Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Issaquah

King County

Audit Period

January 1, 2012 through December 31, 2012

Report No. 1010616

Issue Date

September 27, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 27, 2013

Mayor and City Council
City of Issaquah
Issaquah, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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King County
January 1, 2012 through December 31, 2012

Federal Summary

City of Issaquah
King County
January 1, 2012 through December 31, 2012

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

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

Identification of Major Programs:

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

CFDA No.	Program Title
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

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

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

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

City of Issaquah
King County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Issaquah
Issaquah, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 20, 2013. During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 20, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

City of Issaquah
King County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Issaquah
Issaquah, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Issaquah, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 20, 2013

Independent Auditor's Report on Financial Statements

City of Issaquah
King County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Issaquah
Issaquah, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1c to the financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 20, 2013

Financial Section

City of Issaquah
King County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Issaquah's annual financial statements provides a narrative overview of the City's financial activities for and financial position at the end of December 31, 2012. This information should be read in conjunction with the preceding letter of transmittal, the financial statements, and notes to the financial statements that follow.

FINANCIAL HIGHLIGHTS

- At the end of 2012, assets of the City of Issaquah exceed its liabilities by approximately $620 million. Of this amount, $38 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's total net position increased by $15.57 million in 2012. Governmental activities increased by $8.15 million and business-type activities increased by $7.42 million.

- As of December 31, 2012, the City's governmental fund reported combined ending fund balances of $25.92 million. Approximately 48% of this amount is unassigned and available for spending at the City's discretion.

- As of December 31, 2012, unassigned fund balance in the General Fund was $12.37 million, or 36% of total General Fund expenditures.

- The City's total debt decreased by $3.45 million during calendar year 2012. The decrease is a result of the annual debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Fund Financial Statements. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are set up in accordance with special regulations, restrictions, or limitations. The City of Issaquah, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City of Issaquah can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

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

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

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

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

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

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

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

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

Other Information. This report also contains certain schedules required by the Washington State Auditor's Office.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a condensed version of the government-wide statement of net position:

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 37,894	$ 35,199	$ 16,658	$ 12,540	$ 54,552	$ 47,739
Capital assets, net of depreciation	501,368	499,139	111,664	108,586	613,032	607,725
Total Assets	539,262	534,338	128,322	121,126	667,584	655,464
Current liabilities	6,713	5,229	1,791	542	8,504	5,771
Noncurrent liabilities	34,749	39,458	4,916	6,393	39,665	45,851
Total liabilities	41,462	44,687	6,707	6,935	48,169	51,622
Net Position:						
Invested in capital assets net of debt	469,635	465,657	105,040	100,276	574,675	565,933
Restricted	3,347	4,221	3,147	4,782	6,494	9,003
Unrestricted	24,818	19,773	13,428	9,133	38,246	28,906
Total net position	$ 497,800	$ 489,651	$ 121,615	$114,191	$ 619,415	$ 603,842

The City's largest portion of net position, $574.68 million or 93%, is our investment in capital assets, net of related debt. These capital assets such as streets, trails, parks, utilities, and police vehicles are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

An additional portion of the City of Issaquah's net position, $6.49 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $38.25 million may be used to meet the government's ongoing obligations to citizens and creditors.

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

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

City of Issaquah Statement of Activities
(in thousands)

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues						
Charges for services	$ 9,145	$ 10,191	$ 18,144	$ 18,363	$ 27,289	$ 28,554
Operating grants & contributions	4,423	4,423	-	-	4,423	4,423
Capital grants & contributions	4,280	14,357	8,342	6,061	12,622	20,418
General revenues:					-	-
Property taxes	8,333	8,151	-	-	8,333	8,151
Sales taxes	10,563	10,446	-	-	10,563	10,446
Business taxes	6,867	6,538	-	-	6,867	6,538
Other taxes	2,913	2,427	-	-	2,913	2,427
Rents and leases	934	842	-	-	934	842
Investment earnings	547	486	116	74	663	560
Total revenues	48,005	57,861	26,602	24,498	74,607	82,359
Expenses:						-
Judicial	684	584	-	-	684	584
General government	8,692	8,851	-	-	8,692	8,851
Public safety	13,139	13,082	-	-	13,139	13,082
Physical environment	1,377	1,162	-	-	1,377	1,162
Transportation	10,389	9,903	-	-	10,389	9,903
Health and human services	8	6	-	-	8	6
Economic environment	3,950	3,299	-	-	3,950	3,299
Culture and recreation	5,545	5,528	-	-	5,545	5,528
Interest on long term debt	1,437	1,762	-	-	1,437	1,762
Water	-	-	6,792	7,424	6,792	7,424
Sewer	-	-	7,272	7,123	7,272	7,123
Storm Water	-	-	4,755	6,173	4,755	6,173
Total expenses	45,221	44,177	18,819	20,720	64,040	64,897
Increase (decrease) in net position before other financing sources (uses) and extraordinary items	2,784	13,684	7,783	3,778	10,567	17,462
Other financing sources (uses):						
Transfer,s net	376	88	(376)	(88)	-	-
Miscellaneous revenue (expense)	85	593	17	-	102	593
Total other financing sources (uses)	461	681	(359)	(88)	102	593
Extraordinary items:						
Judgments and settlements	(714)	-	-	-	(714)	-
Toral extraordinary items	(714)	-	-	-	(714)	-
Increase (decrease) in net assets	2,531	14,365	7,424	3,690	9,955	18,055
Net position - beginning	489,651	475,285	114,191	118,034	603,842	593,319
Prior period adjustment	5,618	-	-	(7,533)	5,618	(7,533)
Net position - ending	$ 497,800	$ 489,650	$ 121,615	$ 114,191	$ 619,415	$ 603,841

The City of Issaquah's net position increased approximately $15.57 million in 2012. The change in governmental activities was an increase of $8.15 million and an increase of $7.42 million in the business-type activities. The following table shows the revenues, expenses and related changes in net position for the governmental activities separate from the business-type activities.

Governmental activities. Governmental activities contributed $8.15 million of the total change in net assets of $15.57 million. Key elements of the increase are as follows:

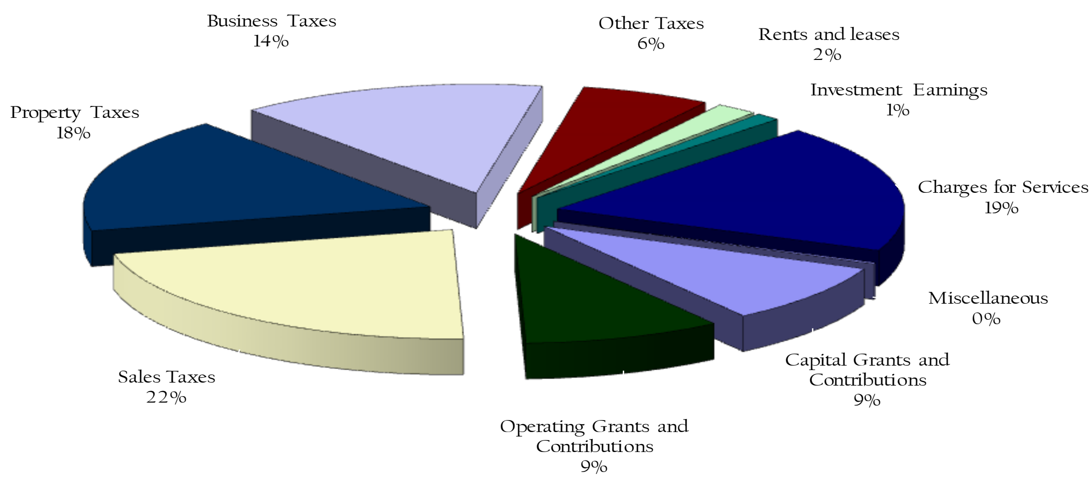
- Total revenues exceeded expenses by $2.53 million, which includes an overall increase in tax revenues of $1,114,000.
- Rents and leases revenue increased $91,000.

- Prior period adjustment of $5,618,000 to correct: 1) classification error of $2,345,000 related to Local Improvement District No. 24; and 2) recording a donation of land and all related costs to develop the land for Central Park of $3,273,000 as an asset.

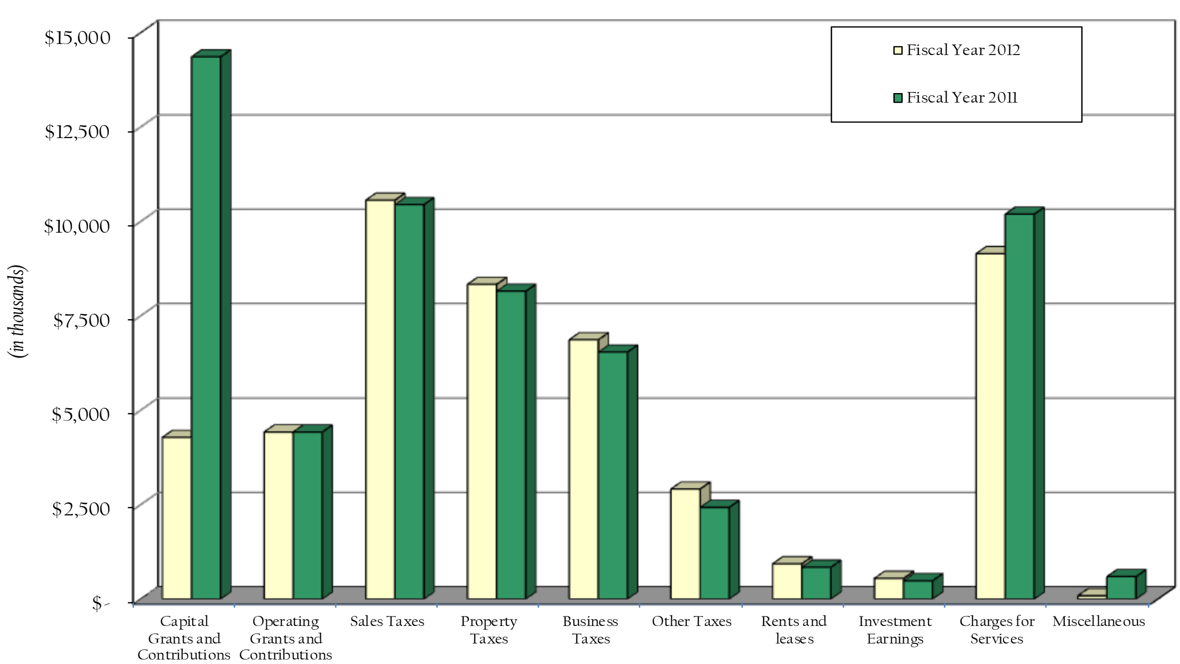
In 2012, the City of Issaquah continued its focus on being a sustainable community with a strong economic base and a community which continues to respect the environment and provides a coveted quality of life for its citizens, while ensuring the city's financial stability. The City completed an organizational review which resulted in the re-organization of several City departments in order to enhance service, improve efficiencies and to promote economic development given the country's new economic realities.

