

City of Issaquah

Financial statements for the year ended December 31, 2013

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Statement of Net Position
December 31, 2013
(in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 38,568	\$ 16,695	\$ 55,263
Restricted cash	21	-	21
Receivables	6,142	2,238	8,380
Internal balances	(230)	230	-
Advances to/ from other funds	900	(900)	-
Non-current receivables	2,528	-	2,528
Inventory	591	305	896
Capital assets not being depreciated:			
Land	307,902	16,537	324,439
Construction in progress	1,858	744	2,602
Art	264	-	264
Capital assets, net of accumulated depreciation:			
Buildings	30,536	7,706	38,242
Improvements other than buildings	14,570	-	14,570
Infrastructure	137,902	-	137,902
Intangible property	1,129	338	1,467
Plant in service	-	86,392	86,392
Machinery and equipment	6,087	310	6,397
Total Assets	<u>548,768</u>	<u>130,595</u>	<u>679,363</u>
LIABILITIES			
Accounts payable	3,822	972	4,794
Accrued interest	-	13	13
Noncurrent liabilities:			
Due within one year	5,116	841	5,957
Due in more than one year	31,754	4,351	36,105
Unearned revenue	799	-	799
Restricted deposits	21	-	21
Total Liabilities	<u>41,512</u>	<u>6,177</u>	<u>47,689</u>
DEFERRED INFLOW OF RESOURCES			
Special assessments	2,999	-	2,999
Total deferred inflows of resources	<u>2,999</u>	<u>-</u>	<u>2,999</u>
NET POSITION			
Net investment in capital assets	470,398	107,392	577,790
Restricted for:			
Capital	11,828	-	11,828
Debt service	5,116	541	5,657
Other purposes	337	-	337
Unrestricted	16,578	16,485	33,063
Total Net Position	<u>\$ 504,257</u>	<u>\$ 124,418</u>	<u>\$ 628,675</u>

Statement of Activities
For the Fiscal Year Ended December 31, 2013
(in thousands)

Page 1 of 2

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
Judicial	\$ 775	\$ 957	\$ -	\$ -
General government	8,714	2,627	442	-
Public safety	14,269	2,219	55	32
Utilities	223	586	-	-
Transportation	12,628	181	715	6,529
Social services	451	-	11	-
Natural and economic environment	7,489	11,186	-	-
Culture and recreation	6,080	2,172	929	885
Interest on long-term debt	1,307	-	-	-
Total governmental activities:	51,936	19,928	2,152	7,446
Business-type activities:				
Water	8,502	7,148	-	2,387
Sewer	7,333	7,424	-	445
Storm Water	4,992	4,239	-	1,530
Total business-type activities:	20,827	18,811	-	4,362
Total primary government	\$ 72,763	\$ 38,739	\$ 2,152	\$ 11,808

Statement of Activities
For the Fiscal Year Ended December 31, 2013
(in thousands)

Page 2 of 2

<u>Functions/Programs</u>	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Primary government:			
Governmental activities:			
Judicial	\$ 182	\$ -	\$ 182
General government	(5,645)	-	(5,645)
Public safety	(11,963)	-	(11,963)
Utilities	363	-	363
Transportation	(5,203)	-	(5,203)
Social services	(440)	-	(440)
Natural and economic environment	3,697	-	3,697
Culture and recreation	(2,094)	-	(2,094)
Interest on long-term debt	(1,307)	-	(1,307)
Total governmental activities:	(22,410)	-	(22,410)
Business-type activities:			
Water	-	1,033	1,033
Sewer	-	536	536
Storm Water	-	777	777
Total business-type activities:	-	2,346	2,346
Total primary government	\$ (22,410)	\$ 2,346	\$ (20,064)
General revenues:			
Property taxes	\$ 8,479	\$ -	\$ 8,479
Sales taxes	10,705	-	10,705
B&O taxes	6,927	-	6,927
Other taxes and assessments	4,654	-	4,654
Interest earnings	299	130	429
Rents and leases	978	-	978
Miscellaneous revenue	38	50	88
Transfers	323	(323)	-
Total general revenues and transfers	32,403	(143)	32,260
Change in net position	9,993	2,203	12,196
Net position - beginning	497,800	121,615	619,415
Prior period adjustment	(3,536)	600	(2,936)
Restated net position - beginning	494,264	122,215	616,479
Net position - ending	\$ 504,257	\$ 124,418	\$ 628,675

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

Balance Sheet
Governmental Funds
As of December 31, 2013
(in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 12,288	\$ 15,788	\$ 1,858	\$ 29,934
Restricted cash	21	-	-	21
Current receivables (net)	3,981	1,167	684	5,832
Non-current receivables (net)	-	-	2,528	2,528
Inventory	369	-	-	369
Total assets	<u>16,659</u>	<u>16,955</u>	<u>5,070</u>	<u>38,684</u>
LIABILITIES				
Accounts payable and accruals	2,570	770	194	3,534
Due to other funds - short term	-	113	-	113
Due to other funds - long term	-	112	-	112
Restricted deposits	21	-	-	21
Unearned revenue	-	355	-	355
Total liabilities	<u>2,591</u>	<u>1,350</u>	<u>194</u>	<u>4,135</u>
DEFERRED INFLOWS OF RESOURCES				
Special assessments	-	-	2,999	2,999
Other receivables	293	220	-	513
Total deferred inflow of resources	<u>293</u>	<u>220</u>	<u>2,999</u>	<u>3,512</u>
FUND BALANCES				
Nonspendable	369	-	-	369
Restricted	129	11,828	602	12,559
Committed	267	-	977	1,244
Assigned	4,776	3,557	298	8,631
Unassigned	8,234	-	-	8,234
Total fund balances	<u>13,775</u>	<u>15,385</u>	<u>1,877</u>	<u>31,037</u>
Total liabilities and fund balances	<u>\$ 16,659</u>	<u>\$ 16,955</u>	<u>\$ 5,070</u>	<u>\$ 38,684</u>
Total fund balances				\$ 31,037
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.				497,352
Other long-term assets are not available to pay for current period expenditures and, therefore are not reported in the funds.				513
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				(36,823)
Unearned revenue for permit fees collected, but, services not yet performed.				(308)
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.				12,716
Internal balance liability, with asset in enterprise funds, for services provided by internal service funds.				(230)
Net position of governmental activities				<u>\$ 504,257</u>

