# Washington State Auditor's Office

## Financial Statements and Federal Single Audit Report

# City of Issaquah

## King County

Audit Period
**January 1, 2010 through December 31, 2010**

**Report No. 1006458**

Issue Date
**September 30, 2011**

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

# Washington State Auditor
# Brian Sonntag

September 30, 2011

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,

**BRIAN SONNTAG, CGFM**
STATE AUDITOR

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# Table of Contents

**City of Issaquah**
**King County**
**January 1, 2010 through December 31, 2010**

# Federal Summary

**City of Issaquah**
**King County**
**January 1, 2010 through December 31, 2010**

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

## *FINANCIAL STATEMENTS*

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

**Internal Control Over Financial Reporting:**

- ***Significant Deficiencies:*** We 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 unqualified opinion on the City's compliance with requirements applicable to its major federal program.

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

***Identification of Major Programs:***

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

| CFDA No. | Program Title |
| --- | --- |
| 20.205 | 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 in Accordance with *Government Auditing Standards*

**City of Issaquah**
**King County**
**January 1, 2010 through December 31, 2010**

Mayor and City Council
City of Issaquah
Issaquah, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 19, 2011.

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

## *INTERNAL CONTROL OVER FINANCIAL REPORTING*

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

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

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

## *COMPLIANCE AND OTHER MATTERS*

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

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

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**
STATE AUDITOR

September 19, 2011

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

**City of Issaquah**
**King County**
**January 1, 2010 through December 31, 2010**

Mayor and City Council
City of Issaquah
Issaquah, Washington

## *COMPLIANCE*

We have audited the compliance of the City of Issaquah, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

## *INTERNAL CONTROL OVER COMPLIANCE*

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

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

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

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**
STATE AUDITOR

September 19, 2011

# Independent Auditor's Report on Financial Statements

**City of Issaquah**
**King County**
**January 1, 2010 through December 31, 2010**

Mayor and City Council
City of Issaquah
Issaquah, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed on page 9. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Street funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 10 through 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**BRIAN SONNTAG, CGFM**
STATE AUDITOR

September 19, 2011

# Financial Section

**City of Issaquah**
**King County**
**January 1, 2010 through December 31, 2010**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Issaquah's annual financial report provides a narrative overview of the City's financial activities for and financial position at the end of December 31, 2010. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow.

## FINANCIAL HIGHLIGHTS

At the end of 2010 the City of Issaquah had a fund balance in the general fund equal to 33% of 2011 budgeted expenditures. The 2011 Council budget goal was to not let this ratio level drop below 15%. With the final budget, the cash reserves through 2011 are expected to remain at or near current levels. The Administration will monitor this benchmark and, if needed, come back with additional expenditure reductions during the next fiscal year.

At the end of 2010 net assets, the amount by which total assets exceeded total liabilities, equal $593 million. A total of 93%, or $553 million, of total net assets is invested in capital such as land, buildings, infrastructure and utilities. Of the net assets, $15 million is restricted for debt service, capital projects, etc. $25 million is available to meet the City's ongoing activities and obligations.

Governmental fund balances at year-end were $26 million. Of this amount, a total of $25 million or 94% of the governmental fund balance is unreserved and available to fund ongoing activities with $11 million being earmarked for capital project activities.

Unreserved fund balance in the general fund was $10 million, a increase of $1.7 million from the prior year.

In 2010 the City retired $3.9 million in debt. Total debt at year-end was $48 million, not including compensated absences or OPEB.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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), security (police and fire), physical and economic environment, transportation, mental/physical health, and culture and recreation. The City's business-type activities are limited to water, sewer and stormwater utilities.

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

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

All activity on the statement of activities is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. 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 often 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 report includes 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, and proprietary 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 of Issaquah maintains 22 active individual governmental funds. The City's five major governmental funds, the general fund, street special revenue, capital improvement fund, the street capital improvement fund, and LID #24 construction fund are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the remaining governmental funds are combined into a single column labeled Other Governmental Funds.

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 and major special revenue funds, if any, to demonstrate compliance with this budget.

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

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

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

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

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

*Fiduciary funds.* Fiduciary funds account for resources held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are *not* included in the government-wide financial statements because the sources of these funds are *not* available to support the City of Issaquah's own programs.

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

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

Statistical Section. This section includes un-audited trend information and demographics.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The City of Issaquah's net assets at December 31, 2010, total $593 million. The following is a condensed version of the government-wide statement of net assets.

City of Issaquah's Net Assets
*(in thousands)*

| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Current and other assets | $ 43,091 | $ 42,289 | $ 10,395 | $ 12,594 | $ 53,486 | $ 54,883 |
| Capital assets, net of depreciation | 483,857 | 487,844 | 114,816 | 115,193 | 598,673 | 603,037 |
| Total Assets | 526,948 | 530,133 | 125,211 | 127,787 | 652,159 | 657,920 |
| Current liabilities | 5,919 | 8,176 | 299 | 277 | 6,218 | 8,453 |
| Liabilities payable from restricted assets | 3,863 | 4,073 | - | - | 3,863 | 4,073 |
| Noncurrent liabilities | 45,469 | 42,599 | 10,350 | 9,476 | 55,819 | 52,075 |
| Total liabilities | 55,251 | 54,848 | 10,649 | 9,753 | 65,900 | 64,601 |
| Net Assets: | | | | | | |
| Invested in capital assets net of debt | 438,717 | 448,884 | 102,765 | 104,567 | 541,482 | 553,451 |
| Restricted | 17,185 | 10,220 | 3,532 | 4,779 | 20,717 | 14,999 |
| Unrestricted | 15,795 | 16,181 | 8,265 | 8,688 | 24,060 | 24,869 |
| Total net assets | $ 471,697 | $ 475,285 | $ 114,562 | $ 118,034 | $ 586,259 | $ 593,319 |

The largest component of the City's net assets, 93% or $553 million is its investment in capital assets, net of related debt. These capital assets such as streets, trails, parks, utilities, and police vehicles are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

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

## Changes in Net Assets

The City of Issaquah's net assets increased approximately $7.5 million in 2010. The change in governmental activities was an increase of $3.6 million and an increase of $3.9 million in the business-type activities. The following table shows the revenues, expenses and related changes in net assets for the governmental activities separate from the business-type activities.

### City of Issaquah Statement of Activities

*(in thousands)*

| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Revenues: | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | $ 10,752 | $ 7,195 | $ 17,102 | $ 16,291 | $ 27,854 | $ 23,486 |
| Operating grants & contributions | 1,525 | 3,352 | 438 | - | 1,963 | 3,352 |
| Capital grants & contributions | 5,896 | 7,181 | 4,605 | 4,414 | 10,501 | 11,595 |
| General revenues: | | | | | - | - |
| Property taxes | 7,785 | 8,493 | - | - | 7,785 | 8,493 |
| Sales taxes | 9,395 | 10,686 | - | - | 9,395 | 10,686 |
| Business taxes | 6,654 | 6,709 | - | - | 6,654 | 6,709 |
| Other taxes | 1,820 | 1,756 | - | - | 1,820 | 1,756 |
| Investment earnings | 490 | 315 | 21 | 10 | 511 | 325 |
| Total revenues | 44,317 | 45,687 | 22,166 | 20,715 | 66,483 | 66,402 |
| Expenses: | | | | | | - |
| Judicial | 791 | 545 | - | - | 791 | 545 |
| General government | 7,836 | 7,144 | - | - | 7,836 | 7,144 |
| Public safety | 11,739 | 12,505 | - | - | 11,739 | 12,505 |
| Physical environment | 933 | 964 | - | - | 933 | 964 |
| Transportation | 12,538 | 12,017 | - | - | 12,538 | 12,017 |
| Health and human services | 9 | 7 | - | - | 9 | 7 |
| Economic environment | 3,458 | 3,223 | - | - | 3,458 | 3,223 |
| Culture and recreation | 5,463 | 5,174 | - | - | 5,463 | 5,174 |
| Interest on long term debt | 2,020 | 1,542 | - | - | 2,020 | 1,542 |
| Water | - | - | 5,834 | 6,153 | 5,834 | 6,153 |
| Sewer | - | - | 6,294 | 6,250 | 6,294 | 6,250 |
| Storm Water | - | - | 4,229 | 4,021 | 4,229 | 4,021 |
| Total expenses | 44,787 | 43,121 | 16,357 | 16,424 | 61,144 | 59,545 |
| Increase (decrease) in net assets before transfers | (470) | 2,566 | 5,809 | 4,291 | 5,339 | 6,857 |
| Transfers, net | 309 | 363 | (309) | (363) | - | - |
| Miscellaneous Revenue/(expense) | 979 | 659 | 9 | | 988 | 659 |
| Increase (decrease) in net assets | 818 | 3,588 | 5,509 | 3,928 | 6,327 | 7,516 |
| Net Assets - beginning | 470,879 | 471,697 | 109,053 | 114,562 | 579,932 | 586,259 |
| Prior period adjustment | - | | - | (456) | - | (456) |
| Net Assets - ending | 471,697 | 475,285 | 114,562 | 118,034 | $ 586,259 | $ 593,319 |