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

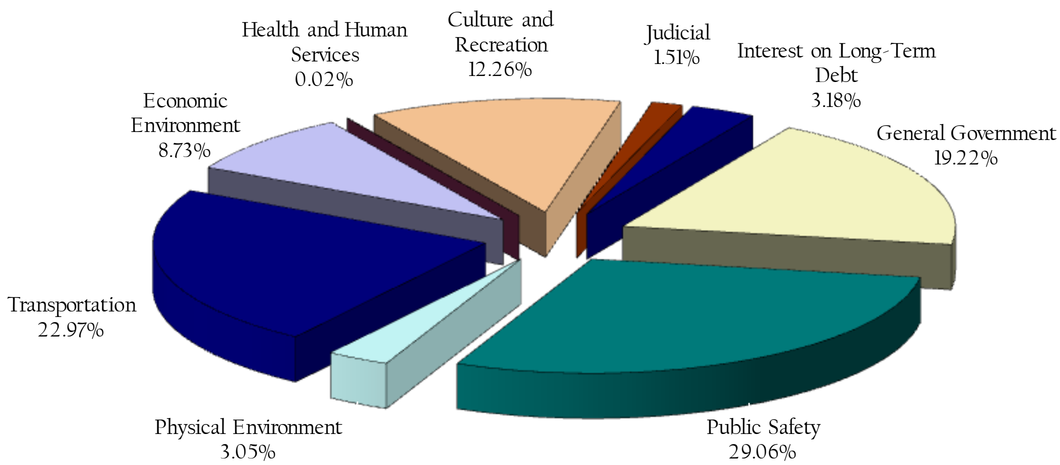
Governmental Activities - Revenues by Source



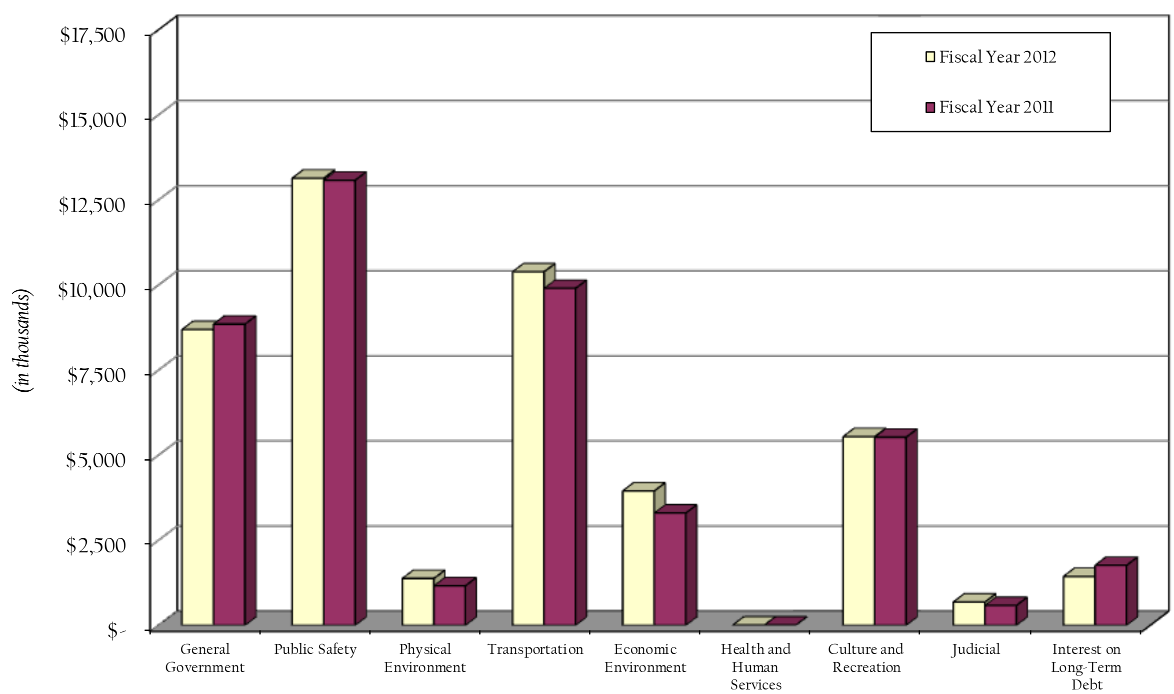
Governmental Activities - Revenues by Source Comparison



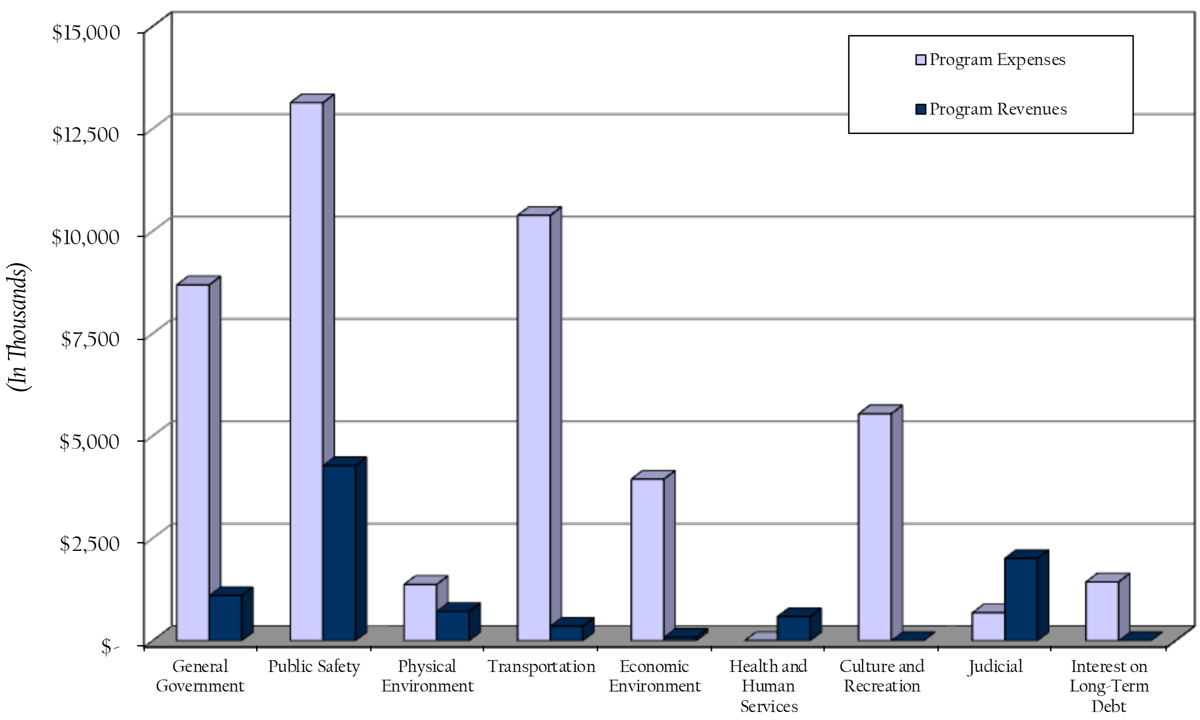
Governmental Activities - Program Expenses