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Twelve Months Ending December 31, 2013
(in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 7,039	\$ -	\$ 1,440	\$ 8,479
Sales taxes	8,098	2,449	-	10,547
Business and occupation taxes	6,927	-	-	6,927
Other taxes and assessments	1,293	3,196	165	4,654
Licenses and permits	3,042	-	-	3,042
Intergovernmental	1,749	1,271	49	3,069
Charges for services	7,146	9,020	-	16,166
Fines and forfeitures	635	-	-	635
Interest earnings	30	7	262	299
Rents and leases	844	126	-	970
Contributions and donations	33	32	-	65
Miscellaneous revenues	38	-	-	38
Total revenues	36,874	16,101	1,916	54,891
EXPENDITURES				
General government	6,601	1,479	-	8,080
Judicial	787	-	-	787
Public safety	13,613	19	-	13,632
Utilities	230	-	-	230
Transportation	2,924	1,596	-	4,520
Natural and economic environment	7,391	-	-	7,391
Social services	451	-	-	451
Culture and recreation	5,559	48	-	5,607
Debt service:				
Principal	-	350	2,643	2,993
Interest and other debt costs	-	8	1,299	1,307
Capital outlay:				
General government	-	-	-	-
Public safety	-	183	-	183
Utilities	6	-	-	6
Transportation	-	558	-	558
Culture and recreation	-	1,824	-	1,824
Total expenditures	37,562	6,065	3,942	47,569
Excess (deficiency) of revenues over expenditures	(688)	10,036	(2,026)	7,322
OTHER FINANCING SOURCES (USES)				
Transfers in	271	-	2,290	2,561
Transfers out	(59)	(2,373)	-	(2,432)
Total other financing sources (uses)	212	(2,373)	2,290	129
EXTRAORDINARY ITEMS				
Judgments and settlements	-	(821)	-	(821)
Total extraordinary items	-	(821)	-	(821)
Net change in fund balances	(476)	6,842	264	6,630
Fund balances - beginning	15,605	8,700	1,613	25,918
Prior period adjustment	(1,354)	(157)	-	(1,511)
Restated fund balances - beginning	14,251	8,543	1,613	24,407
Fund balances - ending	\$ 13,775	\$ 15,385	\$ 1,877	\$ 31,037

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

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2013
 (in thousands)**

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

Net changes in fund balances for governmental funds	\$ 5,119
<p>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.</p>	(7,476)
<p>Developers construct and then donate infrastructure to the government. Infrastructure is not reported in the governmental funds.</p>	6,280
<p>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</p>	2,993
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	481
<p>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.</p>	(629)
<p>Prior period adjustments reported in the government fund statements that have already been recognized in the government-wide statements.</p>	(1,141)
<p>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:</p>	830
<p>Change in net position of governmental activities</p>	\$ 6,457

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended December 31, 2013
(in thousands)

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

	Original Budget	Final Budget	Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis
REVENUES					
Property taxes	\$ 7,130	\$ 7,130	\$ 7,050	\$ (11)	\$ 7,039
Sales taxes	7,914	7,914	7,932	166	8,098
Business and occupation taxes	6,815	6,815	6,824	103	6,927
Other taxes and assessments	1,221	1,221	1,360	(67)	1,293
Licenses and permits	2,290	2,790	3,032	10	3,042
Intergovernmental	1,655	1,655	1,736	13	1,749
Charges for services	7,194	7,194	7,063	83	7,146
Fines and penalties	778	778	635	-	635
Interest earnings	275	275	168	(138)	30
Rents and leases	702	702	842	2	844
Contributions and donations	10	11	33	(0)	33
Miscellaneous revenues	66	66	32	6	38
Total revenues	36,050	36,551	36,707	166	36,874
EXPENDITURES					
Current:					
General government	6,813	6,813	6,601	-	6,601
Judicial	809	809	793	(6)	787
Public safety	13,646	13,646	13,599	14	13,613
Utilities	269	269	235	1	236
Transportation	3,597	3,597	2,718	206	2,924
Natural and economic environment	6,707	7,507	7,271	120	7,391
Social services	442	442	448	3	451
Culture and recreation	5,824	5,832	5,541	18	5,559
Total expenditures	38,107	38,915	37,206	356	37,562
Excess(deficiency) of revenues over (under) expenditures	(2,057)	(2,364)	(499)	(190)	(688)
OTHER FINANCING SOURCES (USES)					
Transfers in	1,021	1,021	271	-	271
Transfers out	(92)	(92)	(59)	-	(59)
Total other financing sources (uses)	929	929	212	-	212
Net change in fund balances	(1,128)	(1,435)	(287)	(190)	(476)
Fund balance- beginning	10,729	10,422	10,804	4,801	15,605
Prior period adjustment	-	-	-	(1,354)	(1,354)
Restated fund balance- beginning	10,729	10,422	10,804	3,447	14,251
Fund balance- ending	\$ 9,601	\$ 8,987	\$ 10,517	\$ 3,257	\$ 13,775

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

Statement of Net Position
Proprietary Funds
As of December 31, 2013
(in thousands)