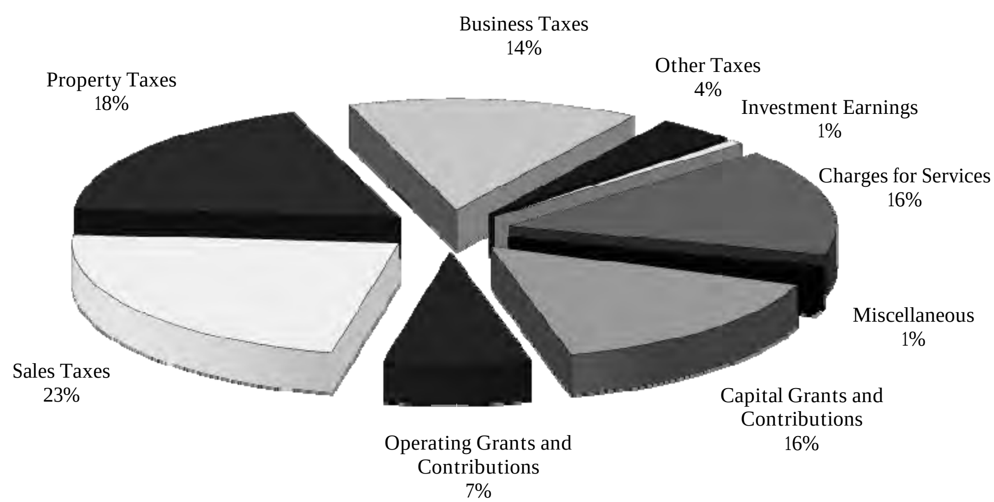
**Governmental activities.** Governmental activities contributed $3.6 million of the total change in net assets of $7.5million. Key elements of the increase are as follows:

- Governmental revenues increased $1.3 million, up from a decrease of $722 thousand in 2009.
- Charges for services decreased $3.6 million.
- Operating grants and contributions increased $1.8 million.
- Capital Grants and contributions increased $1.3 million.
- Overall tax revenue increased $2 million primarily in property and sales taxes.

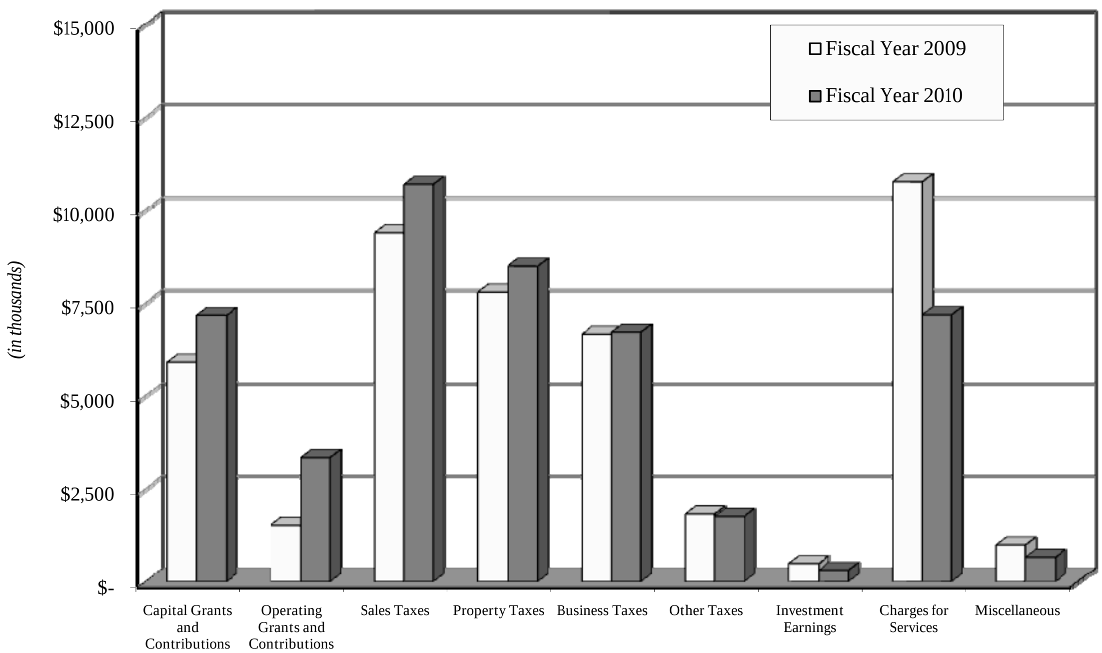
In 2010, the City of Issaquah continues its focus on sustainability forming the Sustainability Indicators Sounding Board charged with developing recommendations on how the City can measure the progress of sustainability within the community. In 2010 the City supported protecting the natural environment – including water quality, creeks and wildlife – while providing needed services to citizens through improved productivity.

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

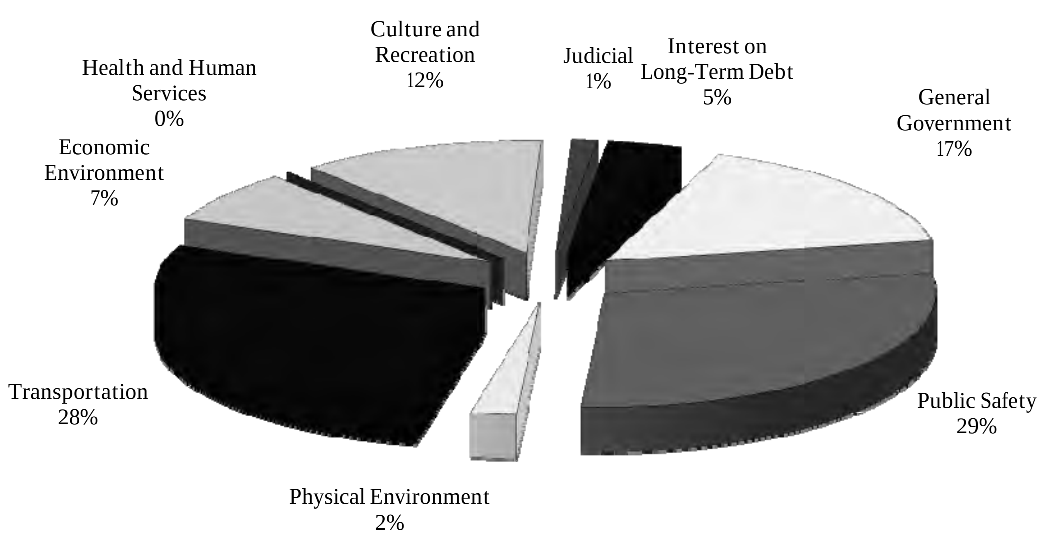
Revenues by Source - Government Activities



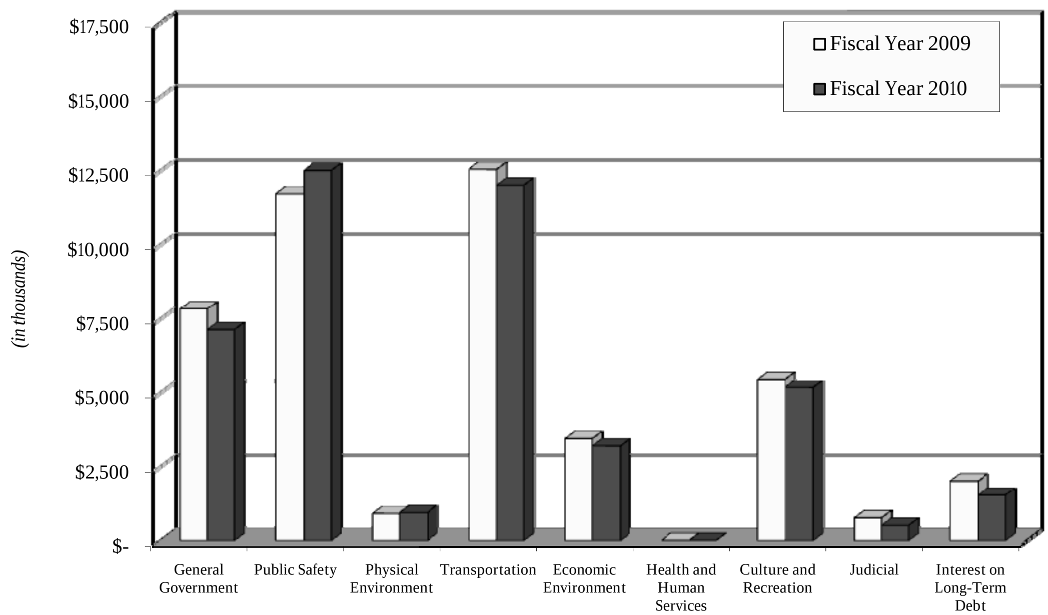
Revenues by Source Comparison - Governmental Activities