Governmental Activities - Expenditure Comparison by Program

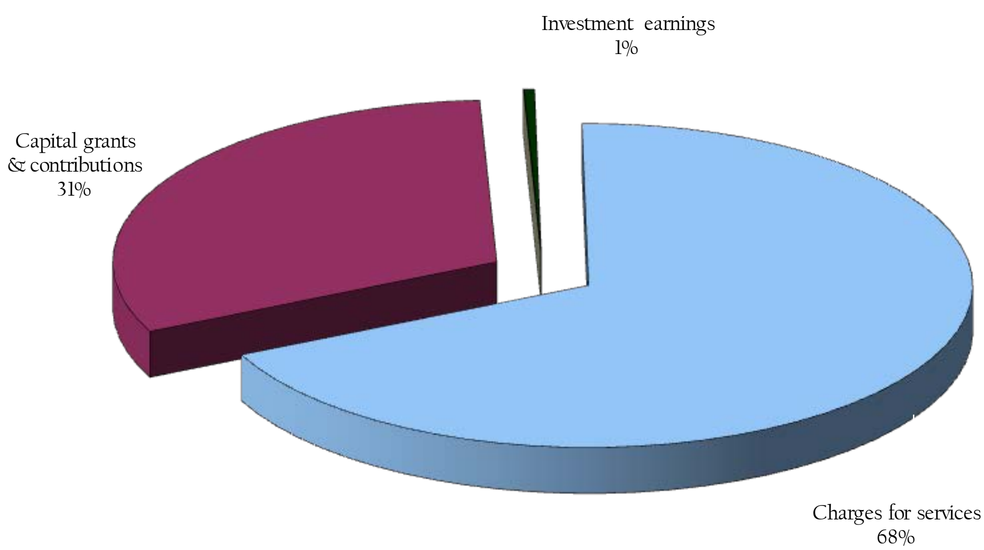


Governmental Activities - Program Expenses vs. Revenues

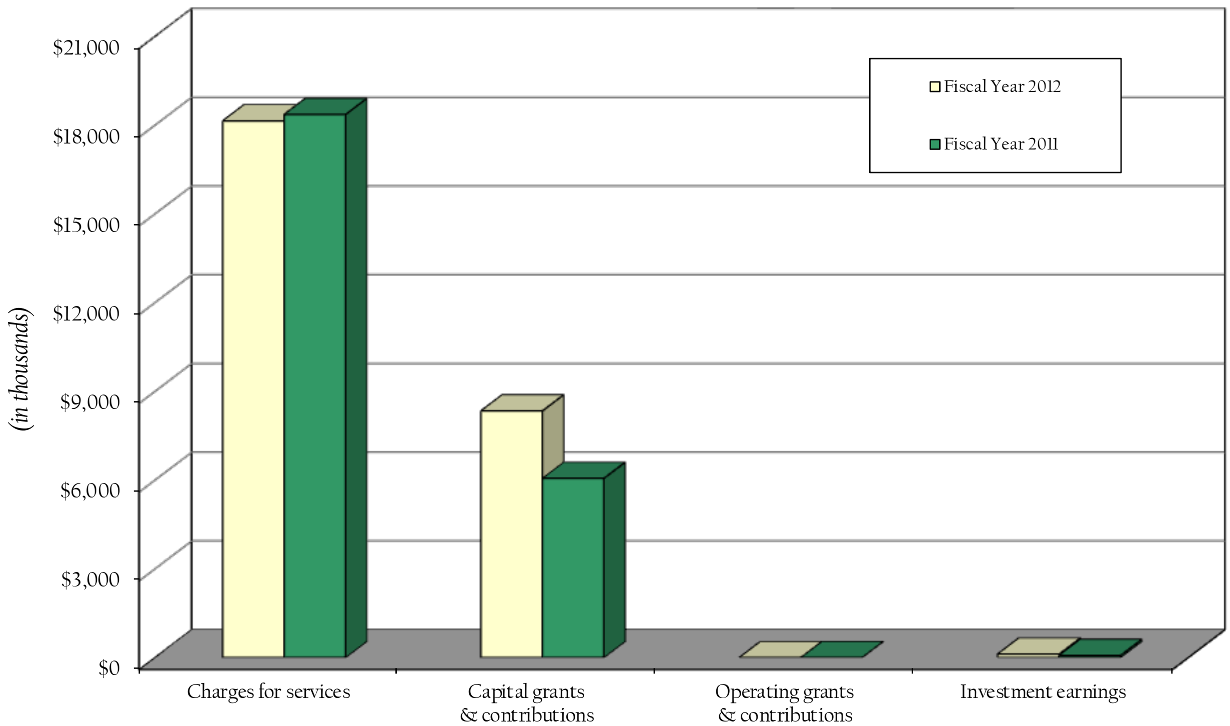


Business-type activities the City's utilities increased the City of Issaquah's net position by $8million.

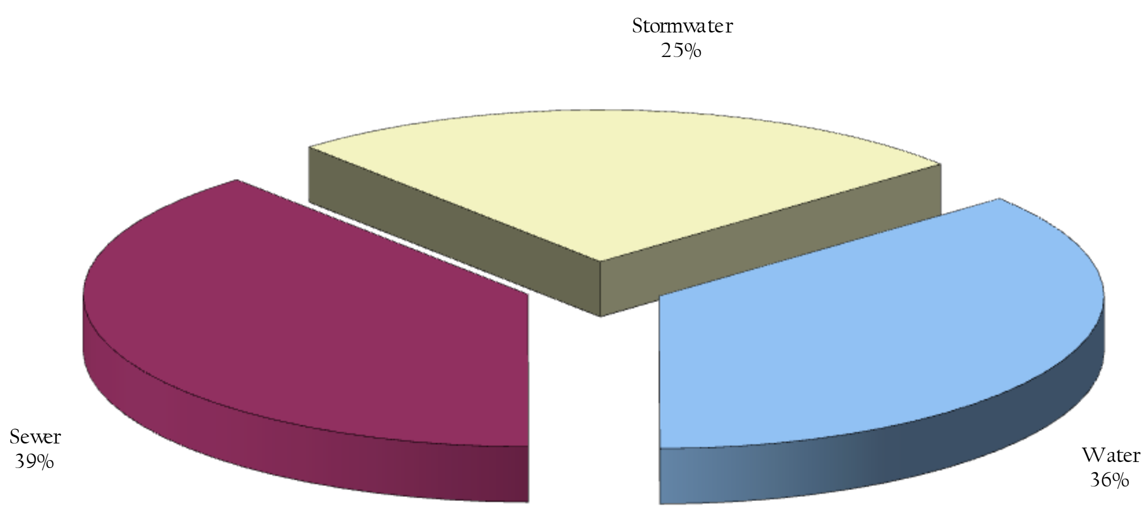
Business-Type Activities - Revenues by Source



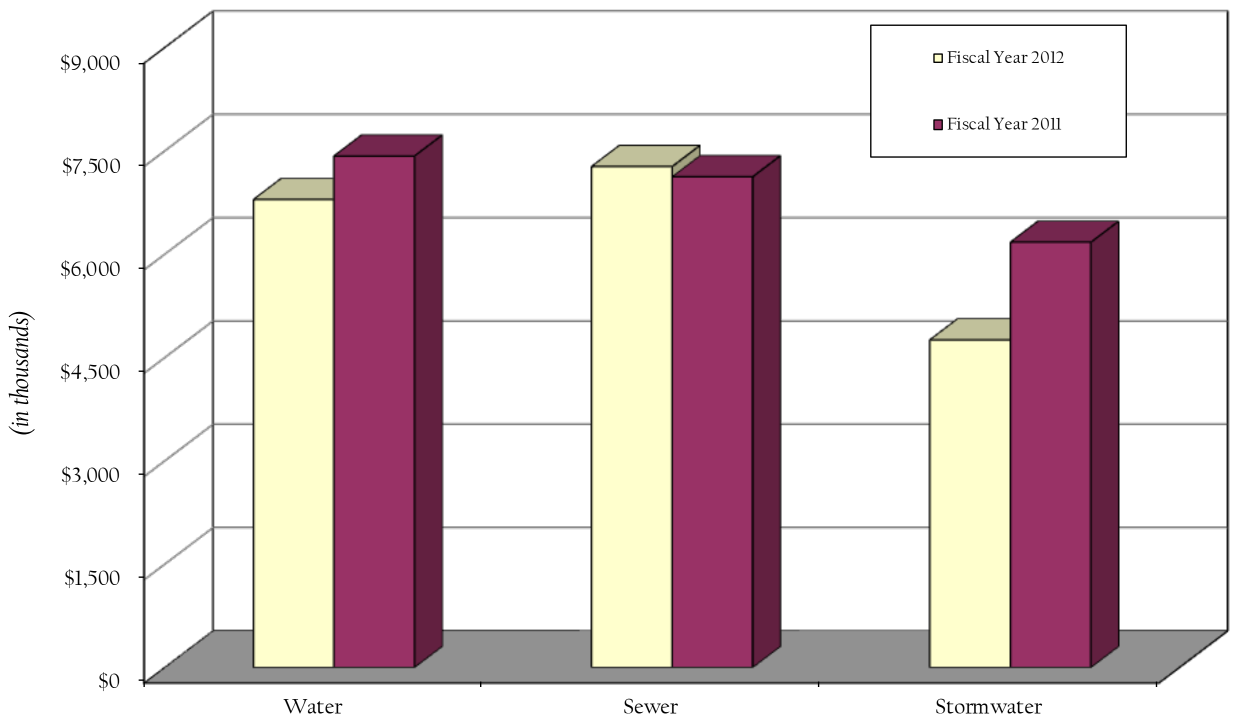
Business-Type Activities - Revenues by Source Comparison