	Business-type Activities			Governmental Activities	
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	\$ 9,377	\$ 4,981	\$ 2,337	\$ 16,695	\$ 8,634
Accounts receivable	667	914	657	2,238	310
Advances to other funds	-	-	-	-	1,125
Inventory	251	11	43	305	222
Total current assets	<u>10,295</u>	<u>5,906</u>	<u>3,037</u>	<u>19,238</u>	<u>10,291</u>
Noncurrent assets:					
Capital assets:					
Construction in progress	174	66	504	744	198
Land and land rights	9,186	-	7,351	16,537	-
Intangible property	192	146	-	338	50
Buildings and improvements	7,600	-	106	7,706	148
Plant in service	32,632	15,777	37,983	86,392	-
Machinery and equipment	122	188	-	310	2,500
Total capital assets, net depreciation	<u>49,906</u>	<u>16,177</u>	<u>45,944</u>	<u>112,027</u>	<u>2,896</u>
Total noncurrent assets	<u>49,906</u>	<u>16,177</u>	<u>45,944</u>	<u>112,027</u>	<u>2,896</u>
Total assets	<u>60,201</u>	<u>22,083</u>	<u>48,981</u>	<u>131,265</u>	<u>13,187</u>
LIABILITIES					
Current liabilities:					
Accounts payable	564	53	169	786	261
Accrued wages	83	31	72	186	27
Unearned revenue	-	-	-	-	136
Compensated absences	116	52	132	300	25
Bonds payable	480	-	-	480	-
Advance from other funds	-	-	300	300	-
Public works trust current payable	-	-	61	61	-
Matured interest	13	-	-	13	-
Total current liabilities	<u>1,256</u>	<u>136</u>	<u>734</u>	<u>2,126</u>	<u>449</u>
Noncurrent liabilities					
Compensated absences	99	44	113	256	22
Bonds payable	3,850	-	-	3,850	-
Advance from other funds	-	-	600	600	-
Public works trust fund debt	-	-	245	245	-
Total noncurrent liabilities	<u>3,949</u>	<u>44</u>	<u>958</u>	<u>4,951</u>	<u>22</u>
Total liabilities	<u>5,205</u>	<u>180</u>	<u>1,692</u>	<u>7,077</u>	<u>471</u>
NET POSITION					
Net investment in capital assets	45,576	16,177	45,639	107,392	2,896
Restricted for:					
Debt service	480	-	61	541	-
Capital assets	-	-	-	-	-
Unrestricted	8,940	5,726	1,589	16,255	9,820
Total net position	<u>\$ 54,996</u>	<u>\$ 21,903</u>	<u>\$ 47,289</u>	<u>124,188</u>	<u>\$ 12,716</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise				230	
Net position of business-type activities				<u>\$ 124,418</u>	

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

Statement of Revenues, Expenditures, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2013
(in thousands)

	Business-type Activities			Governmental Activities	
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
Operating revenues:					
Charges for services	\$ 7,148	\$ 7,424	\$ 4,239	\$ 18,811	\$ 6,195
Intergovernmental	-	-	220	220	-
Total operating revenues	7,148	7,424	4,459	19,031	6,195
Operating expenses:					
Maintenance and operation	6,467	6,624	3,474	16,565	4,708
Depreciation	1,630	711	1,575	3,916	637
Total operating expenses	8,097	7,335	5,049	20,481	5,345
Operating income (loss)	(949)	89	(590)	(1,450)	850
Non-operating revenues (expenses):					
Intergovernmental	-	-	-	-	(13)
Interest earnings	18	100	12	130	-
Interest expense	(177)	-	(34)	(211)	-
Other non-operating	(320)	(29)	50	(299)	(25)
Total non-operating revenue (expenses)	(479)	71	28	(380)	(38)
Income (loss) before contributions and transfers	(1,428)	160	(562)	(1,830)	812
Capital contributions	2,087	445	67	2,599	55
Developer donated assets	300	-	1,243	1,543	-
Transfers in	193	-	-	193	194
Transfers out	(160)	(123)	(233)	(516)	-
Change in net position	992	482	515	1,989	1,061
Net position - beginning	54,004	20,994	46,601		11,655
Prior period adjustment	-	427	173		-
Restated net position - beginning	54,004	21,421	46,774		11,655
Net position - ending	\$ 54,996	\$ 21,903	\$ 47,289		\$ 12,716

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

214

Changes in net position of business-type activities

\$ 2,203

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2013
(in thousands)

	Business-type Activities				Governmental Activities
	Water	Sewer	Storm	Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from:					
Customers	\$ 7,192	\$ 7,392	\$ 4,312	\$ 18,896	-
Interfund services provided	-	-	-	-	6,212
Other governments	-	-	393	393	-
Cash payments to:					
Suppliers for goods and services	(5,514)	(6,275)	(2,986)	(14,775)	(4,613)
Interfund services used	(565)	(321)	(449)	(1,335)	-
Employees	87	52	174	313	(579)
Other governments	-	-	-	-	(13)
Net cash provided by (used for) operating activities	<u>1,200</u>	<u>848</u>	<u>1,444</u>	<u>3,492</u>	<u>1,007</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating transfers in	193	-	-	193	194
Operating transfers out	(160)	(123)	(233)	(516)	-
Net cash provided by (used for) noncapital financing activities	<u>33</u>	<u>(123)</u>	<u>(233)</u>	<u>(323)</u>	<u>194</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from:					
Advances to/from other funds	-	-	-	-	413
Capital contributions	2,087	445	67	2,599	55
Other governments	-	-	-	-	-
Proceeds from retirement of capital assets	-	-	-	-	-
Payments for:					
Principal on capital debt	(730)	-	(62)	(792)	-
Interest and related costs on capital debt	(178)	-	(34)	(212)	-
Advances to/from other funds	-	-	(300)	(300)	-
Capital assets	(679)	(814)	(1,543)	(3,036)	(588)
Net cash provided by (used for) capital related financing activities	<u>500</u>	<u>(369)</u>	<u>(1,872)</u>	<u>(1,741)</u>	<u>(120)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	18	100	12	130	-
Net cash provided by investing related activities	<u>18</u>	<u>100</u>	<u>12</u>	<u>130</u>	<u>-</u>
Net increase (decrease) in cash balance	1,751	456	(649)	1,558	1,081
Cash balance at beginning of year	7,626	4,525	2,986	15,137	7,553
Cash balance at end of year	<u>\$ 9,377</u>	<u>\$ 4,981</u>	<u>\$ 2,337</u>	<u>\$ 16,695</u>	<u>\$ 8,634</u>

