,607 is included as a noncurrent liability in the governmental activities column on the government-wide statement of net position.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

Valuation Date	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 175,143	\$ 72,915	41.63%	\$ 477,607
December 31, 2013	\$ 118,587	\$ 105,527	88.99%	\$ 375,379
December 31, 2012	\$ 136,189	\$ 82,227	60.38%	\$ 362,319

**Funding Status and Funding Progress**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions**

The City 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 2014 average ages were as follows: two members average age of 64, two members average age of 72 and two members average age of 79 years. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 2013 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF 1 medical study performed in 2014. 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 (AAL) was Projected Unit Credit. The AAL and Net OPEB Obligation are amortized on an open basis as a level dollar over 10 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The required Schedule of Funding Progress, immediately following the Notes is provided to present multi-year trend information regarding the change in plan assets relative to the actuarial accrued liability for benefits.

**NOTE 10: RISK MANAGEMENT**

The City maintains internal service funds for operations related to unemployment, liability and property, and medical insurance programs. The unemployment and medical insurance programs are administered by the City, with claims being processed by independent claims administrators.

- a. The City of Issaquah is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2014:

	2013	2014
IBNR claims at beginning of year	\$ -	\$ -
Current year claims	37,537	24,624
Claim payments	<u>(37,537)</u>	<u>(24,624)</u>
IBNR claims at end of year	<u>\$ -</u>	<u>\$ -</u>

- b. 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 162 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 \$750,000, 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.

Settlements did not exceed insurance coverage for the periods ended December 31, 2011 through December 31, 2014.

- c. As of January 01, 2013 the City began offering self-insured medical programs to employees. During the first year of operations premiums were paid to an independent claims administrator and used to pay actual claims. At the end of fiscal year 2013 an analysis was performed by the City and the claims administrator which resulted in a refund of premiums in the amount of \$323,780.

Effective January 1, 2014 the self-insurance rates were based upon historical data as well as market trends. Payments made in fiscal year 2014 was for actual claims activity.

In order to mitigate its risk exposure the City holds individual and aggregate stop loss insurance. There were four claims in excess of the \$100,000 per person stop loss maximum in 2014 and there were two claims in excess of the \$100,000 per person stop loss maximum in 2013. In accordance with GASB Statement 10, estimated liabilities are accrued for current outstanding claims and claims incurred but not reported (IBNR).

	2013	2014
Claim liability at beginning of year	\$ -	\$ -
Inurred claims, including IBNR	2,339,443	2,890,087
Claim payments	(2,339,443)	(2,551,487)
Claim liability at end of year	<u>\$ -</u>	<u>\$ 338,600</u>

**NOTE II: HEALTH & WELFARE**

The City of Issaquah participates in the Association of Washington Cities Employee Benefit Trust Health Care Program to provide Dental and Vision plans.

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

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

As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date.

When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

**NOTE 12: LEASES AND OTHER CONTRACTUAL COMMITMENTS**

The City had the following significant contractual obligations on construction projects at December 31, 2014:

<u>Construction - Contracting Entity</u>	<u>Project Name</u>	<u>Spent as of 12/31/2014</u>	<u>Remaining Commitment</u>
Washington State Department of Enterprise	Julius Boehm Pool Renovation	\$ 185,785	\$ 3,642,465
EGM, Inc.	North Issaquah Roadway Improvements	44,980	74,668
Economy Fence Center	Stormwater Retention Pond Fencing	-	60,937
Lakeside Industries, Inc.	Pavement Management Program	56,786	303,215
	Total Significant Construction Contracts	<u>\$ 287,551</u>	<u>\$ 4,081,285</u>

The City had the following significant other contractual obligations at December 31, 2014:

<u>Contracting Entity</u>	<u>Project Name</u>	<u>Spent as of 12/31/2014</u>	<u>Remaining Commitment</u>
Gray & Osbourne, Inc.	North Issaquah Roadway Improvements	\$ 549,281	\$ 201,116
Gray & Osbourne, Inc.	Water System Improvements - Mt. Hood Pump Station	68,074	50,667
Henderson, Young & Company	Update of Road & Park Impact Fees	77,469	80,435
Hirschler Manufacturing, Inc.	North Issaquah Roadway Improvements	-	1,796,000
Kennedy-Jenks Consultants	Water System Improvements - SPAR Booster Pump Station	22,976	329,848
RH2 Engineering, Inc.	Water & Sewer System Assumption Plan	293,158	93,680
	Total Significant Other Contracts	<u>\$ 1,010,958</u>	<u>\$ 2,551,746</u>