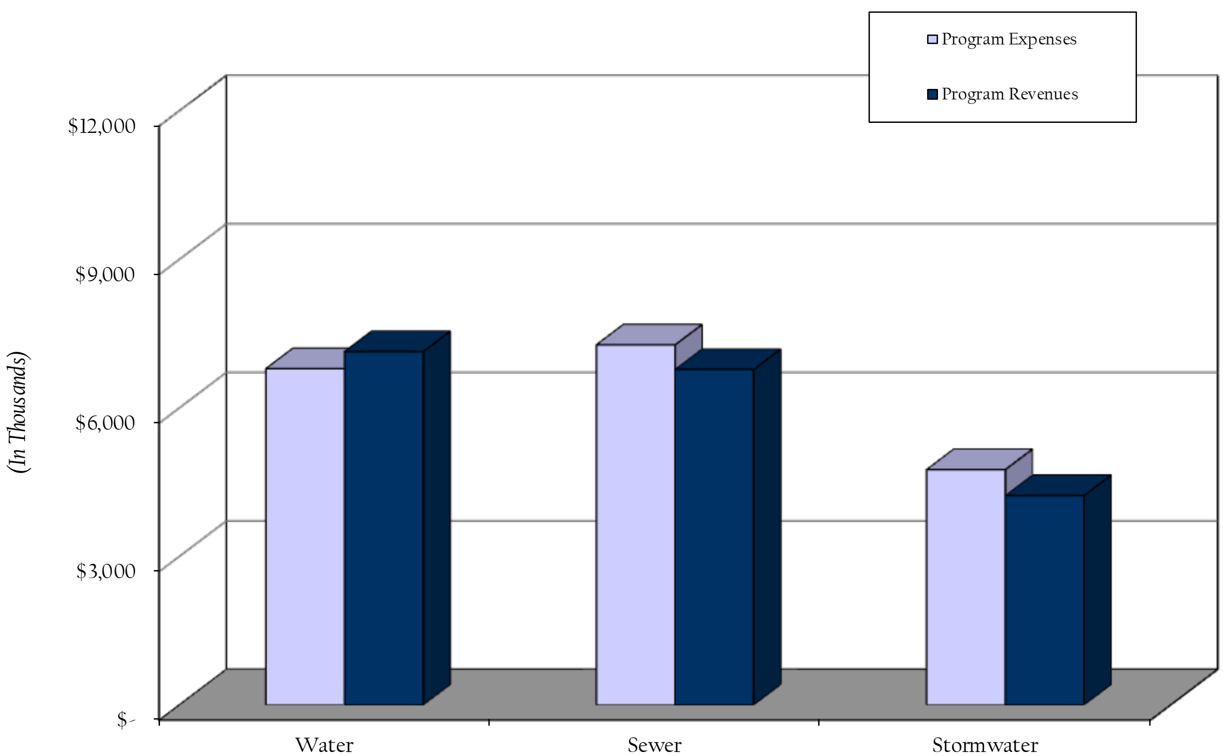
Business-Type Activities - Program Expenses Including Depreciation



Business-Type Activities - Expenditure Comparison by Program



Business-Type Activities - Program Expenses vs. Revenues



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

At the end of 2012, the City's combined ending governmental fund balance was $25.92 million. Of the total ending fund balance, $13.55 million is nonspendable, restricted, committed, or assigned and $12.37 million is unassigned. Additionally, Internal Service Funds have $11.65 million net position with $2.97 million invested in capital assets, net of depreciation.

The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. The fund balance at the end of 2012 of the general fund was $15.6 million. As a measure of the fund's liquidity, the ending fund balance is 44% of the fund's 2012 expenditures. The General Fund, fund balance increased $785,000 from the prior year. In the current year, revenues exceeded expenditures in the general fund by $702,000. Net transfers in to the general fund totaled $83,000.

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

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

BUDGETARY HIGHLIGHTS

The City of Issaquah budgets annually on a cash basis. A comparison of the actual performance of the General Fund on a budgetary basis to the final budget indicates that total revenues were $40,000 (or 0.12%) more than budgeted and expenditures were $703,000 (or 2%) less than budgeted. The decrease in expenditures resulted from diligent cost controls implemented over the past several years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Issaquah's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to approximately $613 million (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, construction in progress, infrastructure, and plant in service.

Major capital assets changes during 2012 included the following:

- At December 31, 2012, $10 million decrease in construction in progress due to the completion of projects and reclassified to capital assets.
- Developers donated capital of approximately $3.354 million in the governmental activities and $4.285 million in utilities during 2012.

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

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land & other nondepreciables	303,252	$ 299,898	15,517	$ 15,517	$ 318,769	$ 315,415
Infrastructure	143,148	140,542	-	-	143,148	140,542
Intangible property	1,142	1,178	41	47	1,183	1,225
Buildings & improvements	44,741	38,202	94,774	91,965	139,515	130,167
Machinery & equipment	6,622	6,836	337	364	6,959	7,200
Construction in progress	2,463	12,483	995	693	3,458	13,176
Total	$ 501,368	$ 499,139	$ 111,664	$ 108,586	$ 613,032	$ 607,725

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

Long-Term Debt. At the end of 2012, the City of Issaquah had total bonded debt outstanding of $34 million and other long-term debt of $6.61 million. The total bonded debt is distributed as follows.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	$ 29,025	$ 31,480	$ -	$ -	$ 29,025	$ 31,480
Revenue bonds	-	-	5,060	5,765	5,060	5,765
Total	$ 29,025	$ 31,480	$ 5,060	$ 5,765	$ 34,085	$ 37,245

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

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

The City's assessed valuation as of December 31, 2012, was $5,755,559,143, and the total amount of debt the City may issue is $403,391,841. Remaining debt capacity is as follows:

City of Issaquah's Debt Capacity
(in thousands)

	General Capacity		Special Purpose Capacity		
	Councilmanic (Non-Voted)	Excess Levy (Voted-in)	Parks & Open Space (Voted-in)	Utility Purposes (Voted-in)	Total Capacity
December 31, 2012, Assessed Value *(assessed at 100% of estimated value)* :					$ 5,755,559
2.50% of Assessed Value	$ -	$ 143,889	$ 143,889	$ 143,889	$ 431,667
1.50% of Assessed Value	86,333	(86,333)	-	-	-
Statutory Debt Limit	$ 86,333	$ 57,556	$ 143,889	$ 143,889	$ 431,667
Less Debt Outstanding *(General Obligation Bonds)*	(17,000)	(7,185)	(4,840)	-	(29,025)
Add amount available in Debt Service Fund	16	441	294	-	750
Remaining Debt Capacity	$ 69,349	$ 50,811	$ 139,343	$ 143,889	$ 403,392

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In 2013, General Fund budgeted expenditures total $42.73 million, which represents a $2.4 million increase over year 2012 operating levels. The increase reflects the first full year for operating the Development Services Department and the Communications Department. The 2013 budget does not include an increase in property taxes.

During 2013 sewer rates will increase due to a 10.4 percent King County METRO increase, which is a pass through for the city.

REQUESTS FOR INFORMATION

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

Statement of Net Position
December 31, 2012
(in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 30,645	$ 15,137	$ 45,782
Receivables	5,281	2,322	7,603
Internal balances	(16)	16	-
Advances to/from other funds	1,200	(1,200)	-
Inventory	784	383	1,167
Capital assets not being depreciated:			
Land	302,988	15,517	318,505
Construction in progress	2,463	995	3,458
Art	264	-	264
Capital assets, net of accumulated depreciation:			
Buildings	31,439	7,740	39,179
Improvements other than buildings	13,302	-	13,302
Infrastructure	143,148	-	143,148
Intangible property	1,142	41	1,183
Plant in service	-	87,034	87,034
Machinery and equipment	6,622	337	6,959
Total Assets	539,262	128,322	667,584
LIABILITIES			
Accounts payable	3,120	985	4,105
Accrued interest	-	15	15
Noncurrent liabilities:			
Due within one year	3,593	791	4,384
Due in more than one year	33,993	4,916	38,909
Advance payments	375	-	375
Unearned revenue	381	-	381
Total Liabilities	41,462	6,707	48,169
NET POSITION			
Net investment in capital assets	468,699	106,240	574,939
Restricted for:			
Debt service	3,273	791	4,064
Capital projects	-	2,356	2,356
Other	74	-	74
Unrestricted	25,754	12,228	37,982
Total Net Position	$ 497,800	$ 121,615	$ 619,415

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

Statement of Activities
For the Fiscal Year Ended December 31, 2012
(in thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
Judicial	$ 684	$ 1,104	$ -	$ 28
General government	8,692	4,278	677	-
Public safety	13,139	716	1,992	4
Physical environment	1,377	357	123	-
Transportation	10,389	85	696	4,248
Health and human services	8	592	-	-
Economic environment	3,950	-	-	-
Culture and recreation	5,545	2,013	935	-
Interest on long-term debt	1,437	-	-	-
Total governmental activities:	45,221	9,145	4,423	4,280
Business-type activities:				
Water	6,792	7,138	-	4,311
Sewer	7,272	6,776	-	798
Storm Water	4,755	4,230	-	3,233
Total business-type activities:	18,819	18,144	-	8,342
Total primary government	$ 64,040	$ 27,289	$ 4,423	$ 12,622

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

Statement of Activities
For the Fiscal Year Ended December 31, 2012
(in thousands)

Page 2 of 2

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Functions/Programs			
Primary government:			
Governmental activities:			
Judicial	$ 448	$ -	$ 448
General government	(3,737)	-	(3,737)
Public safety	(10,427)	-	(10,427)
Physical environment	(897)	-	(897)
Transportation	(5,360)	-	(5,360)
Health and human services	584	-	584
Economic environment	(3,950)	-	(3,950)
Culture and recreation	(2,597)	-	(2,597)
Interest on long-term debt	(1,437)	-	(1,437)
Total governmental activities:	(27,373)	-	(27,373)
Business-type activities:			
Water	-	4,657	4,657
Sewer	-	302	302
Storm Water	-	2,708	2,708
Total business-type activities:	-	7,667	7,667
Total primary government	$ (27,373)	$ 7,667	$ (19,706)
General revenues:			
Property taxes	$ 8,333	$ -	$ 8,333
Sales taxes	10,563	-	10,563
B&O taxes	6,867	-	6,867
Other taxes	2,913	-	2,913
Investment earnings	547	116	663
Rents and leases	934	-	934
Miscellaneous Revenue	85	17	102
Transfers	376	(376)	-
Total general revenues and transfers	30,618	(243)	30,375
Extraordinary items:			
Judgements and settlements	(714)	-	(714)
Total extraordinary items	(714)	-	(714)
Change in net position	2,531	7,424	9,955
Net position - beginning	489,651	114,191	603,842
Prior period adjustment	5,618	-	5,618
Net position - ending	$ 497,800	$ 121,615	$ 619,415