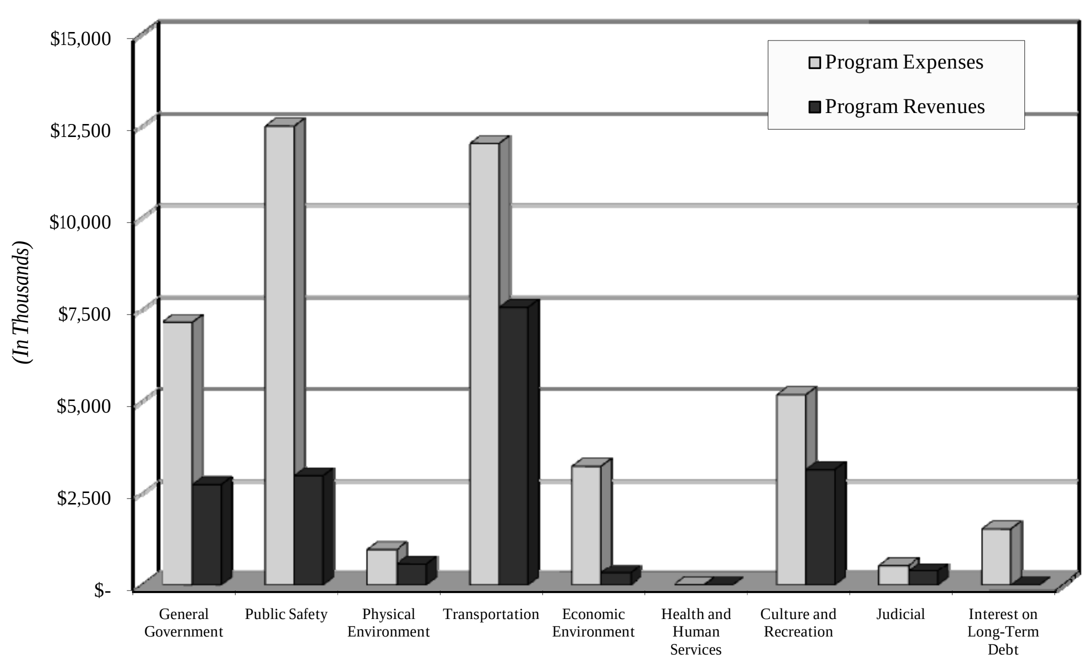

Program Expenses - Governmental Activities



Expenditure Comparison by Program - Governmental Activities

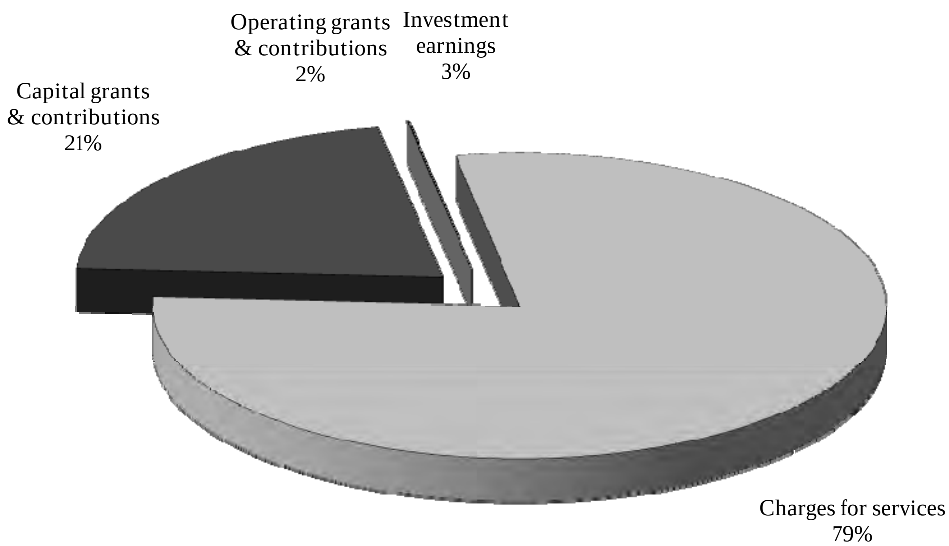



Program Expenses vs. Revenues - Governmental Activities

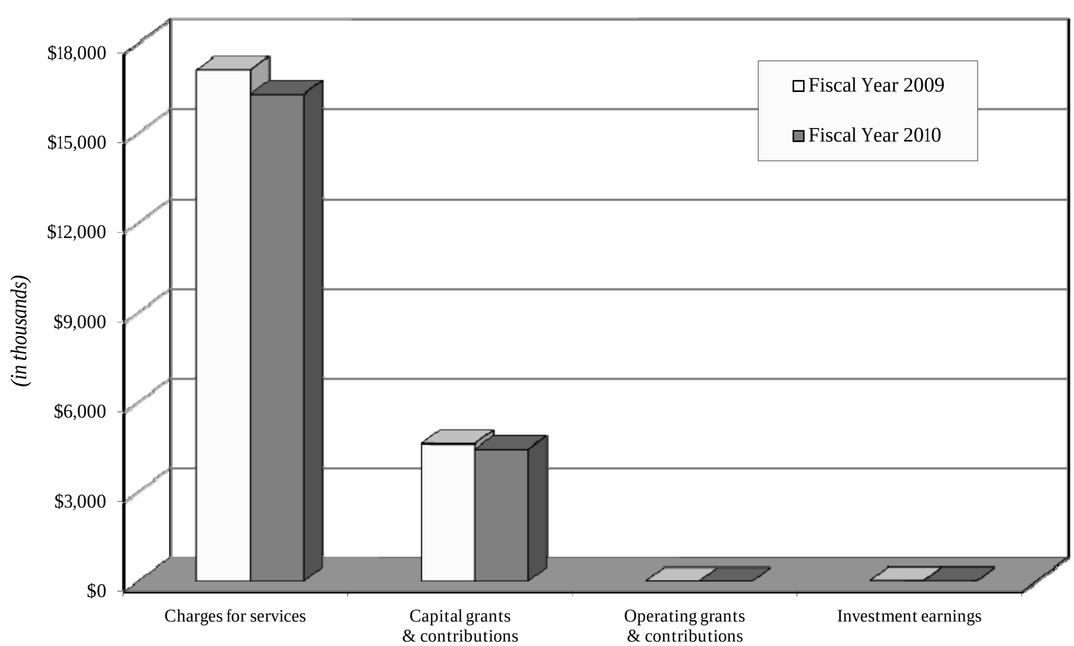


*Business-type activities* the City's utilities increased the City of Issaquah's net assets by $3.9 million.

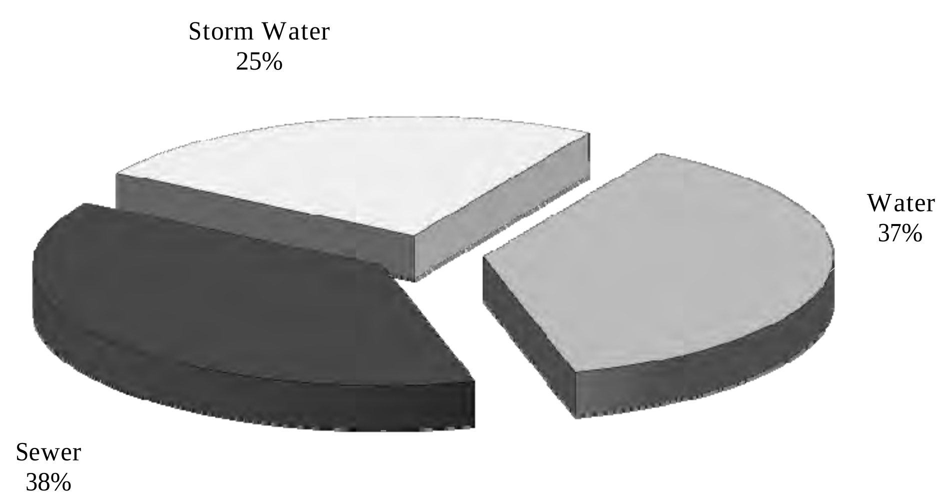
Revenues by Source - Business Type Activities