**NOTE 13: INTERFUND ACTIVITY**

**INTERFUND TRANSFERS**

The composition of interfund transfers for the year ended December 31, 2014 is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 249,120	\$ 65,000
Capital projects	-	2,300,000
Debt service	2,300,000	-
Water	22,800	105,715
Sewer	-	51,563
Stormwater	-	114,642
Unemployment insurance	65,000	-
Total	<u>\$ 2,636,920</u>	<u>\$ 2,636,920</u>

**ADVANCES TO/FROM OTHER FUNDS**

Advances to/from other funds for the year ended December 31, 2014, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Receivable:					
Equipment Replacement Fund	\$ 1,125,000	\$ -	\$ (412,500)	\$ 712,500	\$ 412,500
Total receivable	<u>\$ 1,125,000</u>	<u>\$ -</u>	<u>\$ (412,500)</u>	<u>\$ 712,500</u>	<u>\$ 412,500</u>
Payable:					
Capital Projects Fund	\$ 225,000	\$ -	\$ (112,500)	\$ 112,500	\$ 112,500
Storm water Fund	900,000	-	(300,000)	600,000	300,000
Total payable	<u>\$ 1,125,000</u>	<u>\$ -</u>	<u>\$ (412,500)</u>	<u>\$ 712,500</u>	<u>\$ 412,500</u>

The following further describes the advances to/from other funds outstanding as of December 31, 2014:

<u>Amount of Loan</u>	<u>Purpose</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Term</u>
\$ 900,000	Debt Called-in	Equipment Replacement	Stormwater	12/31/2016
\$ 225,000	SR-900 Regional Trail	Equipment Replacement	Capital Project	12/31/2015

**NOTE 14: 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 position.

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.

General obligation bonds and revenue bonds are subject to federal arbitrage rules.

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 government includes an installment contract with Spillman Technologies, Inc for public safety software.

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.

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, 2014

	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
<b>GENERAL OBLIGATION BONDS</b>								
2001 Senior Center Construction (Voted)	12/01/2001	12/01/2021	4.42%	\$ 1,500,000	\$ 765,000	\$ -	\$ 765,000	\$ -
2004 Highland Park Facilities	12/01/2004	12/01/2024	4.14%	3,820,000	2,460,000	-	2,460,000	-
2005 ITS & Police Refunding Bond (Voted)	12/01/2005	12/01/2025	4.34%	4,745,000	1,930,000	-	430,000	1,500,000
2006 Parks Bond (Voted)	12/01/2006	12/01/2026	3.91%	6,250,000	4,575,000	-	275,000	4,300,000
2006 Police/Barn Refunding	12/01/2006	01/01/2021	4.05%	3,485,000	2,210,000	-	335,000	1,875,000
2007 Police Station Refunding	01/01/2007	01/01/2019	3.98%	5,100,000	3,265,000	-	490,000	2,775,000
2009 Belliger Property	02/17/2009	12/01/2028	3.80%	2,780,000	2,265,000	-	120,000	2,145,000
2009A Fire Station #72 (Voted)	12/01/2009	12/01/2019	3.64%	1,840,000	1,175,000	-	180,000	995,000
2009B Fire Station Property	12/01/2009	12/01/2021	3.80%	6,355,000	5,160,000	-	565,000	4,595,000
2009T BABS Fire Station #72 (Voted)	12/01/2009	12/01/2029	5.74%	2,660,000	2,660,000	-	-	2,660,000
2014 Park Bond (Voted)	06/05/2014	12/01/2033	3.23%	7,745,000	-	7,745,000	-	7,745,000
2014 Senior Center Refunding (Voted)	06/05/2014	12/01/2021	3.00%	635,000	-	635,000	-	635,000
2014 Highland Park Facilities	11/05/2014	12/01/2024	4.15%	2,310,000	-	2,310,000	-	2,310,000
Total General Obligation Bonds				49,225,000	26,465,000	10,690,000	5,620,000	31,535,000
<b>SPECIAL ASSESMENT BONDS</b>								
LID #23 - Governmental	12/31/2009	12/01/2024	4.70%	977,390	710,000	-	65,000	645,000
LID #24 - Governmental	12/15/2011	12/01/2028	4.00%	2,345,000	2,316,518	-	16,581	2,299,937
Total Special Assessments				3,322,390	3,026,518	-	81,581	2,944,937
<b>INTERLOCAL AGREEMENTS</b>								
KC North SPAR Interlocal Agreement	01/01/2003	12/31/2023	0.00%	7,000,000	3,150,000	-	350,000	2,800,000
Total Interlocal Agreements				7,000,000	3,150,000	-	350,000	2,800,000
<b>INSTALLMENT CONTRACTS</b>								
Spillman Technologies, Inc	02/01/2013	02/01/2017	0.00%	131,295	105,036	-	26,259	78,777
Total Installment Contracts				131,295	105,036	-	26,259	78,777
TOTAL GOVERNMENTAL ACTIVITIES				\$ 59,678,685	\$ 32,746,554	\$ 10,690,000	\$ 6,077,840	\$ 37,358,714