Balance Sheet
Governmental Funds
As of December 31, 2012
(in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 12,668	$ 8,599	$ 1,825	$ 23,092
Receivables (net)	3,876	1,102	6	4,984
Inventory	561	-	-	561
Total assets	$ 17,105	$ 9,701	$ 1,831	$ 28,637
LIABILITIES				
Accounts payable and accruals	$ 1,500	$ 288	$ 218	$ 2,006
Due to other funds - short term	-	113	-	113
Due to other funds - long term	-	225	-	225
Advance payments	-	375	-	375
Total liabilities	1,500	1,001	218	2,719
FUND BALANCES				
Nonspendable	561	-	-	561
Restricted	74	-	551	625
Committed	189	-	976	1,165
Assigned	2,408	8,700	86	11,194
Unassigned	12,373	-	-	12,373
Total fund balances	15,605	8,700	1,613	25,918
Total liabilities and fund balances	$ 17,105	$ 9,701	$ 1,831	$ 28,637

Total fund balances	$ 25,918
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.	498,398
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(37,057)
Unearned revenue for permit fees collected, but, services not yet performed.	(276)
Judgements and settlements are not due and payable in the current period and, therefore, are not reported in the funds.	(821)
Internal service funds are used by management to charge the costs of certain activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	11,654
Internal balance liability, with asset in enterprise funds, for services provided by internal service funds.	(16)
Net position of governmental activities	$ 497,800

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Twelve Months Ending December 31, 2012
(in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	$ 6,877	$ -	$ 1,456	$ 8,333
Sales taxes	8,181	2,382	-	10,563
Business and occupation taxes	6,867	-	-	6,867
Other taxes	753	2,160	-	2,913
Licenses and permits	2,669	-	-	2,669
Intergovernmental	3,993	811	53	4,857
Charges for services	3,425	428	-	3,853
Fines and forfeitures	777	-	-	777
Investment earnings	381	40	11	432
Rents and leases	812	122	-	934
Contributions and donations	17	-	-	17
Miscellaneous revenues	22	52	-	74
Total revenues	34,774	5,995	1,520	42,289
EXPENDITURES				
General government	7,070	1,371	-	8,441
Judicial	675	-	-	675
Public safety	12,655	44	-	12,699
Physical environment	1,017	-	-	1,017
Transportation	3,646	571	-	4,217
Economic environment	3,930	-	-	3,930
Health and human services	8	-	-	8
Culture and recreation	5,043	25	-	5,068
Debt service:				
Principal	-	350	2,520	2,870
Interest and other debt costs	-	33	1,404	1,437
Capital outlay:				
General government	-	66	-	66
Public safety	10	194	-	204
Physical environment	18	-	-	18
Transportation	-	1,661	-	1,661
Culture and recreation	-	738	-	738
Total expenditures	34,072	5,053	3,924	43,049
Excess (deficiency) of revenues over expenditures	702	942	(2,404)	(760)
OTHER FINANCING SOURCES (USES)				
Transfers in	400	225	2,282	2,907
Transfers out	(317)	(2,441)	-	(2,758)
Principal repayment LID	-	-	128	128
Interest LID	-	-	89	89
Total other financing sources (uses)	83	(2,216)	2,499	366
EXTRAORDINARY ITEMS				
Judgments and settlements	-	107	-	107
Total extraordinary items	-	107	-	107
Net change in fund balances	785	(1,167)	95	(287)
Fund balances - beginning	14,820	7,522	1,518	23,860
Prior period adjustment	-	2,345	-	2,345
Fund balances - ending	$ 15,605	$ 8,700	$ 1,613	$ 25,918

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, 2012
(in thousands)

Net changes in fund balances for governmental funds		$	(287)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. This consists of:			
Capital outlays	2,633		
Depreciation	(7,889)		
			(5,256)
Developers construct and then donate infrastructure to the government. Infrastructure is not reported in the governmental funds.			
Developer donated infrastructure current year			3,829
The issuance of long-term debt (e.g., bonds) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net assets. This consists of:			
Debt retired			2,870
Some revenue reported in the statement of activities is not yet available and therefore are not reported as revenues in the governmental funds. This consists of:			
Permit center collected for services not yet performed			1,846
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. This consists of:			
Compensated absences	(654)		
Post employment benefit obligation	(54)		
Judgements and settlements	(821)		
			(1,529)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities. This consists of:			
Internal service fund allocation of profits and losses	704		
Non-operating revenues from outside sources	127		
Intergovernmental transfers	227		
			1,058
Change in net assets of governmental activities		$	2,531

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

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Fiscal Year Ended December 31, 2012
(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	$ 6,848	$ 6,848	$ 6,866	$ 11	$ 6,877
Sales taxes	8,637	8,637	7,845	336	8,181
Business and occupation taxes	7,100	7,100	6,906	(39)	6,867
Other taxes	190	190	209	544	753
Licenses and permits	1,837	1,837	2,662	7	2,669
Intergovernmental	3,532	3,598	3,891	102	3,993
Charges for services	3,256	3,306	3,372	53	3,425
Fines and penalties	1,106	1,106	778	(1)	777
Investment earnings	272	272	273	108	381
Rents and leases	763	763	894	(82)	812
Contributions and donations	3	3	17	-	17
Miscellaneous revenues	53	53	40	(18)	22
Total revenues	33,597	33,713	33,753 [1]	1,021	34,774
EXPENDITURES					
Current:					
General government services	7,455	7,333	7,196	(126)	7,070
Judicial	712	709	684	(9)	675
Public safety	12,839	12,839	12,701	(36)	12,665
Physical environment	1,015	1,098	1,051	(16)	1,035
Transportation	3,910	3,795	3,780	(134)	3,646
Economic environment	3,567	3,839	3,947	(17)	3,930
Health and human services	7	7	8	-	8
Culture and recreation	5,509	5,510	5,060	(17)	5,043
Total expenditures	35,014	35,130	34,427 [1]	(355)	34,072
Excess(deficiency) of revenues over (under) expenditures	(1,417)	(1,417)	(674)	1,376	702
OTHER FINANCING SOURCES (USES)					
Transfers in	889	889	400	-	400
Transfers out	(617)	(617)	(317)	-	(317)
Total other financing sources (uses)	272	272	83	-	83
Net change in fund balances	(1,145)	(1,145)	(591) [1]	1,376	785
Fund balance-beginning	7,958	7,958	11,857	2,963	14,820
Fund balance-ending	$ 6,813	$ 6,813	$ 11,266	$ 4,339	$ 15,605

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

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

Statement of Net Position
Proprietary Funds
As of December 31, 2012
(in thousands)

	Business-type Activities				Governmental Activities
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	$ 7,626	$ 4,525	$ 2,986	$ 15,137	$ 7,553
Accounts receivable	711	881	730	2,322	297
Advances to other funds	-	-	-	-	1,538
Inventory	326	10	47	383	223
Total current assets	8,663	5,416	3,763	17,842	9,611
Noncurrent assets:					
Capital assets:					
Construction in progress	272	102	621	995	79
Land and land rights	9,186	-	6,331	15,517	-
Intangible property	41	-	-	41	-
Buildings and improvements	7,740	-	-	7,740	152
Plant in service	33,498	15,804	37,732	87,034	-
Machinery and equipment	140	197	-	337	2,739
Total capital assets, net depreciati	50,877	16,103	44,684	111,664	2,970
Total noncurrent assets	50,877	16,103	44,684	111,664	2,970
Total assets	59,540	21,519	48,447	129,506	12,581
LIABILITIES					
Current liabilities:					
Accounts payable	251	450	135	836	168
Accrued wages	75	23	51	149	125
Unearned revenue	-	-	-	-	105
Bonds payable	730	-	-	730	-
Advance from other funds	-	-	300	300	-
Public works trust current payable	-	-	61	61	-
Matured interest	15	-	-	15	-
Total current liabilities	1,071	473	547	2,091	398
Noncurrent liabilities					
Compensated absences	135	52	92	279	529
Revenue bonds payable	4,330	-	-	4,330	-
Advance from other funds	-	-	900	900	-
Public works trust fund debt	-	-	307	307	-
Total noncurrent liabilities	4,465	52	1,299	5,816	529
Total liabilities	5,536	525	1,846	7,907	927
NET POSITION					
Net investment in capital assets	45,817	16,103	44,316	106,236	2,970
Restricted for:				-	
Debt service	730	-	61	791	-
Capital assets	1,334	505	517	2,356	-
Unrestricted	6,123	4,386	1,707	12,216	8,684
Total net position	$ 54,004	$ 20,994	$ 46,601	$ 121,599	$ 11,654

Adjustment to reflect the consolidation of internal service fund activities related to	16
Net position of business-type activities	$ 121,615

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, 2012
(in thousands)

	Business-type Activities				Governmental Activities
	Water	Sewer	Storm	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$ 7,138	$ 6,776	$ 4,230	$ 18,144	$ 7,606
Intergovernmental	-	-	-	-	177
Total operating revenues	7,138	6,776	4,230	18,144	7,783
Operating expenses:					
Maintenance and operation	5,095	6,602	3,294	14,991	6,384
Depreciation	1,498	679	1,455	3,632	621
Total operating expenses	6,593	7,281	4,749	18,623	7,005
Operating income (loss)	545	(505)	(519)	(479)	778
Non-operating revenues (expenses):					
Intergovernmental	-	-	649	649	-
Investment earnings	3	99	14	116	115
Interest expense	(216)	-	(54)	(270)	-
Other non-operating	11	6	-	17	12
Total non-operating revenue (expenses)	(202)	105	609	512	127
Income (loss) before contributions and transfers	343	(400)	90	33	905
Capital contributions	3,293	115	-	3,408	-
Developer donated assets	1,018	683	2,584	4,285	-
Transfers in	-	-	-	-	227
Transfers out	(145)	(90)	(141)	(376)	-
Change in net position	4,509	308	2,533	7,350	1,132
Net position - beginning	49,495	20,686	44,068		10,522
Net position - ending	$ 54,004	$ 20,994	$ 46,601		$ 11,654