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

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2013
(in thousands)

	<u>Business-type Activities</u>				<u>Governmental Activities</u>
	<u>Water</u>	<u>Sewer</u>	<u>Storm</u>	<u>Totals</u>	<u>Internal Service Funds</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (949)	\$ 89	\$ (590)	\$ (1,450)	\$ 850
Adjustment to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,630	711	1,575	3,916	637
Decrease (increase) in accounts receivable	45	(33)	246	258	(14)
Decrease (increase) in inventory	74	(1)	4	77	1
Increase (decrease) in accounts payable	313	30	35	378	81
Increase (decrease) in employee benefits	87	52	174	313	(579)
Increase (decrease) in unearned revenue	-	-	-	-	31
Net cash provided by operating activities	<u>\$ 1,200</u>	<u>\$ 848</u>	<u>\$ 1,444</u>	<u>\$ 3,492</u>	<u>\$ 1,007</u>
Schedule of noncash capital, investing, and financing activities:					
Contributions of capital assets from developers and annexations	\$ 300	\$ -	\$ 1,243	\$ 1,543	\$ -
Depreciation	(1,630)	(711)	(1,575)	(3,916)	(637)
Prior period adjustment	-	173	427	600	-
Change in fair market value of investments	1	1	3	5	(79)

Statement of Net Position
 Fiduciary Funds
 As of December 31, 2013
 (in thousands)

	<u>Ruth Kees Award - Sustainable Environment Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments	\$ 29	\$ 3,134
Total assets	<u>29</u>	<u>3,134</u>
LIABILITIES		
Liabilities payable from restricted assets	<u>-</u>	<u>3,134</u>
Total liabilities	<u>-</u>	<u>3,134</u>
NET POSITION		
Net position held in trust	<u>\$ 29</u>	

Statement of Changes in Net Position
 Fiduciary Funds
 As of December 31, 2013
(in thousands)

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

CITY OF ISSAQUAH
Notes to the Financial Statements
December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net 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.

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

The City reports the following major governmental funds:

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

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

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

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

The government reports the following major proprietary funds:

The *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 government reports the following fund type:

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In 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, 2013.

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, 2013, 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 government recognized receivables in its financial statements based on the accounting requirements for that statement. Receivables are as follows:

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

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

Special Assessments. Special assessments are levied against certain property owners and become liens against the property benefited by the improvement.

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, 2013 are reported in Note 12.

5. Inventories and Prepaid Items

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

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

6. Restricted Assets and Liabilities

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

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

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

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

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

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

The equipment replacement fund contains resources held for future equipment purchases.

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

8. Compensated Absences

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

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

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

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

9. Long-Term Debt

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

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

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

10. 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, 2013.

13. Fund Balances

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending

can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

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

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

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

City reserve policy states that the general fund (not including special revenue funds) will have a minimum reserve of eight percent of budgeted expenses to maintain operations.

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

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

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, 2013 (*in thousands*):

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 369	\$ -	\$ -	\$ 369
Restricted:				
Debt service	-	-	602	602
Capital	-	11,828	-	11,828
Tourism	108	-	-	108
Public Safety	21	-	-	21
Total restricted	129	11,828	602	12,559
Committed:				
Debt service	-	-	977	977
Art programs	267	-	-	267
Total committed	267	-	977	1,244
Assigned:				
Capital projects	78	2,163	-	2,241
Debt service	-	-	298	298
Cemetery maintenance	365	-	-	365
Communications	899	-	-	899
Resource conservation	-	-	-	-
Reserves	2,868	-	-	2,868
Subsequent year's expenditures	566	1,394	-	1,960
Total assigned	4,776	3,557	298	8,631
Unassigned:	8,234	-	-	8,234
Total fund balances	\$ 13,775	\$ 15,385	\$ 1,877	\$ 31,037

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

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, 2013 (*in thousands*):

	<u>Original Budget</u>	<u>Supplemental Appropriations</u>	<u>Final Budget</u>
General Fund ²	\$ 50,077	\$ 501	\$ 50,578
Capital Projects Fund ³	18,930	1,152	20,082
Debt Service Funds			
Voted G.O. debt	2,226	-	2,226
Non-voted G.O. debt	2,306	-	2,306
L.I.D. debt service	431	-	431
L.I.D. guaranty	993	-	993
Arbitrage Rebate	63	-	63
Total	<u>\$ 75,026</u>	<u>\$ 1,653</u>	<u>\$ 76,679</u>

NOTE 5: DEPOSITS AND INVESTMENTS

DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash and investments as of December 31, 2013 consist of the following (*in thousands*):

Deposits with financial institutions	\$ 21,438
Investments	<u>33,845</u>
Total cash and investments	<u>\$ 55,284</u>

²The General Fund includes the following budgetary funds as adopted in the budget; general fund, special revenue Street fund, special revenue cemetery fund, special revenue municipal art fund, special revenue resource conservation fund, special revenue cable TV fund, special revenue lodging tax fund.

³The Capital Projects Fund includes the following budgetary funds as adopted in the budget; capital improvements fund, mitigation fund, Newport Way improvement fund, street improvement fund, ITS traffic system fund, Highlands park facilities fund, LID #23 construction fund, LID #24 construction fund, transit center fire station #72, 2006 park bond fund.