Long Term Debt - Business-Type Activities  
For the Fiscal Year Ended December 31, 2014

	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
REVENUE BONDS								
2011 Water Revenue Bonds	09/15/2011	12/01/2021	3.18%	\$ 5,350,000	4,330,000	-	480,000	3,850,000
Total Revenue Bonds				5,350,000	4,330,000	-	480,000	3,850,000
INSTALLMENT CONTRACTS								
PW Trust Fund - Newport Way Bridge	11/01/1998	07/01/2019	1.00%	1,143,103	306,457	-	61,292	245,165
Total Installment Contracts				1,143,103	306,457	-	61,292	245,165
TOTAL BUSINESS-TYPE ACTIVITIES				\$ 6,493,103	\$ 4,636,457	\$ -	\$ 541,292	\$ 4,095,165

**GENERAL OBLIGATION BONDS**

The City of Issaquah issued \$8,380,000 principal amount of Unlimited Tax General Obligation Improvement and Refunding Bonds on June 5, 2014. The aggregate principal amount of New Money Bonds of \$7,745,000 and premium of \$255,000 for a total of \$8,000,000 was issued for the purpose of paying the costs of the renovation of the Julius Boehm Pool, improvements of Central Park, Tibbetts Valley Park, Meerwood Park and Gibson Park. Funding was also included for preservation of open space to protect, creeks, natural areas and wildlife habitat, and other capital projects, as deemed necessary and advisable by the City. Also included in this transaction was a refunding of a 2001 Unlimited Tax General Obligation Bond of \$635,000 that resulted in a net present value savings of \$110,978. The City of Issaquah is authorized to issue \$2,000,000 of Unlimited Tax General Obligation Bonds and has not issued.

The City of Issaquah also refunded debt on November 5, 2014 in the amount of \$2,310,000. The 2004 Limited Tax General Obligation Bonds were refunded resulting in a net present value savings of \$251,597.

Debt service is paid from the 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. Bonds carried 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 2014 from Standard and Poor's is AAA.

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2015	\$ 2,790,000	\$ 1,169,202
2016	2,840,000	1,064,726
2017	2,940,000	960,991
2018	2,830,000	858,741
2019	2,930,000	757,450
2020-2024	9,615,000	2,506,106
2025-2029	5,470,000	959,077
2030-2033	2,120,000	176,933
<b>Total</b>	<b>\$ 31,535,000</b>	<b>\$ 8,453,226</b>

**REVENUE BONDS**

Revenue bonds are payable from pledged revenues generated by the respective enterprise funds. The City's most recent rating on revenue bonds as of 2012, are rated AA.

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

Year Ending December 31,	Business - Type Activities	
	Principal	Interest
2015	\$ 495,000	\$ 143,950
2016	510,000	129,100
2017	525,000	113,800
2018	550,000	92,800
2019	570,000	70,800
2020-2021	1,200,000	72,400
Total	<u>\$ 3,850,000</u>	<u>\$ 622,850</u>

### 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. The City is obligated in some manner due to its responsibility to make principal and interest payments regardless of collections.

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 43<sup>rd</sup> Way. At December 31, 2014, delinquent assessments totaled \$313,738.

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2015	\$ 60,000	\$ 123,181
2016	65,000	120,662
2017	65,000	117,981
2018	65,000	115,056
2019	65,000	111,969
2020-2024	325,000	510,882
2025-2027	2,299,937	183,995
Total	<u>\$ 2,944,937</u>	<u>\$ 1,283,726</u>

### 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. The City pays annual payments of \$61,292 per year from the stormwater fund.

In 2014, the City entered into a contract with Spillman Technologies, Inc. for the purchase of public safety software in the amount of \$131,295. The City pays annual payments of \$26,259 per year from the capital projects fund.