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	74
Changes in net position of business-type activities	$ 7,424

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, 2012
(in thousands)

	Business-type Activities				Governmental Activities
	Water	Sewer	Storm	Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from:					
Customers	$ 6,992	$ 6,694	$ 4,543	$ 18,229	$ 1,963
Interfund services provided	-	-	-	-	5,473
Other governments	-	-	-	-	177
Cash payments to:					
Suppliers for goods and services	(4,935)	(1,031)	(3,444)	(9,410)	(6,252)
Employees	45	25	31	101	(320)
Other governments	-	(5,145)	-	(5,145)	(307)
Net cash provided by (used for) operating activities	2,102	543	1,130	3,775	734
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating transfers in	-	-	-	-	227
Operating transfers out	(145)	(90)	(141)	(376)	-
Net cash provided by (used for) noncapital financing activities	(145)	(90)	(141)	(376)	227
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from:					
Advances to/from other funds	-	-	-	-	1,262
Capital contributions	3,293	115	-	3,408	-
Other governments	-	-	649	649	-
Proceeds from retirement of capital assets	-	-	-	-	(7)
Payments for:					
Principal on capital debt	(705)	-	(61)	(766)	-
Interest and related costs on capital debt	(217)	-	(54)	(271)	-
Advances to/from other funds	(300)	-	(600)	(900)	-
Capital assets	(1,336)	(347)	(725)	(2,408)	(665)
Net cash provided by (used for) capital related financing activities	735	(232)	(791)	(288)	590
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	3	99	14	116	115
Net cash provided by investing related activities	3	99	14	116	115
Net increase (decrease) in cash balance	2,695	320	212	3,227	1,666
Cash balance at beginning of year	4,931	4,205	2,774	11,910	5,887
Cash balance at end of year	$ 7,626	$ 4,525	$ 2,986	$ 15,137	$ 7,553

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, 2012
(in thousands)

	Business-type Activities				Governmental Activities
	Water	Sewer	Storm	Totals	Internal Service Funds
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income (loss)	$ 545	$ (505)	$ (519)	$ (479)	$ 778
Adjustment to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,498	679	1,455	3,632	621
Decrease (increase) in accounts receivable	(146)	(82)	313	85	(275)
Decrease (increase) in inventory	11	-	(13)	(2)	(62)
Increase (decrease) in accounts payable	149	426	(137)	438	(113)
Increase (decrease) in employee benefits	45	25	31	101	(320)
Increase (decrease) in unearned revenue	-	-	-	-	105
Net cash provided by operating activities	$ 2,102	$ 543	$ 1,130	$ 3,775	$ 734
Schedule of noncash capital and related financing activities:					
Contributions of capital assets from developers and annexations	$ 1,018	$ 683	$ 2,584	$ 4,285	$ -

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

Statement of Net Position
Fiduciary Funds
As of December 31, 2012
(in thousands)

	Ruth Kees Award - Sustainable Environment Fund	Agency Fund
ASSETS		
Cash and investments	$ 29	$ 2,961
Total assets	29	2,961
LIABILITIES		
Liabilities payable from restricted assets	-	2,961
Total liabilities	-	2,961
NET POSITION		
Net position held in trust	$ 29	

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

Statement of Changes in Net Position
Fiduciary Funds
As of December 31, 2012
(in thousands)

	Ruth Kees Award - Sustainable Environment Fund
ADDITIONS	
Contributions:	
Private donations	$ -
Total contributions	-
Investment earnings:	
Interest	1
Total investment earnings	1
Total additions	1
DEDUCTIONS	
Awards	1
Total deductions	1
Change in net position	-
Net position - beginning	29
Net position - ending	$ 29

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

CITY OF ISSAQUAH
Notes to the Financial Statements
December 31, 2012

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 changes in net position) 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 – net investment in capital assets, restricted, and unrestricted. 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 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' a governmental column, reconciliation is presented at the end of the statement, which briefly explains the adjustments necessary to transform the fund statements into the government-wide presentation.

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

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

The City reports the following major governmental funds:

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

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

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

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

The government reports the following major proprietary funds:

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

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

The s*tormwater 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 63, proprietary, fiduciary, and government-wide financial statements shall report net position. Concepts Statement 4 identifies net position as the residual of all other elements presented in a statement of financial position and should be displayed in three components: net investment in capital assets, restricted, and unrestricted. This Statement amends the net asset reporting requirements in Statement 34.

D. BUDGET AND BUDGETARY ACCOUNTING

1. Scope of the Budget

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

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

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

(1) By the second Monday in September, the Mayor requests all Department Heads to prepare detailed estimates of revenues and expenditures for next fiscal year.
(2) By the fourth Monday in September, budget estimates are filed with the Finance Director.
(3) By the first business day in October, estimates are presented to the Mayor.
(4) At least 60 days before the ensuing fiscal year, the Mayor prepares preliminary budget and budget message and files with the City Clerk.
(5) No later than the first two weeks in November, the City Clerk publishes notice of filing of preliminary budget with City Clerk and publishes notice of public hearing on final budget once a week for two consecutive weeks.
(6) No later than six weeks before January 1, copies of proposed (preliminary) budget is made available to the public.
(7) On or before the first Monday of December, and may be continued from day-to-day but no later than the 25th day prior to next fiscal year, final hearings are commenced.
(8) Following the public hearing and prior to beginning of the ensuing fiscal year, the City Council adopts the final budget.

2. Amending the Budget

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

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

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

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

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

1. Cash and Cash Equivalents

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

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

2. Investments

It is the City's policy to invest all temporary cash surplus. At December 31, 2012, the treasurer was holding short-term deposits with the State Investment Pool. The interest on this deposit is prorated to the various funds. *(See Note 5)*

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

3. Receivables

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

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

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

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

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

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

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

Advances to/from other funds. The Finance Director may authorize loans between funds. Advances to/from other funds outstanding at December 31, 2012 are reported in *Note 12*.

5. Inventories and Prepaid Items

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

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

6. Restricted Assets and Liabilities

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

7. Capital Assets and Depreciation

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

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

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

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

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

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

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

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

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

8. Compensated Absences

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

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

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

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

9. Long-Term Debt

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

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

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

10. Deferred Revenue

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

11. Fund Balances

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

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

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

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

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

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

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

12. Revenues, Expenditures and Expenses

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

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

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

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

13. Operating and Non-Operating Revenues and Expenses

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

Capital contributions. Capital contributions are cash contributions intended to support the infrastructure of the City's utility system.

Developer donated assets. Developer donated assets are infrastructure contributed to the City's utility system.

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, 2012 (*in thousands*):

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	$ 561	$ -	$ -	$ 561
Restricted:				
Debt service	-	-	551	551
Tourism	74	-	-	74
Total restricted	74	-	551	625
Committed:				
Debt service	-	-	976	976
Art programs	189	-	-	189
Total committed	189	-	976	1,165
Assigned:				
Capital projects	204	4,868	-	5,072
Debt service	-	-	-	-
Cemetery maintenance	361	-	-	361
Communications	710	-	-	710
Resource conservation	121	-	-	121
Subsequent year's expenditures	1,012	3,832	86	4,930
Total assigned	2,408	8,700	86	11,194
Unassigned:	12,373	-	-	12,373
Total fund balances	$ 15,605	$ 8,700	$ 1,613	$ 25,918

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, 2012 (*in thousands*):

	Original Budget	Supplemental Appropriations	Final Budget
General Fund [2]	$ 45,298	$ 116	$ 45,414
Capital Projects Fund [3]	14,448	217	14,665
Debt Service Funds			
Voted G.O. debt	2,177	-	2,177
Non-voted G.O. debt	2,295	-	2,295
L.I.D. debt service	501	-	501
L.I.D. guaranty	959	-	959
Arbitrage Rebate	62	-	62
Total	$ 65,740	$ 333	$ 66,073

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

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

NOTE 5:
DEPOSITS AND INVESTMENTS

Cash and investments as of December 31, 2012 consist of the following (*in thousands*):

Deposits with financial institutions	$	23,617
Investments		22,165
Total cash and investments	$	45,782

DEPOSITS WITH FINANCIAL INSTITUTIONS

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

At December 31, 2012, the City's cash deposits had a carrying balance of $21.8 million and a bank balance of $21.6 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, 2012, the City had the following investments (*in thousands*):

		Maturity				
Investment Type	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Rating
U.S. Agency Coupon Securities	$ 5,041	$ -	$ 5,041	$ -	$ -	AA+
Municipal Bonds	2,175	-	-	2,175	-	AA+
State of Washington LGIP	12,619	12,619	-	-	-	Unrated
Installment Note	2,330				2,330	Unrated
	$ 22,165	$ 12,619	$ 5,041	$ 2,175	$ 2,330	

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, 2012 (*in thousands*):

Issuer	Investment Type	Fair Value
Federal Home Loan Mortgage Corporation	Fixed Rate Agency Coupon	$ 5,041
State of Washington	Fixed Rate Agency Coupon	2,175
City of Issaquah	Installment Note	2,330

NOTE 6:
RECEIVABLES

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

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

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

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

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

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

The City's regular levy for 2012 was $1.19365 per $1,000 of assessed valuation of 5,825,625,221 for a total regular levy of $ 6,970,724 . Additionally, special levies for voter-approved General Obligation Bonds were $0.29434 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, 2012, was as follows *(in thousands):*