	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 38,568	\$ 16,695	\$ 55,263
Restricted cash and investments	21	-	21
	<u>\$ 38,589</u>	<u>\$ 16,695</u>	<u>\$ 55,284</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, 2013, the City's cash deposits had a carrying balance of \$22.8 million and a bank balance of \$22.6 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, 2013, the City had the following investments (*in thousands*):

Investment Type	Fair Value	Maturity				Rating
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	
U.S. agency fixed income	16,770	\$ -	16,770	\$ -	\$ -	AA+
Municipal bond	2,120	-	2,120	-	-	AA+
State of Washington LGIP	12,638	12,638	-	-	-	Unrated
Installment note	2,317	-	-	-	2,317	Unrated
	<u>\$ 33,845</u>	<u>\$ 12,638</u>	<u>\$ 18,890</u>	<u>\$ -</u>	<u>\$ 2,317</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, 2013 (in thousands):

Issuer	Investment Type	Fair Value
Federal Home Loan Mortgage Corporation	Fixed Income Agency Coupon	\$ 5,013
Federal National Mortgage Association	Fixed Income Agency Coupon	7,794
Federal Farm Credit Banks Funding Corporation	Fixed Income Agency Coupon	2,999
State of Washington	Fixed Income Agency Coupon	2,120
City of Issaquah	Installment Note	2,317
Federal Home Loan Banks	Fixed Income Agency Coupon	964

NOTE 6: RECEIVABLES

The City had the following receivable balances at December 31, 2013 (*in thousands*):

	Governmental Activities	Business-type Activities	Total
Taxes	\$ 4,305	\$ -	\$ 4,305
Customer accounts	-	2,238	2,238
Special assessments			
Current	366	-	366
Delinquent	314	-	314
Non-current	2,528	-	2,528
Other	1,157	-	1,157
	\$ 8,670	\$ 2,238	\$ 10,908

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

January 1	Taxes are levied and become enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property is established for next 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:

1. Chapter 84.55 of the State RCW as amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and State-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and
2. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation, or \$10 per \$1,000 of assessed value. If the combined taxes of all districts exceed this amount, each levy is proportionately reduced until the total is at or below the 1% limit.

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

The City's regular levy for 2013 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, 2013, was as follows (*in thousands*):

	Beginning Balance 01/01/2013	Increases	Decreases	Ending Balance 12/31/2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 302,988	\$ 5,079	\$ (165)	\$ 307,902
Art	264	-	-	264
Construction in progress	2,462	1,725	(2,329)	1,858
Total capital assets, not being depreciated	<u>305,714</u>	<u>6,804</u>	<u>(2,494)</u>	<u>310,024</u>
Capital assets, being depreciated/amortized:				
Buildings	42,747	57	(50)	42,754
Improvements other than buildings	16,023	1,827	(671)	17,179
Infrastructure	242,848	2,359	(1,464)	243,743
Intangible property	1,746	197	-	1,943
Machinery and equipment	15,189	462	(215)	15,436
Total capital assets, being depreciated	<u>318,553</u>	<u>4,902</u>	<u>(2,400)</u>	<u>321,055</u>
Less accumulated depreciation/amortization for:				
Buildings	(11,308)	(935)	25	(12,218)
Improvements other than buildings	(2,722)	(332)	445	(2,609)
Infrastructure	(99,700)	(6,279)	138	(105,841)
Intangible property	(604)	(210)	-	(814)
Machinery and equipment	(8,567)	(974)	192	(9,349)
Total accumulated depreciation	<u>(122,901)</u>	<u>(8,730)</u>	<u>800</u>	<u>(130,831)</u>
Total capital assets, being depreciated, net	<u>195,652</u>	<u>(3,828)</u>	<u>(1,600)</u>	<u>190,224</u>
Governmental activities capital assets, net	<u>\$ 501,366</u>	<u>\$ 2,976</u>	<u>\$ (4,094)</u>	<u>\$ 500,248</u>

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

Governmental activities:	
General government	\$ 308
Public safety	807
Utilities	13
Transportation	7,089
Natural & economic environment	12
Culture & recreation	501
Total depreciation expense	<u>\$ 8,730</u>

Business-type activities capital asset activity for the year ended December 31, 2013, was as follows (*in thousands*):

	Beginning Balance 01/01/2013	Increases	Decreases	Ending Balance 12/31/2013
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 15,517	\$ 1,020	\$ -	\$ 16,537
Construction in progress	995	536	(787)	744
Total capital assets, not being depreciated	<u>16,512</u>	<u>1,556</u>	<u>(787)</u>	<u>17,281</u>
Capital assets, being depreciated:				
Buildings	9,321	152	-	9,473
Plant in service	125,577	3,412	(497)	128,492
Intangible property	60	303	-	363
Machinery & equipment	860	-	-	860
Total capital assets, being depreciated	<u>135,818</u>	<u>3,867</u>	<u>(497)</u>	<u>139,188</u>
Less accumulated depreciation for:				
Buildings	(1,581)	(186)	-	(1,767)
Plant in service	(38,543)	(3,697)	140	(42,100)
Intangible property	(19)	(6)	-	(25)
Machinery & equipment	(523)	(27)	-	(550)
Total accumulated depreciation	<u>(40,666)</u>	<u>(3,916)</u>	<u>140</u>	<u>(44,442)</u>
Total capital assets, being depreciated, net	<u>95,152</u>	<u>(49)</u>	<u>(357)</u>	<u>94,746</u>
Business-type capital assets, net	<u>\$ 111,664</u>	<u>\$ 1,507</u>	<u>\$ (1,144)</u>	<u>\$ 112,027</u>

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

Water	\$ 1,630
Sewer	711
Stormwater	1,575
Total depreciation expense	<u>\$ 3,916</u>

NOTE 8: PENSION PLANS

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

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

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

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

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; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS 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 defined benefit plan 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 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 after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, 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.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. 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 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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:

- 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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. 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 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 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, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also 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 Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

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

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

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

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but not yet receiving benefits	30,515
Active plan members	106,317
Active plan members non-vested	44,273
Total	<u>263,347</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, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows (Members Not Participating in JBM):⁴

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3⁵</u>
Employer ⁴	9.21%	9.21%	9.21%
Employee	6.00%	4.92%	5 - 15% ⁶

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>
2013	\$10,777	\$1,095,150	\$155,859
2012	10,593	920,140	118,821
2011	8,983	831,893	111,404

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 prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

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

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 state 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 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:

⁴ The employer rates include the employer administration expense fee currently at 0.18%.

⁵ Plan 3 defined benefit portion only.