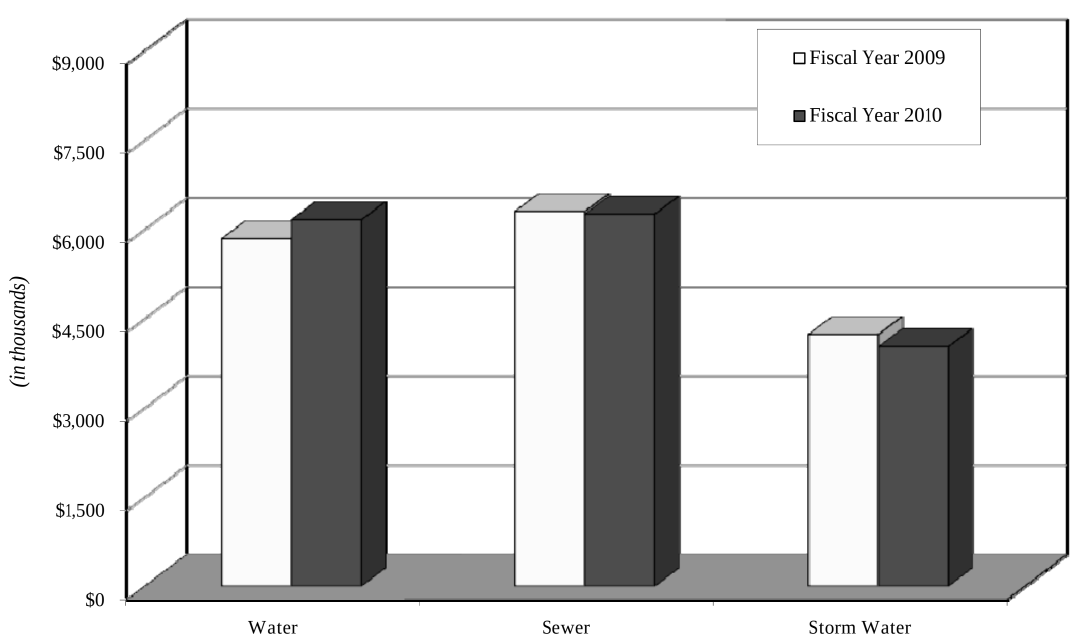

Revenues by Source Comparison - Business Type Activities



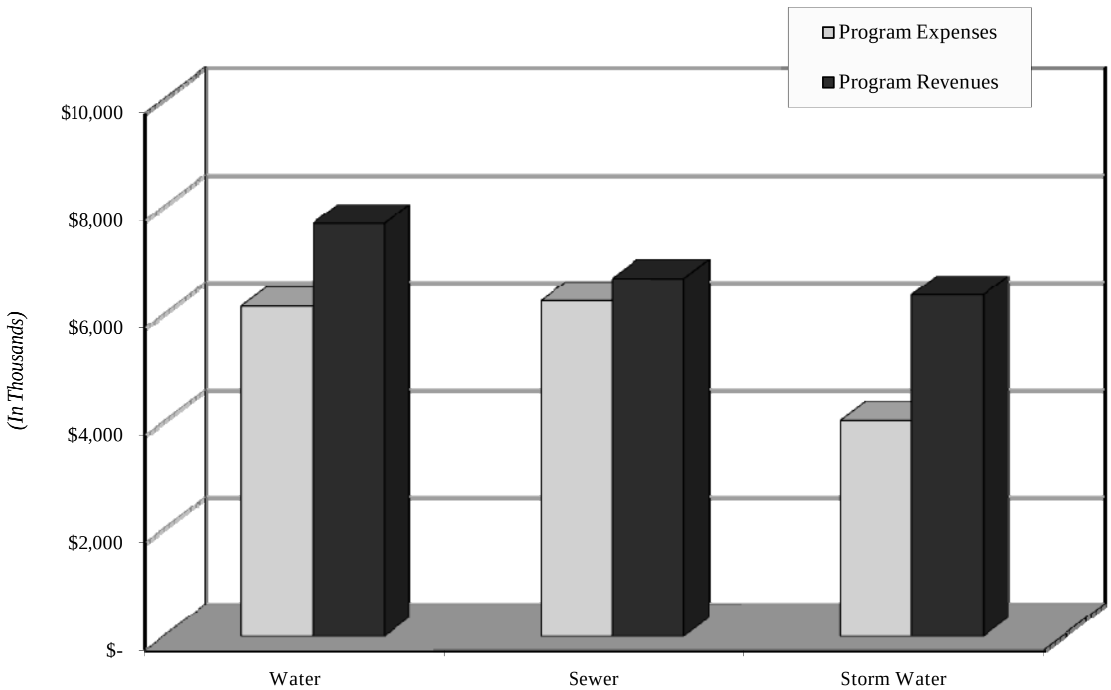
Program Expenses Including Depreciation - Business Type Activities




Expenditure Comparison by Program - Business Type Activities



Program Expenses vs. Revenues - Business Type Activities




## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As discussed earlier, 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, unreserved fund balance is a good indicator of the City's resources available for spending at the end of the year.

At the end of 2010, the City's combined ending governmental fund balance was $26 million. Of the total ending fund balance, $1.7 million is reserved for debt service. Of the remaining fund balance, $11 million is earmarked for capital construction projects and $3.4 million resides with special revenue funds. Additionally, Internal Service Funds have $11.4 million net assets with $3 million invested in capital assets, net of depreciation.

The general fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. The fund balance at the end of 2010 of the general fund was $10.1 million. As a measure of the fund's liquidity, the ending fund balance is 38% of the fund's 2010 expenditures.

The general fund balance increased $1.7 million from the prior year. Revenues increase from prior year by $2.3 million, while expenditures decreased by $533 thousand. In the current year, revenues exceeded expenditures in the general fund by $3.9 million. Net transfers out of the general fund totaled $2.3 million, primarily to the street fund ($2.2 million).

The street fund was created to provide for the movement of traffic through a street maintenance program and long range planning. Primary revenue sources are transfer from General Fund, grading permits, inspection fees, a share of state motor vehicle fuel tax money, and a portion of sales tax (5%). The street fund ending fund balance was $1.97 million, a decrease of $269 thousand from 2009.

The capital improvements fund was created to account for major city capital improvement projects not budgeted under specific funds. Primary revenue sources are the one-quarter percent excise tax on real estate sales and the portion of sales tax (25%) dedicated to capital improvements by Council policy. Excise tax proceeds are to be used solely for financing capital projects specified in a Capital Improvement Plan and such funds are intended to be in addition to other funds that may be reasonably available for such capital projects. Currently excise taxes are dedicated to paying off the debt incurred for councilmanic bonds.

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

## BUDGETARY HIGHLIGHTS

The City of Issaquah budgets annually on a cash basis. A comparison of the actual performance of the general fund on a budgetary basis to the final budget indicates that total revenues were $1 million (4%) more than budgeted and expenditures were $701 thousand (3%) less than budgeted. The increase in revenues resulted from $524 thousand more than budgeted in Sales Tax revenues. The decrease in expenditures resulted from a reduction in staffing and 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, 2010, amounts to over $603 million (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, construction in progress, infrastructure and utility transmission/distribution systems.

Major capital assets changes during 2010 included the following:

- At December 31, $29 million construction was under way.
- Developers donated capital of over $2.3 million in the governmental activities and over $2 million in the utilities during 2010. As development slows so does the need for the infrastructure assets which developers typically donate to the City.

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 | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Land & other nondepreciables | $ 288,071 | $ 291,060 | $ 12,104 | $ 12,104 | $ 300,175 | $ 303,164 |
| Infrastructure | 139,249 | 133,829 | - | - | 139,249 | 133,829 |
| Intangible property | 1,384 | 1,290 | 46 | 42 | 1,430 | 1,332 |
| Buildings & improvements | 36,899 | 35,908 | 96,131 | 95,732 | 133,030 | 131,640 |
| Machinery & equipment | 4,256 | 3,982 | 424 | 395 | 4,680 | 4,377 |
| Construction in progress | 13,998 | 21,775 | 6,111 | 6,920 | 20,109 | 28,695 |
| Total | $ 483,857 | $ 487,844 | $ 114,816 | $ 115,193 | $ 598,673 | $ 603,037 |

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

Long-Term Debt. At the end of 2010, the City of Issaquah had total bonded debt outstanding of $43 million and other long-term debt of $5.6 million. The total bonded debt is distributed as follows.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| General obligation bonds | $ 36,440 | $ 33,850 | $ - | $ - | $ 36,440 | $ 33,850 |
| Revenue bonds | - | - | 9,595 | 8,780 | 9,595 | 8,780 |
| Total | $ 36,440 | $ 33,850 | $ 9,595 | $ 8,780 | $ 46,035 | $ 42,630 |

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, 2010, was $5,950,256,766 and the total amount of debt the City may issue is $413,114,559. Remaining debt capacity is as follows:

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

| | General Capacity | | Special Purpose Capacity | | |
|---|---|---|---|---|---|
| | Councilmanic (Non-Voted) | Excess Levy (Voted-In) | Parks & Open Space (Voted-In) | Utility Purpose (Voted-In) | Total Capacity |
| December 31, 2010 Assessed Value[1]: | | | | | $ 5,950,257 |
| 2.50 % of Assessed Value | $ - | $ 148,756 | $ 148,756 | $ 148,756 | $ 446,269 |
| 1.50% of Assessed Value | 89,254 | (89,254) | - | - | - |
| Statutory Debt Limit | $ 89,254 | $ 59,503 | $ 148,756 | $ 148,756 | $ 446,269 |
| Less Debt Outstanding (General Obligation Bonds) | $ (20,085) | $ (8,425) | $ (5,340) | $ - | $ (33,850) |
| Add Amount Available in Debt Service Fund | 37 | 403 | 255 | - | 695 |
| Remaining Debt Capacity | $ 69,206 | $ 51,481 | $ 143,671 | $ 148,756 | $ 413,114 |

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.