### INTERLOCAL AGREEMENTS

During 2002 the City entered into an Interlocal Agreement with King County for funds for the North Spar. No interest accrues. The City pays King County \$350,000 per year from the capital projects fund.

### CHANGES IN LONG-TERM LIABILITIES

The following is a summary of all long-term debt transactions for the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 26,465,000	\$ 10,690,000	\$ 5,620,000	\$ 31,535,000	\$ 2,790,000
Special assessment bonds	3,026,518	-	81,581	2,944,937	60,000
Interlocal agreements	3,150,000	-	350,000	2,800,000	350,000
Installment contract	105,036	-	26,259	78,777	26,259
Compensated absences	3,748,254	2,618,030	2,631,913	3,734,371	2,016,560
Other postemployment benefits	375,379	102,228	-	477,607	-
Total governmental activity - long-term liabilities	<u>36,870,187</u>	<u>13,410,258</u>	<u>8,709,753</u>	<u>41,570,692</u>	<u>5,242,819</u>
<b>Business-type activities:</b>					
Revenue bonds	4,330,000	-	480,000	3,850,000	495,000
Installment contracts	306,457	-	61,292	245,165	61,292
Compensated absences	555,411	410,111	430,756	534,765	288,773
Total business-type activities long-term liabilities	<u>5,191,868</u>	<u>410,111</u>	<u>972,048</u>	<u>4,629,930</u>	<u>845,065</u>
Total long-term liabilities	<u>\$ 42,062,055</u>	<u>\$ 13,820,369</u>	<u>\$ 9,681,801</u>	<u>\$ 46,200,622</u>	<u>\$ 6,087,884</u>

**NOTE 15: CONTINGENCIES AND LITIGATION**

As of December 31, 2014, 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 16: JOINT VENTURES**

**EASTSIDE PUBLIC SAFETY COMMUNICATIONS AGENCY**

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, 2014, the weighted vote was as follows:

Belleue	48.78%
Redmond	23.97%
Kirkland	16.01%
Mercer Island	5.99%
Issaquah	5.25%
Total	<u>100.00%</u>

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 startup 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
2014	\$ 39,805
2013	39,805
2012	46,837
2011	47,029
2010	36,845

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 \$326,610 as of December 31, 2014 are, upon dissolution, to be apportioned among the Principals, the City's share in 2014 of \$17,147 is deemed immaterial and thus is not reflected in the financial statements. Compiled financial statements for EPSCA can be obtained from EPSCA, MS PSEPS, PO Box 97010, Redmond, WA 98073-9710 or <http://epsca.net/>.

#### EASTSIDE FIRE AND RESCUE

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, 2021. 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, 2014, the equity percentage was as follows:

Fire District 10	40.89%
City of Sammamish	26.65%
City of Issaquah	21.92%
Fire District 38	6.23%
City of North Bend	4.31%
Total	<u>100.00%</u>

EF&R 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 headquarter 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	<u>8</u>

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 2014 are as follows (*in thousands*):

<u>Year</u>	<u>Service Fees</u>
2014	\$ 5,643,172
2013	5,406,969
2012	5,013,752
2011	4,919,164
2010	4,830,393
2009	4,871,759

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 position is deemed immaterial and thus is not reflected in the financial statement.

Audited financial information can be obtained from Eastside Fire and Rescue, 175 NW Newport Way, Issaquah, WA 98027 or <http://eastsidefire-rescue.org/>.

## A REGIONAL COALITION FOR HOUSING

In November 1992, the Cities of Bellevue, Redmond, and Kirkland and King County joined 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
2014	\$ 5,401,725	\$ 27,623	0.51%
2013	2,560,000	19,745	0.77%
2012	3,401,123	14,698	0.43%
2011	2,706,906	14,698	0.54%
2010	2,565,030	14,698	0.57%

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 position is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from ARCH, 16225 NE 87th Street, Suite A-3, Redmond, WA 98052 or <http://www.archhousing.org/>.

### 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.

Issaquah permanently withdrew from the task force in 2005; however, the City maintained equity in the task force based on available equity at the withdrawal date. Issaquah's share of equity at December 31, 2014 is \$363,180 which is 2.20% of total partnership equity. The City's share of the net position is deemed immaterial and thus not reflected in the financial statements.

Budget monitoring information can be obtained from Eastside Narcotics Task Force, c/o City of Bellevue Police Department, 11511 Main Street, Bellevue, WA 98004 or <http://www.bellevuewa.gov/>.

### 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 2014 membership dues totaling \$ 3,014,341 of which Issaquah's share was \$220,100. The City of Issaquah also paid the Alliance \$2,335,945 in 2014 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 Interlocal Contract.