⁶ Variable from 5% to 15% maximum based on rate selected by the PERS 3 member

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, 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 allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

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

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

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

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

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.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and beneficiaries receiving benefits	10,189
Terminated plan members entitled to but not yet receiving benefits	689
Active plan members vested	14,273
Active plan members non-vested	2,633
Total	<u>27,784</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. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2013, the state contributed \$52.8 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, 2013, are as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer ⁷	0.18%	5.23%
Employee	0.00%	8.41%
State	N/A	3.36%

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

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2013	\$ -	\$177,721
2012	-	169,570
2011	-	162,356

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:

- Full-time 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
- Full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

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

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

⁷ The employer rates include the employer administration expense fee currently at 0.18%.

- 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 2013, 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 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 Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit. PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, 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 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012:

Retirees and beneficiaries receiving benefits	27
Terminated plan members entitled to but not yet receiving benefits	60
Active plan members	2,083
Active plan members non-vested	2,167
Total	<u>4,337</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, 2013, are as follows:

	<u>PSERS Plan 2</u>
Employer ⁸	10.54%
Employee	6.36%

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

	<u>PSERS Plan 2</u>
2013	\$ 49,588
2012	31,120
2011	20,198

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 cash out 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:

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

The City provides costs on a pay-as-you-go basis and used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and six inactive members who have left service. At the end of 2013 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. Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 2011, actuarial valuation reported issued

⁸ The employer rates include the employer administration expense fee currently at 0.18%.

by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by OSA in the statewide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation. Results:

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

	12/31/2011	12/31/2012	12/31/2013
Determination of Annual Required Contribution			
Normal Cost	\$ -	\$ -	\$ -
Amortization of Unfunded Actuarial Accrued Liability	160	152	136
Annual Required Contribution	<u>160</u>	<u>152</u>	<u>136</u>
Determination of Net OPEB Obligation			
Annual Required Contribution	160	152	136
Adjustment to Annual Required Contribution	<u>(11)</u>	<u>(16)</u>	<u>(17)</u>
Annual OPEB Cost	149	136	119
Contributions Made	<u>73</u>	<u>82</u>	<u>106</u>
Increase in Net OPEB Obligation	75	54	13
Net OPEB Obligation - beginning	<u>232</u>	<u>308</u>	<u>362</u>
Net OPEB Obligation - ending	<u>\$ 308</u>	<u>\$ 362</u>	<u>\$ 375</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (*in thousands*):

Year	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 119	\$ 106	88.99%	\$ 375
2012	136	82	60.24%	362
2011	149	73	49.26%	308

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, 2013;

	<u>2012</u>	<u>2013</u>
IBNR claims at beginning of year	\$ -	\$ -
Current year claims	37,537	27,849
Claim payments	<u>(37,537)</u>	<u>(27,849)</u>
IBNR claims at end of year	-	-

- 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, 2013.

- 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 the year an analysis was performed by the City and the claims administrator to determine overpayment of premiums. Below is an analysis of claims activity and the anticipated refund for the year ended December 31, 2013;

IBNR claims at beginning of year	\$	-
Current year claims		2,193
Claim payments		<u>(2,502)</u>
IBNR claims at end of year	\$	(309)

NOTE II: LEASES AND OTHER CONTRACTUAL COMMITMENTS

The City had the following significant contractual obligations on construction projects at December 31, 2013 (*in thousands*):

<u>Contracting Entity</u>	<u>Project Name</u>	<u>Balance</u>
Gray & Osborne, Inc	East Lake Sammamish Parkway Improvements	\$ 388
David Evans & Associates, Inc	Dogwood Bridge Improvements	185
RH2 Engineering, Inc	Water and Sewer System Evaluations	94
	Total Significant Contracts	<u>\$ 667</u>

NOTE 12: INTERFUND ACTIVITY

INTERFUND TRANSFERS

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

The following provides the total interfund transfers for 2013 (*in thousands*):

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 271	\$ 59
Capital projects	-	2,373
Debt service	2,290	-
Water	193	160
Sewer	-	123
Stormwater	-	233
Unemployment insurance	54	-
Equipment replacement	140	-
Total	<u>\$ 2,948</u>	<u>\$ 2,948</u>

ADVANCES TO/FROM OTHER FUNDS

Advances to/from other funds for the year ended December 31, 2013, were as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Receivable:					
Equipment Replacement Fund	\$ 1,538	\$ -	\$ 413	\$ 1,125	\$ 413
Total receivable	<u>\$ 1,538</u>	<u>\$ -</u>	<u>\$ 413</u>	<u>\$ 1,125</u>	<u>\$ 413</u>
Payable:					
Capital Projects Fund	\$ 338	\$ -	\$ 113	\$ 225	\$ 113
Storm water Fund	1,200	-	300	900	300
Total payable	<u>\$ 1,538</u>	<u>\$ -</u>	<u>\$ 413</u>	<u>\$ 1,125</u>	<u>\$ 413</u>

The following further describes the advances to/from other funds outstanding as of December 31, 2013, (in thousands):

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

NOTE 13: LONG-TERM DEBT

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities, or to refund debt previously issued for those purposes. "Councilmanic Bonds" are general obligation bonds issued by the City Council without voter approval. Under state law, repayment of these bonds must be paid from general City revenues. General obligation bonds approved by the voters are typically repaid through an annual voted property tax levy authorized for this purpose. Predominantly, general obligation bonds of the City have been issued for general governmental activity purposes. The general obligation bond issues are recorded under governmental activities in the statement of net 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, 2013
(in thousands)