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

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

**Governmental Activities.** In 2011, General Fund budgeted expenditures total $30,403,096, which represents a $1.3 million increase over year 2010 operating levels. .

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

In 2010, the voted-in excess property tax rate was $0.26 per $1,000 of assessed valuation. The excess property tax rate is expected to decrease $0.01 per $1,000 in 2011 to $0.25 per $1,000.

A large portion of capital expenditures in this fund are prior commitments, including debt payments of $2,271,744 for Councilmanic bonds, which were used to construct a variety of public facilities.

Major non-bond funded capital projects budgeted include:

- SR 900 Pedestrian Trail/Overpass .......... $2,139,000
- I-90 Undercrossing Improvements .......... $380,000
- Complete Streets Program .......... $200,000

**Business-Type Activities.** This budget also includes a number of water, sewer and stormwater improvement projects. During 2010 there were no utility rate increases.

Water Capital Projects budgeted in 2011 include:

- Annual Water Main Replacement .......... $500,000
- Water Blending Phase II Construction .......... $400,000
- Seismic Retrofits .......... $100,000

Sewer. Capital projects budgeted in 2011 include:

- Holiday Inn Lift Station .......... $600,000
- Annual Sewer Main Rehabilitation Program .......... $350,000
- Annual Manhole Rehab Program .......... $100,000

Major Stormwater projects budgeted in 2011 include:

- Issaquah Creek Hazard Mitigation .......... $788,456
- Central Pad 3 LID Parking Lot .......... $422,000
- Cemetery Transfer Site (NPDES) .......... $280,000

## 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 Assets
## December 31, 2010
*(in thousands)*

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **Assets:** | | | |
| Cash and cash equivalents | $ 29,488 | $ 11,238 | $ 40,726 |
| Restricted cash | 4,073 | - | 4,073 |
| Receivables | 7,897 | 1,685 | 9,582 |
| Internal balances | (470) | 470 | - |
| Internal loans | 1,150 | (1,150) | - |
| Inventory | 151 | 351 | 502 |
| Capital Assets not being depreciated: | | | |
| Land | 290,843 | 12,104 | 302,947 |
| Construction in progress | 21,775 | 6,920 | 28,695 |
| Other assets | 217 | - | 217 |
| Capital Assets (net of accumulated depreciation): | | | |
| Buildings | 26,426 | 8,112 | 34,538 |
| Improvements other than buildings | 9,482 | - | 9,482 |
| Infrastructure | 133,829 | - | 133,829 |
| Intangible assets | 1,290 | 42 | 1,332 |
| Plant in service | - | 87,620 | 87,620 |
| Machinery and equipment | 3,982 | 395 | 4,377 |
| Total assets | 530,133 | 127,787 | 657,920 |
| **Liabilities:** | | | |
| Accounts payable | 2,760 | 241 | 3,001 |
| Accrued interest | - | 36 | 36 |
| Unearned revenue | 5,416 | - | 5,416 |
| Liabilities payable from restricted assets | 4,073 | - | 4,073 |
| Noncurrent liabilities: | | | |
| Due within one year | 3,005 | 921 | 3,926 |
| Due in more than one year | 39,214 | 8,555 | 47,769 |
| Other deferred revenue | 380 | - | 380 |
| Total liabilities | 54,848 | 9,753 | 64,601 |
| **Net assets:** | | | |
| Invested in capital assets, net of related debt | 448,884 | 104,567 | 553,451 |
| Restricted for: | | | |
| Debt service | 1,747 | 921 | 2,668 |
| Capital projects | 8,106 | 3,858 | 11,964 |
| Other purposes | 367 | - | 367 |
| Unrestricted | 16,181 | 8,688 | 24,869 |
| Total net assets | $ 475,285 | $ 118,034 | $ 593,319 |

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

# Statement of Activities
## For the Fiscal Year Ended December 31, 2010
*(in thousands)*

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets — Primary Government | | |
|---|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| Judicial | $ 545 | $ 293 | $ 90 | $ - | $ (162) | $ - | $ (162) |
| General government | 7,144 | 1,537 | 900 | 306 | (4,401) | - | (4,401) |
| Public safety | 12,505 | 1,378 | 1,527 | 72 | (9,528) | - | (9,528) |
| Physical environment | 964 | 503 | 81 | 1 | (379) | - | (379) |
| Transportation | 12,017 | 1,281 | 610 | 5,681 | (4,445) | - | (4,445) |
| Health and human services | 7 | - | - | - | (7) | - | (7) |
| Economic environment | 3,223 | 329 | 1 | - | (2,893) | - | (2,893) |
| Culture and recreation | 5,174 | 1,874 | 143 | 1,121 | (2,036) | - | (2,036) |
| Interest on long-term debt | 1,542 | - | - | - | (1,542) | - | (1,542) |
| Total governmental activities: | 43,121 | 7,195 | 3,352 | 7,181 | (25,393) | - | (25,393) |
| Business-type activities: | | | | | | | |
| Water | 6,153 | 5,938 | - | 1,749 | - | 1,534 | 1,534 |
| Sewer | 6,250 | 6,220 | - | 440 | - | 410 | 410 |
| Storm Water | 4,021 | 4,133 | - | 2,225 | - | 2,337 | 2,337 |
| Total business-type activities: | 16,424 | 16,291 | - | 4,414 | - | 4,281 | 4,281 |
| Total primary government | $ 59,545 | $ 23,486 | $ 3,352 | $ 11,595 | $ (25,393) | $ 4,281 | $ (21,112) |
| General revenues: | | | | | | | |
| Property taxes | | | | | $ 8,493 | $ - | $ 8,493 |
| Sales taxes | | | | | 10,686 | - | 10,686 |
| B&O taxes | | | | | 6,709 | - | 6,709 |
| Other taxes | | | | | 1,756 | - | 1,756 |
| Investment earnings | | | | | 315 | 10 | 325 |
| Rents and leases | | | | | 610 | - | 610 |
| Miscellaneous Revenue | | | | | 49 | - | 49 |
| Transfers | | | | | 363 | (363) | - |
| Total general revenues and transfers | | | | | 28,981 | (353) | 28,628 |
| Change in net assets | | | | | 3,588 | 3,928 | 7,516 |
| Net assets - beginning | | | | | 471,697 | 114,562 | 586,259 |
| Prior period adjustment (expense asset) | | | | | | (456) | (456) |
| Net assets - ending | | | | | $ 475,285 | $ 118,034 | $ 593,319 |

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

# Balance Sheet
## Governmental Funds
## As of December 31, 2010
*(in thousands)*

| | General Fund | Street Special Revenue Fund | Capital Im-prove-ment Fund | Capital Street Im-prove-ments Fund | LID #24 Con-struct-ion Fund | Other Govern-mental Funds | Total Govern-mental Funds |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash & cash equivalents | $ 8,090 | $ 1,342 | $ 710 | $ 632 | $ 92 | $ 13,442 | $ 24,308 |
| Receivables (net) | 3,327 | 762 | 570 | 2,999 | - | 119 | 7,777 |
| Total assets | $ 11,417 | $ 2,104 | $ 1,280 | $ 3,631 | $ 92 | $ 13,561 | $ 32,085 |
| LIABILITIES & FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and accruals | 1,123 | 132 | 8 | 641 | 2 | 449 | 2,355 |
| Due to other funds - short term | - | - | 250 | - | 2,300 | - | 2,550 |
| Due to other funds - long term | - | - | 250 | - | - | - | 250 |
| Deferred revenue | 147 | - | 380 | - | - | 40 | 567 |
| Total liabilities | 1,270 | 132 | 888 | 641 | 2,302 | 489 | 5,722 |
| Fund balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Debt service | - | - | - | - | - | 1,707 | 1,707 |
| Unreserved, reported in: | | | | | | | |
| General fund | 10,147 | - | - | - | - | - | 10,147 |
| Special revenue funds | - | 1,972 | - | - | - | 1,441 | 3,413 |
| Capital project funds | - | - | 392 | 2,990 | (2,210) | 9,924 | 11,096 |
| Total fund balances | 10,147 | 1,972 | 392 | 2,990 | (2,210) | 13,072 | 26,363 |
| Total liabilities and fund balances | $ 11,417 | $ 2,104 | $ 1,280 | $ 3,631 | $ 92 | $ 13,561 | $ 32,085 |

| | |
|---|---|
| Total fund balances | $ 26,363 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 484,815 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds | (41,656) |
| Permit fees collected; service not performed | (5,416) |
| Plus earned but not available revenue reported in Governmental Funds as liability and in Government Wide as revenue | 187 |
| Internal service funds - used by management to charge the costs of certain activities | 11,462 |
| Internal balance liability with asset in Enterprise Funds for services provided by Internal Service Funds | (470) |
| Net assets of governmental activities | $ 475,285 |