	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 299,681	$ 3,307	$ -	$ 302,988
Art	217	47	-	264
Construction in progress	12,483	1,955	(11,976)	2,462
Total capital assets, not being depreciated	312,381	5,309	(11,976)	305,714
Capital assets, being depreciated/amortized:				
Buildings	35,964	6,783	-	42,747
Improvements other than buildings	15,205	818	-	16,023
Infrastructure	233,972	8,876	-	242,848
Intangible property	1,571	175	-	1,746
Machinery and equipment	14,776	785	(372)	15,189
Total capital assets, being depreciated	301,488	17,437	(372)	318,553
Less accumulated depreciation/amortization for:				
Buildings	(10,573)	(735)	-	(11,308)
Improvements other than buildings	(2,395)	(327)	-	(2,722)
Infrastructure	(93,430)	(6,270)	-	(99,700)
Intangible property	(394)	(210)	-	(604)
Machinery and equipment	(7,939)	(968)	340	(8,567)
Total accumulated depreciation	(114,731)	(8,510)	340	(122,901)
Total capital assets, being depreciated, net	186,757	8,927	(32)	195,652
Governmental activities capital assets, net	$ 499,138	$ 14,236	$ (12,008)	$ 501,366

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

Governmental activities:	
General government	$ 286
Public safety	624
Physical environment	8
Transportation	7,080
Economic environment	13
Culture & recreation	499
Total depreciation expense	$ 8,510

Business-type activities capital asset activity for the year ended December 31, 2012, was as follows *(in thousands):*

	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 15,517	$ -	$ -	$ 15,517
Construction in progress	693	1,407	1,105	995
Total capital assets, not being depreciated	16,210	1,407	1,105	16,512
Capital assets, being depreciated:				
Buildings	9,321	-	-	9,321
Plant in service	119,169	6,408	-	125,577
Intangible property	60	-	-	60
Machinery & equipment	860	-	-	860
Total capital assets, being depreciated	129,410	6,408	-	135,818
Less accumulated depreciation for:				
Buildings	(1,394)	(187)	-	(1,581)
Plant in service	(35,131)	(3,412)	-	(38,543)
Intangible property	(13)	(6)	-	(19)
Machinery & equipment	(496)	(27)	-	(523)
Total accumulated depreciation	(37,034)	(3,632)	-	(40,666)
Total capital assets, being depreciated, net	92,376	2,776	-	95,152
Business-type capital assets, net	$ 108,586	$ 4,183	$ 1,105	$ 111,664

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

Water	$ 1,498
Sewer	679
Stormwater	1,455
Total depreciation expense	$ 3,632

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 2012, 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 2012, 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, 2011:

Retirees and beneficiaries receiving benefits	79,363
Terminated plan members entitled to but not yet receiving benefits	29,925
Active plan members	105,578
Active plan members non-vested	46,839
Total	261,705

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, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3[5]
Employer[4]	7.21%	7.21%	7.21%
Employee	6.00%	4.64%	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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$10,593	$920,140	$118,821
2011	8,983	831,893	111,404
2010	20,936	675,055	95,486

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 2012, 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 0.16%*

[5] *Plan 3 defined benefit portion only*

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

Term of Service	Percent of Final Average Salary
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, 2011:

Retirees and beneficiaries receiving benefits	9,947
Terminated plan members entitled to but not yet receiving benefits	656
Active plan members vested	13,942
Active plan members non-vested	3,113
Total	27,658

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 2012, 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, 2012, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer[7]	0.16%	5.24%
Employee	0.00%	8.46%

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

	LEOFF Plan 1	LEOFF Plan 2
2012	$ -	$169,570
2011	-	162,356
2010	-	152,536

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
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or

[7] *The employer rates include the employer administration expense fee currently at 0.16%*

- 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 2012, 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, 2011:

Retirees and beneficiaries receiving benefits	15
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	167
Active plan members non-vested	4,020
Total	4,203

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, 2012, are as follows:

	PSERS Plan 2
Employer[8]	8.87%
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:

	PSERS Plan 2
2012	$ 31,120
2011	20,198
2010	18,180

[8] *The employer rates include the employer administration expense fee currently at* 0.16%

NOTE: 9
OTHER PERSONNEL BENEFITS

DEFERRED COMPENSATION:

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

RETIREMENT HEALTH SAVINGS ACCOUNT (RHS)

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

POST EMPLOYMENT BENEFITS:

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

The City provides costs on a pay-as-you-go basis and used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and six inactive members who have left service. At the end of 2011 average ages were as follows: two members average age of 63, two members average age of 71.5 and two members average age of 78.5 years. Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 2011, actuarial valuation reported issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by OSA in the statewide LEOFF 1 medical study performed in 2007. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation. Results:

Information based on estimates from the OSA assuming Medical Inflation of +or- 5% and Amortization Period of 10 years. The following table shows the components of the City's annual other post employment benefits (OPEB) costs and Net OPEB obligation for 2012 *(in thousands):*

Amortization of Unfunded Actuarial Accrued Liability(UAAL)	$	1,630
Annual Required Contribution	$	152
Adjustment to ARC		(15)
Annual OPEB Cost		137
Contributions Made		82
Increase in Net OPEB Obligation		55
Net OPEB Obligation - Beginning of year		308
Net OPEB Obligation - End of year	$	362

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows (*in thousands*):

Year	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	$ 137	$ 82	60.02%	$ 362
2011	149	73	49.26%	308
2010	155	79	51.34%	232

NOTE 10:
RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 153 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.

NOTE 11:
LEASES AND OTHER CONTRACTUAL COMMITMENTS

At December 31, 2012, the City had the following significant contractual obligations on construction projects;

Contracting Entity	Project Name	Balance
Terra Dynamics	Confluence Parks	$ 823,186
	Total Significant Contracts	$ 823,186

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 2012 *(in thousands)*:

Fund	Transfers In	Transfers Out
General	$ 400	$ 317
Capital projects	225	2,441
Debt service	2,282	-
Water	-	145
Sewer	-	90
Stormwater	-	141
Unemployment insurance	72	-
Equipment replacement	155	-
Total	$ 3,134	$ 3,134

ADVANCES TO/FROM OTHER FUNDS

Advances to/from other funds for the year ended December 31, 2012, were as follows *(in thousands)*:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Receivable:					
Equipment Replacement Fund	$ 2,800	$ -	$ 1,262	$ 1,538	$ 413
Total receivable	$ 2,800	$ -	$ 1,262	$ 1,538	$ 413
Payable:					
Capital Projects Fund	$ 700	$ -	$ 362	$ 338	$ 113
Storm water Fund	1,800	-	600	1,200	300
Water Fund	300	-	300	-	-
Total payable	$ 2,800	$ -	$ 1,262	$ 1,538	$ 413

The following further describes the advances to/from other funds outstanding as of December 31, 2012, *(in thousands):*

Amount of Loan	Purpose	From Fund	To Fund	Term
$1,200	Debt Called-in	Equipment Replacement	Stormwater	12/31/2016
338	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 assets.

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

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

In December of 2012 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.

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, 2012
(in thousands)

	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
GENERAL OBLIGATION BONDS								
2001 Senior Center Construction (Voted)	12/01/2001	12/01/2021	4.42%	$ 1,500	$ 915	$ -	$ 75	$ 840
2004 Highland Park Facilities	12/01/2004	12/01/2024	4.14%	3,820	2,800	-	165	2,635
2005 ITS & Police Refunding Bond (Voted)	12/01/2005	12/01/2025	4.34%	4,745	2,720	-	385	2,335
2006 Parks Bond (Voted)	12/01/2006	12/01/2026	3.91%	6,250	5,095	-	255	4,840
2006 Police/Barn Refunding	12/01/2006	01/01/2021	4.05%	3,485	2,840	-	310	2,530
2007 Police Station Refunding	01/01/2007	01/01/2019	3.98%	5,100	4,190	-	450	3,740
2009 Bolliger Property	02/17/2009	12/01/2028	3.80%	2,780	2,490	-	110	2,380
2009A Fire Station #72 (Voted)	12/01/2009	12/01/2019	3.64%	1,840	1,520	-	170	1,350
2009B Fire Station Property	12/01/2009	12/01/2021	3.80%	6,355	6,250	-	535	5,715
2009T BABs Fire Station #72 (Voted)	12/01/2009	12/01/2029	5.74%	2,660	2,660	-	-	2,660
Total General Obligation Bonds				38,535	31,480	-	2,455	29,025
SPECIAL ASSSESMENT BONDS								
LID #23 - Governmental	12/01/2009	12/01/2024	4.70%	977	830	-	50	780
LID #24 - Governmental	12/15/2011	12/01/2028	4.00%	2,345	2,345	-	15	2,330
Total Special Assessments				3,322	3,175	-	65	3,110
INTERLOCAL AGREEMENTS								
KC North SPAR Interlocal Agreement	01/01/2003	12/31/2023	0.00%	7,000	3,850	-	350	3,500
Total Interlocal Agreements				7,000	3,850	-	350	3,500
TOTAL GOVERNMENTAL ACTIVITIES				$ 48,857	$ 38,505	$ -	$ 2,870	$ 35,635

Long Term Debt – Business-Type Activities
For the Fiscal Year Ended December 31, 2012
(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	$ 500	$ -	$ 245	$ 255
2011 Water Revenue Bonds	09/15/2011	12/01/2021	3.18%	5,350	5,265	-	460	4,805
Total Revenue Bonds				8,950	5,765	-	705	5,060
INSTALLMENT CONTRACTS								
PW Trust Fund - Newport Way Bridge	11/01/1998	07/01/2019	1.00%	1,143	429	-	61	368
Total Installment Contracts				1,143	429	-	61	368
TOTAL BUSINESS-TYPE ACTIVITIES				$ 10,093	$ 6,194	$ -	$ 766	$ 5,428

GENERAL OBLIGATION BONDS

General obligation bonds outstanding at December 31, 2012, totaled $29,025,000. Debt service is paid from the debt service fund with special property tax levies for the voter-approved bond issues.