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Average Coupon Interest Rate %</u>	<u>Issuance Amount</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
GENERAL OBLIGATION BONDS								
2001 Senior Center Construction (Voted)	12/01/2001	12/01/2021	4.42%	\$ 1,500	\$ 840	\$ -	\$ 75	\$ 765
2004 Highland Park Facilities	12/01/2004	12/01/2024	4.14%	3,820	2,635	-	175	2,460
2005 ITS & Police Refunding Bond (Voted)	12/01/2005	12/01/2025	4.34%	4,745	2,335	-	405	1,930
2006 Parks Bond (Voted)	12/01/2006	12/01/2026	3.91%	6,250	4,840	-	265	4,575
2006 Police/Barn Refunding	12/01/2006	01/01/2021	4.05%	3,485	2,530	-	320	2,210
2007 Police Station Refunding	01/01/2007	01/01/2019	3.98%	5,100	3,740	-	475	3,265
2009 Bolliger Property	02/17/2009	12/01/2028	3.80%	2,780	2,380	-	115	2,265
2009A Fire Station #72 (Voted)	12/01/2009	12/01/2019	3.64%	1,840	1,350	-	175	1,175
2009B Fire Station Property	12/01/2009	12/01/2021	3.80%	6,355	5,715	-	555	5,160
2009T BABs Fire Station #72 (Voted)	12/01/2009	12/01/2029	5.74%	2,660	2,660	-	-	2,660
Total General Obligation Bonds				<u>38,535</u>	<u>29,025</u>	<u>-</u>	<u>2,560</u>	<u>26,465</u>
SPECIAL ASSESSMENT BONDS								
LID #23 - Governmental	12/31/2009	12/01/2024	4.70%	977	780	-	70	710
LID #24 - Governmental	12/15/2011	12/01/2028	4.00%	2,345	2,330	-	13	2,317
Total Special Assessments				<u>3,322</u>	<u>3,110</u>	<u>-</u>	<u>83</u>	<u>3,027</u>
INTERLOCAL AGREEMENTS								
KC North SPAR Interlocal Agreement	01/01/2003	12/31/2023	0.00%	7,000	3,500	-	350	3,150
Total Interlocal Agreements				<u>7,000</u>	<u>3,500</u>	<u>-</u>	<u>350</u>	<u>3,150</u>
INSTALLMENT CONTRACTS								
Spillman Technologies, Inc	02/01/2013	02/01/2017	0.00%	131	-	131	26	105
Total Installment Contracts				<u>131</u>	<u>-</u>	<u>131</u>	<u>26</u>	<u>105</u>
TOTAL GOVERNMENTAL ACTIVITIES				<u>\$ 48,988</u>	<u>\$ 35,635</u>	<u>\$ 131</u>	<u>\$ 3,019</u>	<u>\$ 32,747</u>

Long Term Debt – Business-Type Activities
 For the Fiscal Year Ended December 31, 2013
 (in thousands)

	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
REVENUE BONDS								
2003 Water Revenue Bonds	01/01/1994	12/01/2013	3.50%	\$ 3,600	\$ 255	\$ -	\$ 255	\$ -
2011 Water Revenue Bonds	09/15/2011	12/01/2021	3.18%	5,350	4,805	-	475	4,330
Total Revenue Bonds				<u>8,950</u>	<u>5,060</u>	<u>-</u>	<u>730</u>	<u>4,330</u>
INSTALLMENT CONTRACTS								
PW Trust Fund - Newport Way Bridge	11/01/1998	07/01/2019	1.00%	1,143	368	-	62	306
Total Installment Contracts				<u>1,143</u>	<u>368</u>	<u>-</u>	<u>62</u>	<u>306</u>
TOTAL BUSINESS-TYPE ACTIVITIES				<u>\$ 10,093</u>	<u>\$ 5,428</u>	<u>\$ -</u>	<u>\$ 792</u>	<u>\$ 4,636</u>

GENERAL OBLIGATION BONDS

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 A1 rating until November of 2006 when the City changed to Standard and Poor's and received a AA rating on both unlimited and limited general obligation Bonds. The City's most recent rating received in 2009 from Standard and Poor's is AA+.

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2014	\$ 2,655	\$ 1,092
2015	2,765	989
2016	2,495	879
2017	2,595	777
2018	2,480	677
2019-2023	9,090	2,037
2024-2028	4,075	592
2029	310	18
Total	<u>\$ 26,465</u>	<u>\$ 7,061</u>

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 (*in thousands*):

Year Ending December 31,	Business - Type Activities	
	Principal	Interest
2014	\$ 480	\$ 158
2015	495	144
2016	510	129
2017	525	114
2018	550	928
2019-2022	1,770	143
Total	<u>\$ 4,330</u>	<u>\$ 1,616</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 43rd Way. At December 31, 2013, delinquent assessments totaled \$313,738.

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2014	\$ 60	\$ 126
2015	65	124
2016	65	121
2017	65	119
2018	65	116
2019-2023	325	531
2024-2027	2,382	281
Total	<u>\$ 3,027</u>	<u>\$ 1,418</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 \$61,000 per year from the stormwater fund.

In 2013, 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 \$26,000 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 LIABILITIES⁹

The following is a summary of all long-term debt transactions for the year ended December 31, 2013 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 29,025	\$ -	\$ 2,560	\$ 26,465	\$ 2,655
Special assessment bonds	3,110	-	83	3,027	60
Interlocal agreements	3,500	-	350	3,150	350
Installment contract	-	131	26	105	26
Compensated absences ⁹	3,613	2,517	2,382	3,748	2,025
Other postemployment benefits	362	13	-	375	-
Total governmental activity - long-term liabilities	39,610	2,661	5,401	36,870	5,116
Business-type activities:					
Revenue bonds	5,060	-	730	4,330	480
Installment contracts	368	-	62	305	62
Compensated absences ⁹	279	571	294	556	300
Total business-type activities long-term liabilities	5,707	571	1,086	5,192	842
Total long-term liabilities	\$ 45,317	\$ 3,232	\$ 6,487	\$ 42,062	\$ 5,958

NOTE 14: CONTINGENCIES AND LITIGATION

As of December 31, 2013, there were several damage claims and lawsuits pending against the City. It is the opinion of management and the City Attorney that the disposition of these claims is not presently expected to have a material adverse effect on the City's financial statements.

NOTE 15: JOINT VENTURES

EASTSIDE PUBLIC SAFETY COMMUNICATIONS AGENCY

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.

⁹ Included portion of sick leave liability employees are owed at time of termination in net calculation.