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Twelve Months Ending December 31, 2010
*(in thousands)*

| | General Fund | Street Special Revenue Fund | Capital Improve-ment Fund | Capital Street Improve-ment Fund | LID #24 Con-struc-tion Fund | Other Govern-mental Funds | Total Govern-mental Funds |
|---|---|---|---|---|---|---|---|
| REVENUES | | | | | | | |
| Taxes: | | | | | | | |
| Property | $ 6,946 | $ - | $ - | $ - | $ - | $ 1,552 | $ 8,498 |
| Sales | 7,571 | 504 | 2,519 | - | - | 92 | 10,686 |
| Business and occupation | 6,575 | - | - | - | - | 134 | 6,709 |
| Other | 224 | - | 782 | 750 | - | - | 1,756 |
| Licenses and permits | 2,755 | 90 | - | - | - | 412 | 3,257 |
| Intergovernmental | 2,561 | 610 | 300 | 3,162 | - | 1,203 | 7,836 |
| Charges for services | 2,339 | 1,190 | - | - | - | 773 | 4,302 |
| Fines and penalties | 1,093 | - | - | - | - | - | 1,093 |
| Investment earnings | 119 | - | 1 | 1 | - | 3 | 124 |
| Rents and leases | 469 | - | 141 | - | - | - | 610 |
| Contributions and donations | 28 | - | 1 | 146 | - | 60 | 235 |
| Miscellaneous revenues | 18 | - | - | - | - | - | 18 |
| Total revenues | 30,698 | 2,394 | 3,744 | 4,059 | - | 4,229 | 45,124 |
| Expenditures | | | | | | | |
| General government | 6,657 | - | 33 | - | - | 282 | 6,972 |
| Judicial | 540 | - | - | - | - | - | 540 |
| Public safety | 11,705 | - | 4 | - | - | 150 | 11,859 |
| Physical environment | 201 | - | - | - | - | 730 | 931 |
| Transportation | - | 4,756 | 420 | 646 | - | - | 5,822 |
| Economic environment | 3,165 | - | - | - | - | - | 3,165 |
| Health and human services | 7 | - | - | - | - | - | 7 |
| Culture and recreation | 4,522 | - | - | - | - | 154 | 4,676 |
| Debt service: | | | | | | | |
| Principal | - | - | - | 350 | - | 2,657 | 3,007 |
| Interest and other debt costs | - | - | 33 | - | - | 1,509 | 1,542 |
| Capital outlay: | | | | | | | |
| General government | - | - | 138 | - | - | 9 | 147 |
| Public safety | - | - | 15 | - | - | 1,977 | 1,992 |
| Transportation | - | 36 | - | 5,983 | 482 | 98 | 6,599 |
| Culture and recreation | - | - | - | - | - | 311 | 311 |
| Total expenditures | 26,797 | 4,792 | 643 | 6,979 | 482 | 7,877 | 47,570 |
| Excess (deficiency) of revenues over (under) expenditures | 3,901 | (2,398) | 3,101 | (2,920) | (482) | (3,648) | (2,446) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers in | 147 | 2,160 | - | 700 | - | 3,126 | 6,133 |
| (Transfers out) | (2,304) | (31) | (2,647) | (162) | - | (892) | (6,036) |
| Principal repayment LID | - | - | - | - | - | 65 | 65 |
| Interest LID | - | - | - | - | - | 54 | 54 |
| Total other financing sources and uses | (2,157) | 2,129 | (2,647) | 538 | - | 2,353 | 216 |
| Net change in fund balances | 1,744 | (269) | 454 | (2,382) | (482) | (1,295) | (2,230) |
| Fund balance - beginning | 8,403 | 2,241 | (62) | 5,372 | (1,728) | 14,367 | 28,593 |
| Fund balance - ending | $ 10,147 | $ 1,972 | $ 392 | $ 2,990 | $ (2,210) | $ 13,072 | $ 26,363 |

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, 2010
*(in thousands)*

| | | |
|---|---|---|
| Net changes in fund balances for governmental funds | | $ (2,230) |
| 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 assets | 9,049 | |
| Depreciation | (7,261) | |
| | | 1,788 |
| Developers construct and then donate infrastructure to the government. Infrastructure is not reported in the governmental funds. | | |
| Developer donated infrastructure current year | | 2,343 |
| 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 | | 3,007 |
| 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 | | (1,457) |
| Governmental funds reported modified accrual report taxes levied but not available in deferred revenue whereas in the statement of activities they are reported as revenue. | | |
| Change in deferred property taxes | | (5) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds. This consists of: | | |
| Compensated absences | (43) | |
| Post Employment Benefit Obligation | (75) | |
| | | (118) |
| 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 | (228) | |
| Non-operating revenues from outside sources | 222 | |
| Intergovernmental transfers | 266 | |
| | | 260 |
| Change in net assets of governmental activities | | $ 3,588 |

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, 2010
*(in thousands – Budget is Cash Basis)*

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance with Final Budget |
|---|---|---|---|---|
| Revenues: | | | | |
| Taxes: | | | | |
| Property | $ 6,991 | $ 6,991 | $ 6,942 | $ (49) |
| Sales | 6,775 | 6,775 | 7,299 | 524 |
| Business | 6,690 | 6,690 | 6,384 | (306) |
| Other | 197 | 197 | 216 | 19 |
| Licenses and permits | 1,665 | 1,665 | 2,800 | 1,135 |
| Intergovernmental | 1,152 | 1,152 | 1,167 | 15 |
| Charges for services | 3,848 | 3,848 | 3,951 | 103 |
| Judicial (government wide) | 1,078 | 1,078 | 1,181 | 103 |
| Investment income | 541 | 541 | 119 | (422) |
| Miscellaneous | 394 | 394 | 360 | (34) |
| Total revenues | 29,331 | 29,331 | 30,419 | 1,088 |
| Expenditures: | | | | |
| Current: | | | | |
| General government services | 6,979 | 6,979 | 6,685 | 294 |
| Judicial | 561 | 561 | 536 | 25 |
| Security of persons and property | 11,960 | 11,960 | 11,700 | 260 |
| Utilities and environment | 179 | 179 | 172 | 7 |
| Economic environment | 3,020 | 3,020 | 3,146 | (126) |
| Health and human services | 7 | 7 | 7 | - |
| Culture and recreation | 4,787 | 4,787 | 4,546 | 241 |
| Total expenditures | 27,493 | 27,493 | 26,792 | 701 |
| Excess(deficiency) of revenues over (under) expenditures | 1,838 | 1,838 | 3,627 | 1,789 |
| Other financing sources (uses): | | | | |
| Transfers in | 483 | 483 | 133 | (350) |
| Transfers out | (2,304) | (2,304) | (2,304) | - |
| Total other financing sources and uses | (1,821) | (1,821) | (2,171) | (350) |
| Net change in fund balances | 17 | 17 | 1,456 | 1,439 |
| Fund balances-beginning | 5,329 | 5,329 | 5,837 | 508 |
| Fund balances-ending | $ 5,346 | $ 5,346 | $ 7,293 | $ 1,947 |