Debt service for City Council-authorized issues is funded from other City taxes. Bonds carried a Moody's A 1 rating until November of 2006 when the City changed to Standard and Poor's and received a AA rating on both unlimited and limited general obligation Bonds. The City's most recent rating received in 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	Governmental Activities	
December 31,	Principal	Interest
2013	$ 2,560	$ 1,192
2014	2,655	1,092
2015	2,765	989
2016	2,495	879
2017	2,595	777
2018-2022	10,395	2,451
2023-2027	4,755	810
2028-2029	805	63
Total	$ 29,025	$ 8,253

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.

As of December 31, 2012, the Water Fund's outstanding bond totaled $5,060,000.

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

Year Ending	Business - Type Activities	
December 31,	Principal	Interest
2013	$ 730	$ 178
2014	480	158
2015	495	144
2016	510	129
2017	525	114
2018-2022	2,320	236
Total	$ 5,060	$ 959

SPECIAL ASSESSMENT BONDS

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

In December of 2010 the City issued LID #23, paid through the collection of assessments levied against the property owners of the Mall Street Sidewalk Improvements.

In December of 2012 the City issued LID #24, paid through the collection of assessments levied against the property owners adjacent to the intersection of E. Lake Sammamish Parkway SE and SE 43rd Way.

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

Year Ending	Governmental Activities	
December 31,	Principal	Interest
2013	$ 363	$ 36
2014	221	33
2015	221	31
2016	221	29
2017	222	26
2018-2022	1,107	84
2023-2027	755	10
Total	$ 3,110	$ 249

INSTALLMENT AGREEMENTS

In 1998, the City was awarded a Public Works Trust Fund Loan not to exceed $1,143,103. The City received $171,465 in 1998, $857,327 in 1999, and the balance of $114,311 in 2002. As of December 31, 2012, the balance owing on the Trust Fund Loan is $367,748. The City pays annual payments of $61,000 per year from the stormwater fund.

INTERLOCAL AGREEMENTS

During 2002 the City entered into an Interlocal Agreement with King County for funds for the North Spar. No interest accrues and the outstanding amount at December 31, 2012, was $3,500,000. The City pays King County $350,000 per year from the capital projects fund.

CHANGES IN LONG-TERM LIABILITIES

The following is a summary of all long-term debt transactions for the year ended December 31, 2012 *(in thousands)*:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	$ 31,480	$ -	$ 2,455	$ 29,025	$ 2,560
Special assessment bonds	3,175	-	65	3,110	363
Interlocal agreements	3,850	-	350	3,500	350
Compensated absences [9]	2,990	2,453	1,830	3,613	-
Other postemployment benefits	308	54	-	362	-
Total governmental activity - long-term liabilities	41,803	2,507	4,700	39,610	3,273
Business-type activities:					
Revenue bonds	5,765	-	705	5,060	730
Installment contracts	429	-	61	368	61
Compensated absences [9]	199	268	188	279	-
Total business-type activites long-term liabilities	6,393	268	954	5,707	791
Total long-term liabilities	$ 48,196	$ 2,775	$ 5,654	$ 45,317	$ 4,064

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

NOTE 14:
CONTINGENCIES AND LITIGATION

As of December 31, 2012, 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.

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, 2012, the weighted vote was as follows:

Bellevue	51.53%
Redmond	20.02%
Kirkland	16.79%
Mercer Island	6.25%
Issaquah	5.41%
Total	100.00%

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

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

Year	Service Fees
2008	$ 33,848
2009	35,358
2010	36,845
2011	47,029
2012	46,837

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 $234,144 as of December 31, 2012 are, upon dissolution, to be apportioned among the Principals, the City's share in 2012 of $12,667 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, 2012, the equity percentage was as follows:

Fire District 10	42.00%
City of Sammamish	26.09%
City of Issaquah	21.30%
Fire District 38	6.26%
City of North Bend	4.35%
Total	100.00%

EF&R is governed by a Regional Board. The Regional Board is made up of representatives from each of the partner agencies that comprise EF&R. The Regional Board meets on the second Tuesday of each month at the headquarter offices in Issaquah.

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

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

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

The City's service fee contributions through 2012 are as follows *(in thousands)*:

Year	Service Fees
2008	$ 4,597,391
2009	4,871,759
2010	4,830,393
2011	4,919,164
2012	5,013,752

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

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

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

A REGIONAL COALITION FOR HOUSING

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

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

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

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

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

Year	Equity	City's Share	Percentage
2008	$ 424,705	$ 13,736	3.23%
2009	465,312	14,698	3.16%
2010	2,565,030	14,698	0.57%
2011	2,706,906	14,698	0.54%
2012	3,410,170	14,698	0.43%

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

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

EASTSIDE NARCOTICS TASK FORCE

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

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

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.

The member agencies shares at December 31, 2012 are:

	Equity	Percentage
Bellevue	$ 93,716	53.90%
King County	19,474	11.20%
Kirkland	18,256	10.50%
Redmond	16,865	9.70%
Mercer Island	16,344	9.40%
WA State Patrol	5,042	2.90%
Issaquah	4,173	2.40%
	$ 173,871	100.00%

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

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

CASCADE WATER ALLIANCE

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

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

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

Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction. The Alliance collected 2012 membership dues totaling $2,733,191 , of which Issaquah's share was $174,395 . Issaquah also paid the Alliance $1,432,193 in 2012 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 assets is deemed immaterial and thus not reflected in the financial statements.

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

Expenditures consist of capital and operations costs, per the budget adopted by the E-Gov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. Expenditures in 2012 were $1,111,016, revenues were $1,259,081

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

	Population	Percentage	Equity
Bellevue	123,400	26.11%	$ 74,869
Renton	92,590	19.59%	56,176
Kirkland	80,836	17.11%	49,045
Sammamish	46,940	9.93%	28,479
Bothell	32,720	6.92%	19,852
Issaquah	30,690	6.49%	18,620
Mercer Island	22,710	4.81%	13,779
Kenmore	20,780	4.40%	12,608
Snoqualmie	10,950	2.32%	6,644
Woodinville	10,940	2.32%	6,637
Total	472,556	100.00%	$ 286,708

NOTE 16:
OTHER DISCLOSURES

SUBSEQUENT EVENTS

No substantial subsequent events merit reporting.

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. In November 2012 the City executed another settlement agreement related to the SR900 Regional Trail project. The terms required payments of $80,250 and $26,750 be made to the City by November 1, 2012. These settlements resulted in a $107,000 net gain reported in the government funds and a $714,000 net loss reported in the government-wide activities 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 in improperly recording an investment in business-type activities as an advance to other funds, and long-term debt in the governmental funds as an advance from other funds. As of December 31, 2011, the financial statements have been restated by $2.345 million to reflect the correction. In addition, the financial statements have been restated to correct an error in not recording the addition of certain capital assets in a prior period. Net assets for government-wide activities as of December 31, 2011, have been restated by $3.273 million to reflect the correction.

Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Footnote Reference
USDA Forest Service / WA State Department of Natural Resources	Cooperative Forestry Assistance	10.664	Agreement IAA-11-282/ K244-08-DG-014	3,031	-	3,031	
U.S. Department of Commerce (NOAA) / WA State Recreation and Conservation Office / Salmon Recovery Funding Board	Pacific Coast Salmon Recovery	11.438	NA11NMF4380267 11-1496R City # g02412	7,685	-	7,685	2
U.S. Department of Commerce (NOAA)	Habitat Conservation	11.463	NA10NMF4630224 City #g00908	-	20,302	20,302	2
U.S. Department of Justice Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607		-	2,876	2,876	2
U.S. Department of Transportation FHWA / WA State Department of Transportation	Highway Planning and Construction	20.205	LA-6790 Issaquah Valley Trolley City #t03009	326,578	-	326,578	2
U.S. Department of Transportation NHTSA / WA State Traffic Safety Commission	State & Community Highway Safety	20.600	Target Zero	8,767	-	8,767	2
			Target Zero-Radar Equipment	5,000	-	5,000	2
			Subtotal	13,767	-	13,767	
U.S. Department of Transportation NHTSA / WA State Traffic Safety Commission	Occupant Protection	20.602	Target Zero-Click It or Ticket	941	-	941	2
U.S. Environmental Protection Agency / WA State Department of Commerce	Puget Sound Watershed Management Assistance	66.120	Agreement T11-63500-003	32,052	-	32,052	2
U.S. Department of Energy/ King County Department of Transportation	Conservation Research & Development	81.086	Electric Vehicle Charging Station City # rs1311	28,000	-	28,000	3
U.S. Department of Energy / WA State Department of Commerce (ARRA)	Energy Efficiency and Conservation Block Grant	81.128	F10-52110-031 ARRA EECBG City #rs1410	67,146	-	67,146	2,3
U.S. Department of Homeland Security FEMA / WA State Military Department	Disaster Grants - Public Assistance	97.036	FEMA-4056-DR-WA City #g01610	155,162	-	155,162	2
U.S. Department of Homeland Security FEMA Hazard Mitigation / WA State Military Department	Hazard Mitigation	97.039	FEMA-1817-DR-WA-19-R FEMA Hazard Mitigation	242,929	-	242,929	2
	Total Federal Awards Expended			877,291	23,178	900,469	

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

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

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
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