Audited financial information can be obtained from Cascade Water Alliance, 520 112th Avenue SE, Suite 400, Bellevue, WA 98004 or <http://cascadewater.org/>.

**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 position is deemed immaterial and thus not reflected in the financial statements.

Budget monitoring information may be obtained from EGov Alliance, c/o City of Bellevue Information Technology Department, P.O. Box 90012, Bellevue, WA 98009-9012 or <http://www.ecitygov.net/default.aspx>.

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. For the year ending December 31, 2014 expenditures were \$1,202,889 and revenues were \$1,523,984.

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

	<u>Population</u>	<u>Percentage</u>	<u>Equity</u>
Belleue	131,200	33.29%	\$ 205,101
Kirkland	81,730	20.74%	127,766
Sammamish	48,060	12.19%	75,131
Bothell	34,460	8.74%	53,870
Issaquah	32,130	8.15%	50,228
Mercer Island	22,720	5.76%	35,518
Kenmore	21,170	5.37%	33,094
Snoqualmie	11,700	2.97%	18,290
Woodinville	10,990	2.79%	17,180
Total	<u>394,160</u>	<u>100.00%</u>	<u>\$ 616,179</u>

**NOTE 16: PRIOR PERIOD ADJUSTMENT**

The financial statements have been restated to account for capital assets held and used by Eastside Fire & Rescue (EF&R) per an interlocal agreement (*see Note 16*). Capital assets held by ER&R and owned by the City of Issaquah total \$2,494,587, less accumulated depreciation of \$1,102,637 for capital assets, net of accumulated depreciation in the amount of \$1,391,950. As of December 31, 2014, the net position for government-wide activities and the statement of revenues, expenses and changes in net position for the propriety funds has been restated by \$1,391,950 to reflect this correction.

CITY OF ISSAQUAH  
 Required Supplementary Information  
 December 31, 2014

**Schedule of Funding Progress**  
 LEOFF 1 Retiree Medical & Long-term Care Benefits

Valuation Date	Actuarial value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
December 31, 2014	\$ -	\$ 2,155,738	\$ 2,155,738	0.00%	\$ -	0.00%
December 31, 2013	\$ -	\$ 1,460,796	\$ 1,460,796	0.00%	-	0.00%
December 31, 2012	\$ -	\$ 1,630,121	\$ 1,630,121	0.00%	-	0.00%

**City of Issaquah  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2014**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA-7984 BRM-1408(002)	135,817	-	135,817	2
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA-8153 STPUL- 1915(009)	407,387	-	407,387	2
<b>Total Highway Planning and Construction Cluster:</b>				<b>543,204</b>	<b>-</b>	<b>543,204</b>	
<b>Highway Safety Cluster</b>							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State Traffic Safety Commission)	State and Community Highway Safety	20.600	Target Zero - Impaired Driving	1,028	-	1,028	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State Traffic Safety Commission)	State and Community Highway Safety	20.600	Target Zero - Seat Belt	856	-	856	
<b>Total Highway Safety Cluster:</b>				<b>1,884</b>	<b>-</b>	<b>1,884</b>	
<b>Other Programs</b>							
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	14073592	-	3,711	3,711	2
Criminal Division, Department Of Justice	Equitable Sharing Program	16.922	WA0170600	-	8,660	8,660	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services	Drug-Free Communities Support Program Grants	93.276	1H79SP019727- 01	-	126,504	126,504	2
<b>Total Federal Awards Expended:</b>				<b>545,088</b>	<b>138,875</b>	<b>683,963</b>	

City of Issaquah, Washington

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2014**

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

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

**City of Issaquah  
King County  
January 1, 2014 through December 31, 2014**

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

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> The City's controls over financial statement preparation are inadequate to ensure accurate and complete financial reporting.
<b>Diane Marcotte, Finance Director</b> P.O. Box 1307 Issaquah, WA 98027 425-837-3056	
<b>Corrective action the auditee plans to take in response to the finding:</b>  The City has hired a Senior Accountant who is responsible for the preparation of the City of Issaquah's financial statements. This individual has previous experience in preparing financial statements. The City will provide continuing education to this individual to ensure the financial statements are prepared according to all applicable accounting standards. Steps are being taken to make sure the established procedures and review process over financial statement preparation are completed for the 2015 financial statements.	
<b>Anticipated date to complete the corrective action: May 31, 2016</b>	

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

<b>Contact information for the State Auditor's Office</b>	
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<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>