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

# Street Fund
## Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
## For the Fiscal Year Ended December 31, 2010
*(in thousands – Budget is Cash Basis)*

| | Original Budget | Final Budget | Actual on Budgetary Basis | Variance with Final Budget |
|---|---|---|---|---|
| Revenues: | | | | |
| Taxes: | | | | |
| Sales Tax | $ 443 | $ 443 | $ 485 | $ 42 |
| Licenses and permits | 85 | 85 | 74 | (11) |
| Intergovernmental | 582 | 582 | 582 | - |
| Charges for services | 44 | 44 | 6 | (38) |
| Investment income | 2 | 2 | - | (2) |
| Contributions and donations | 1,763 | 1,763 | 991 | (772) |
| Total revenues | 2,919 | 2,919 | 2,138 | (781) |
| Expenditures: | | | | |
| Transportation (highways and streets) | 5,444 | 5,444 | 4,877 | 567 |
| Total expenditures | 5,444 | 5,444 | 4,877 | 567 |
| Excess(deficiency) of revenues over (under) expenditures | (2,525) | (2,525) | (2,739) | (214) |
| Other financing sources (uses): | | | | |
| Transfers in | 2,160 | 2,160 | 2,160 | - |
| Transfers out | (31) | (31) | (31) | - |
| Total other financing sources and uses | 2,129 | 2,129 | 2,129 | - |
| Net change in fund balances | (396) | (396) | (610) | (214) |
| Fund balances - beginning | 1,478 | 1,478 | 1,870 | 392 |
| Fund balances - ending | $ 1,082 | $ 1,082 | $ 1,260 | $ 178 |

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

# Statement of Fund Net Assets
## Proprietary Funds
## As of December 31, 2010
*(in thousands)*

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Water | Sewer | Storm | Totals | Internal Service Funds |
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 4,836 | $ 3,930 | $ 2,472 | $ 11,238 | $ 5,180 |
| Accounts receivable | 428 | 426 | 476 | 1,330 | 120 |
| Due from other funds | - | - | - | - | 3,950 |
| Other receivables | 5 | - | 350 | 355 | - |
| Inventory | 303 | 7 | 41 | 351 | 151 |
| Total current assets | 5,572 | 4,363 | 3,339 | 13,274 | 9,401 |
| Noncurrent assets: | | | | | |
| Capital assets: | | | | | |
| Construction in progress | 3,504 | 15 | 3,401 | 6,920 | - |
| Land and land rights | 9,186 | - | 2,918 | 12,104 | - |
| Intangible property | 42 | - | - | 42 | - |
| Buildings and improvements | 8,112 | - | - | 8,112 | 114 |
| Plant in service | 38,185 | 15,860 | 33,575 | 87,620 | - |
| Machinery and equipment | 177 | 218 | - | 395 | 2,915 |
| Total capital assets, net depreciatioı | 59,206 | 16,093 | 39,894 | 115,193 | 3,029 |
| Total noncurrent assets | 59,206 | 16,093 | 39,894 | 115,193 | 3,029 |
| Total assets | 64,778 | 20,456 | 43,233 | 128,467 | 12,430 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 41 | 17 | 41 | 99 | 243 |
| Accrued Wages | 69 | 22 | 51 | 142 | 162 |
| Bonds payable | 670 | - | 190 | 860 | - |
| Interfund Loan | 300 | - | 250 | 550 | - |
| Public works trust current payable | - | - | 61 | 61 | - |
| Matured interest | 27 | - | 9 | 36 | - |
| Total current liabilities | 1,107 | 39 | 602 | 1,748 | 405 |
| Noncurrent liabilities | | | | | |
| Compensated absences | 94 | 39 | 72 | 205 | 563 |
| Revenue bonds payable | 6,100 | - | 1,820 | 7,920 | - |
| Interfund Loan | 300 | - | 300 | 600 | - |
| Public works trust fund debt | - | - | 430 | 430 | - |
| Total noncurrent liabilities | 6,494 | 39 | 2,622 | 9,155 | 563 |
| Total liabilities | 7,601 | 78 | 3,224 | 10,903 | 968 |
| Net assets: | | | | | |
| Invested in capital assets, net of related debı | 51,742 | 16,054 | 36,771 | 104,567 | 3,029 |
| Restricted for: | | | | | |
| Debt service | 670 | | 251 | 921 | - |
| Capital assets | 1,561 | 2,022 | 275 | 3,858 | - |
| Unrestricted | 3,204 | 2,302 | 2,712 | 8,218 | 8,433 |
| Total net assets | $ 57,177 | $ 20,378 | $ 40,009 | $ 117,564 | $ 11,462 |

| | |
|---|---|
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | 470 |
| Net assets of business-type activities | $ 118,034 |

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

# Statement of Revenues, Expenditures, and Changes in Fund Net Assets
## Proprietary Funds
## For the Fiscal Year Ended December 31, 2010
*(in thousands)*

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Water | Sewer | Storm | Totals | Internal Service Funds |
| Operating revenues: | | | | | |
| Charges for services | $ 5,938 | $ 6,220 | $ 4,133 | $ 16,291 | $ 5,904 |
| Intergovernmental Revenue | - | - | - | - | 174 |
| Total operating revenues | 5,938 | 6,220 | 4,133 | 16,291 | 6,078 |
| Operating expenses: | | | | | |
| Maintenance and operation | 3,879 | 5,554 | 2,560 | 11,993 | 5,728 |
| Administrative and general | 210 | - | - | 210 | - |
| Depreciation | 1,645 | 658 | 1,286 | 3,589 | 661 |
| Total operating expenses | 5,734 | 6,212 | 3,846 | 15,792 | 6,389 |
| Operating Income (loss) | 204 | 8 | 287 | 499 | (311) |
| Nonoperating revenues (expenses): | | | | | |
| Intergovernmental | - | 10 | 535 | 545 | - |
| Investment earnings | 4 | 4 | 2 | 10 | 191 |
| Interest expense | (391) | - | (158) | (549) | - |
| Other nonoperating revenues | - | - | - | - | 31 |
| Total nonoperating revenue (expenses | (387) | 14 | 379 | 6 | 222 |
| Income (loss) before contributions and transfers | (183) | 22 | 666 | 505 | (89) |
| Capital contributions | 1,490 | 220 | 135 | 1,845 | - |
| Developer donated assets | 259 | 210 | 1,555 | 2,024 | - |
| Transfers in | - | - | - | - | 266 |
| Transfers out | (148) | (83) | (132) | (363) | - |
| Change in net assets | 1,418 | 369 | 2,224 | 4,011 | 177 |
| Total net assets - beginning | 55,759 | 20,009 | 38,241 | 114,009 | 11,285 |
| Prior Period Adjustment | - | - | (456) | (456) | - |
| Total net assets - ending | $ 57,177 | $ 20,378 | $ 40,009 | $ 117,564 | $ 11,462 |
| Change in net assets | $ 1,418 | $ 369 | $ 2,224 | $ 4,011 | |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | | (83) | |
| Adjusted change in net assets of business-type activities | | | | $ 3,928 | |

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, 2010
*(in thousands)*



| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Water | Sewer | Storm | Totals | Internal Service Funds |
| Cash flows from operating activities: | | | | | |
| Cash received from customers | $ 5,938 | $ 6,223 | $ 4,152 | $ 16,313 | $ 793 |
| Cash received from interfund services | - | - | - | - | 5,065 |
| Cash payments to suppliers | (2,513) | (810) | (1,568) | (4,891) | (1,951) |
| Cash payments to employees | (1,339) | (436) | (979) | (2,754) | (3,561) |
| Cash receipts from other governments | - | - | - | - | 129 |
| Cash (payments) to other governments | (221) | (4,304) | - | (4,525) | - |
| Net cash provided (used) by operating activities | 1,865 | 673 | 1,605 | 4,143 | 475 |
| Cash flows from noncapital financing activities: | | | | | |
| Operating transfers in | - | - | - | - | 267 |
| Operating transfers (out) | (148) | (82) | (132) | (362) | - |
| Net cash provided (used) by noncapital financing activities | (148) | (82) | (132) | (362) | 267 |
| Cash flows from capital and related financing activities: | | | | | |
| Intergovernmental | - | - | 686 | 686 | 4 |
| Investments | - | 10 | - | 10 | - |
| Revenue bond principal (paid) | (635) | - | (180) | (815) | - |
| Revenue bond interest (paid) | (355) | - | (117) | (472) | - |
| Interfund loans-received in | - | - | - | - | 800 |
| Interfund loans-(paid out) | (300) | - | (250) | (550) | (500) |
| Interfund loan interest revenue | - | - | - | - | 192 |
| Interfund loan interest (expense) | (40) | - | (36) | (76) | - |
| Capital expenditures (paid) | (685) | (368) | (1,349) | (2,402) | (520) |
| Principal (paid) | - | 9 | (61) | (52) | - |
| Interest and other debt service (paid) | 28 | 4 | (6) | 26 | - |
| Captial cash contributions - private sources | 1,490 | 220 | 135 | 1,845 | 2 |
| Proceeds from retirement of capital assets | - | - | - | - | 30 |
| Net cash provided (used) by capital related financing activities | (497) | (125) | (1,178) | (1,800) | 8 |
| Cash flows from investment activities: | | | | | |
| Interest received on investments | 4 | - | 2 | 6 | - |
| Net cash provided (used) by investing related activities | 4 | - | 2 | 6 | - |
| Net increase (decrease) in cash balance | 1,224 | 466 | 297 | 1,987 | 750 |
| Cash balance at beginning of year | 3,612 | 3,464 | 2,175 | 9,251 | 4,430 |
| Cash balance at end of year | $ 4,836 | $ 3,930 | $ 2,472 | $ 11,238 | $ 5,180 |