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, 2013, the weighted vote was as follows:

Bellevue	48.81%
Redmond	23.93%
Kirkland	16.02%
Mercer Island	6.00%
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:

<u>Year</u>	<u>Service Fees</u>
2013	\$ 39,805
2012	46,837
2011	47,029
2010	36,845
2009	35,358

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 \$144,284 as of December 31, 2013 are, upon dissolution, to be apportioned among the Principals, the City's share in 2013 of \$7,578 is deemed immaterial and thus is not reflected in the financial statements. Compiled financial statements for EPSCA can be obtained from EPSCA, MS PSEPS, c/o Jessie Morgan, PO Box 97010, Redmond, WA 98073-9710.

EASTSIDE FIRE AND RESCUE

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

EF&R is a joint venture partnership. The entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2013, the equity percentage was as follows:

Fire District 10	41.50%
City of Sammamish	26.44%
City of Issaquah	21.56%
Fire District 38	6.17%
City of North Bend	4.33%
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.

<u>Agency</u>	<u>Number of Board Members</u>
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 2013 are as follows (*in thousands*):

<u>Year</u>	<u>Service Fees</u>
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 Scott Faires, Budget Finance Analyst, Eastside Fire and Rescue, 175 NW Newport Way, Issaquah, WA 98027.

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:

<u>Year</u>	<u>Equity</u>	<u>City's Share</u>	<u>Percentage</u>
2013	\$ 2,394,839	\$ 228,889	9.56%
2012	3,401,123	14,698	0.43%
2011	2,706,906	14,698	0.54%
2010	2,565,030	14,698	0.57%
2009	465,312	14,698	3.16%

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, c/o Art Sullivan, 16225 NE 87th Street, Redmond, WA 98052.

EASTSIDE NARCOTICS TASK FORCE

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

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

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, 2013 is \$238,539, which is 2.40% of total partnership equity.

The City's share of the net position is deemed immaterial and thus is not reflected in the financial statements.

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

CASCADE WATER ALLIANCE

In April 1999, the City of Issaquah entered into an interlocal agreement with eight other water providers in the region to create the Cascade Water Alliance.

The purpose of the Alliance is to provide water supply to meet current and future needs of the Alliance's Members in a cost-effective and environmentally responsible manner.

The Alliance is governed by a Board of Directors consisting of one individual representative appointed by resolution of the Member's legislative authority.

Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction. The Alliance collected 2013 membership dues totaling \$2,729,012, of which Issaquah's share was \$198,279. Issaquah also paid the Alliance \$1,240,033 in 2013 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 Scott Hardin, Cascade Water Alliance, 1400 112th Avenue SE, Suite 220, Bellevue, WA 98004.

E-GOV ALLIANCE

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

The interlocal agreement may be terminated if Principals holding at least sixty (60%) of the weighted vote of all of the Principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1)

property contributed without charge by any member shall revert to the contributor; (2) all property purchased after the effective date of the interlocal agreement shall be distributed to the Principals based upon each Principal's proportional ownership interest at the time of the sale of the property. The City's share of the net position is deemed immaterial and thus not reflected in the financial statements.

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

Expenditures consist of capital and operations costs, per the budget adopted by the E-Gov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. Expenditures in 2013 were \$1,266,663, revenues were \$1,244,330.

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

	<u>Population</u>	<u>Percentage</u>	<u>Equity</u>
Bellevue	123,400	32.48%	\$ 85,860
Kirkland	80,836	21.27%	56,245
Sammamish	46,940	12.35%	32,660
Bothell	32,720	8.61%	22,766
Issaquah	30,690	8.08%	21,354
Mercer Island	22,710	5.98%	15,801
Kenmore	20,780	5.47%	14,458
Snoqualmie	10,950	2.88%	7,619
Woodinville	10,940	2.88%	7,612
Total	<u>379,966</u>	<u>100.00%</u>	<u>\$ 264,375</u>

NOTE 16: OTHER DISCLOSURES

SUBSEQUENT EVENTS

As of March 17, 2014, the City of Issaquah entered into an agreement with the Sammamish Plateau Water and Sewer District to decommission the Lower Reid Infiltration Gallery by December 31, 2014. This asset was donated to the City in 2008 at an original value of \$560,000. The salvage value of the asset is undetermined as of April 9, 2014. No additional substantial subsequent events merit reporting.

On March 17, 2014, per Ordinance 2710, the City was authorized to issue \$10,000,000 in bonds for park related projects. As of June 5, 2014, the City issued \$8,000,000 of the authorized bonds. At the issuance of the new debt, the City refunded the \$765,000 of 2001 Senior Center Construction bonds outstanding.

EXTRAORDINARY ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. In October 2012 the City executed a settlement agreement related to the SR900 Regional Trail project. The terms required the City to pay \$750,000 plus tax at 9.5% due in full by January 31, 2013. These settlements resulted in a \$821,000 net loss reported in the government funds as of December 31, 2013. This settlement was recorded on the government-wide statements as of December 31, 2012.

PRIOR PERIOD ADJUSTMENT

The financial statements have been restated to correct a classification error in a prior period related to LID 24. The financial statements correct an error of improperly excluding the long term debt associated with LID 24 from the

statement of net position. As of December 31, 2013, the net position for government-wide activities has been restated by \$2.345 million to reflect the correction. No correction necessary in the government fund's fund balance.

The financial statements have been restated to correct accrual errors between years December 31, 2012 and December 31, 2013. The fund balance for governmental fund activities has been reduced by \$1,511,000 and the net position for business-type activities was increased by \$600,000. The difference of \$320,000 between the government fund activities and the government-wide activities was recognized as of December 31, 2012.

CITY OF ISSAQUAH
 Required Supplementary Information
 December 31, 2013

Schedule of Funding Progress
 LEOFF 1 Retiree Medical & Long-term Care Benefits
(in thousands)

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, 2011	\$ -	\$ 1,717	\$ 1,717	0%	-	0%
December 31, 2012	-	1,630	1,630	0%	-	0%
December 31, 2013	-	1,461	1,461	0%	-	0%