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, 2010
*(in thousands)*



| | Business Type Activities - Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Water | Sewer | Storm | Totals | Internal Service Funds |
| Reconciliation of operating income to net cash provided (used) by operating activities | | | | | |
| Operating income (loss) | $ 204 | $ 8 | $ 287 | $ 499 | $ (311) |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation | 1,645 | 658 | 1,286 | 3,589 | 661 |
| Decrease (increase) in accounts receivabl | 3 | (6) | 20 | 17 | (89) |
| Decrease (increase) in inventory | 42 | 3 | - | 45 | (25) |
| Increase (decrease) in accounts payable | (32) | 13 | 12 | (7) | 200 |
| Increase (decrease) in employee benefits | 3 | (3) | - | - | 39 |
| Net cash provided by operating activities | $ 1,865 | $ 673 | $ 1,605 | $ 4,143 | $ 475 |
| Noncash investing, capital, and financing activities: | | | | | |
| Contributions of capital assets from developers and annexations | $ 1,490 | $ 210 | $ 1,555 | $ 3,255 | $ - |

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

# Statement of Fiduciary Net Assets
## Fiduciary Funds
## As of December 31, 2010
*(in thousands)*

| | Ruth Kees Award - Sustainable Environ. Fund | Agency Funds | Total Fiduciary Funds |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ 30 | $ 4,043 | $ 4,073 |
| Total assets | 30 | 4,043 | 4,073 |
| LIABILITIES | | | |
| Liabilities payable from restricted assets | | 4,043 | 4,043 |
| Total liabilities | - | 4,043 | 4,043 |
| NET ASSETS | | | |
| Held in trust for annual award in the furtherance of environmental purpose or objective | $ 30 | $ - | $ 30 |

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

# Statement of Changes in Fiduciary Net Assets
## Fiduciary Funds
## As of December 31, 2010
*(in thousands)*

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

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

# NOTE 1:
# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## A. REPORTING ENTITY

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

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

## B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues in the governmental activities and net cost or revenue of each business activity. Direct expenses are those that are clearly identifiable with a specific function or segment. The City of Issaquah does not allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

The City reports the following major governmental funds:

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

The *street special revenue fund* is financed through a transfer of General Fund revenues, grading permits, inspection fees, and a share of state gasoline tax moneys and support the various street programs in roadway maintenance, traffic control, street lighting, roadside mowing and vegetation control, street cleaning, snow and ice control

The *capital improvement fund* accounts for major City capital improvement projects not budgeted under specific funds.

The *capital street improvement fund* was established in 1991 to account for revenues received from additional one-fourth percentage Real Estate Excise Tax, which was authorized by the 1990 Growth Management Act. Proceeds from this additional real estate tax are to be used solely for financing capital projects specified in a capital facilities plan, and are intended to be in addition to other funds that may be reasonably available for such capital projects. By City Ordinance, these funds are restricted to street projects.

The *L.I.D. #24 construction fund* was established to provide improvements to the tee intersection of E. Lake Sammamish Parkway SE and SE 43rd Way.

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

*Special revenue funds* account for the proceeds and expenditures of specific revenue sources intended for specified purposes.

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

*Capital improvement funds* account for resources to be used for the acquisition or construction of major capital facilities.

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund type:

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

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

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

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

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

## 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, 2010, 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 21 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.

Investment Interest. Interest receivable consists of interest earned on investments at the end of the year, accrued interest on investments purchased between interest dates, and accrued interest and penalties on special assessments receivable. In proprietary funds and the government-wide statement of net assets investment interest is recorded as receivable, regardless of its payment date. In the governmental fund statements and schedules investment interest is recorded as receivable if it will be paid to the government within 60 days of year end.

## 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. None existed at year-end in. 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.

Interfund Loans Receivable. The Finance Director may authorize loans between funds. Interfund loans outstanding at 12/31, if any, are reported in *Note 12*.

## 5. Inventories and Prepaid Items

Inventory amounts in governmental funds are not recorded because inventory amounts are immaterial. Inventories in Proprietary Funds are valued at the FIFO (first in, first out) method, which approximates the market value.

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

## 6. Restricted Assets and Liabilities

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

## 7. Capital Assets and Depreciation

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

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

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

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

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

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

| Asset Class | Estimated Service Life (Years) |
|---|---|
| Buildings | 30-50 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 1280. However, starting in 1994, some contracts allow employees to convert a portion of unused sick leave earned in a calendar year to pay.

## 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 1/1/2008 issuance costs, premiums and discounts are recognized 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/Unearned 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 Reserves and Designations

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### 12. Revenues, Expenditures and Expenses

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

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

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

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

### 13. Operating and Non-Operating Revenues and Expenses

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

# NOTE 2:
# BUDGET TO GAAP RECONCILIATION

The City's budget is prepared primarily on the cash basis of accounting. Therefore, the *Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual* for the General Fund and Major Special Revenue Funds, if any, report revenues when received and expenditures when paid for governmental funds budgeted on an annual basis, instead of revenue and expenditure amounts as defined under the modified accrual basis of accounting required by GAAP. For the General Fund and the Major Special Revenue funds, if any, the following schedule outlines adjustments made to revenues and expenditures on the budgetary basis to arrive at revenues and expenditures on the GAAP basis as reported on the *Statement of Revenues, Expenditures, and Changes in Fund Balances.*

*(In Thousands)*

| | General Fund | Street Fund |
|---|---|---|
| Revenue on the Budgetary Basis | $ 27,371 | $ 1,632 |
| Increase (Decrease) due to accruals | 3,327 | 762 |
| Revenue on the GAAP Basis | 30,698 | 2,394 |
| Expenditures on the Budgetary Basis | 25,527 | 4,660 |
| Increase (Decrease) due to accruals | 1,270 | 132 |
| Expenditures on the GAAP Basis | 26,797 | 4,792 |
| Other Financing Sources (Uses) On the Budgetary Basis | (2,157) | 2,129 |
| Increase (Decrease) due to accruals | - | - |
| Other Sources (Uses) on the GAAP Basis | (2,157) | 2,129 |
| Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses On the Budgetary Basis | (313) | (899) |
| Increase (Decrease) due to accruals | 2,057 | 630 |
| Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses On the GAAP Basis | 1,744 | (269) |
| Beginning Fund Balance on the Budgetary Basis | 5,837 | 1,871 |
| Increase (Decrease) due to accruals | 2,566 | 370 |
| Beginning Fund Balance on the GAAP Basis | 8,403 | 2,241 |
| Ending Fund Balance on the Budgetary Basis | 5,524 | 972 |
| Increase (Decrease) due to accruals | 4,623 | 1,000 |
| Ending Fund Balance on the GAAP Basis | $ 10,147 | $ 1,972 |

# NOTE 3:
# STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

The LID #24 Construction Fund reported with deficit fund balance on the Balance Sheet of the Governmental Funds as a result of GASB 34 paragraph 112 (a.) (1) Interfund loans. Interfund loans should be reported as interfund receivables and payables, but this activity should not be reported as other financing sources or uses in the fund financial statements. The interfund loans payable in the LID #24 Construction Fund without corresponding financing sources result in deficit fund balance.

# NOTE 4:
# SUPPLEMENTAL APPROPRIATIONS

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

Amounts presented here are *in thousands*:

| | 2010 Original Budget | Supplemental Appropriations | 2010 Final Budget |
|---|---|---|---|
| General fund | $ 29,798 | $ - | $ 29,798 |
| Special revenue funds: | | | |
| Street | 5,475 | - | 5,475 |
| Cemetery | 74 | 30 | 104 |
| Municipal art | 193 | - | 193 |
| Resource conservation | 688 | - | 688 |
| Cable TV | 303 | 60 | 363 |
| Lodging tax | 111 | - | 111 |
| Debt Service Funds: | | | |
| Voted G.O. debt | 1,527 | - | 1,527 |
| Non-voted G.O. debt | 2,646 | - | 2,799 |
| L.I.D. Debt Service | 290 | - | 290 |
| L.I.D. guaranty | 350 | - | 350 |
| Capital projects funds: | | | |
| Capital improvements | 3,546 | 73 | 3,619 |
| Mitigation | 944 | 110 | 1,054 |
| Newport Way improvement | 213 | - | 213 |
| Street improvement | 10,406 | - | 10,406 |
| ITS traffic system | 60 | - | 60 |
| Highlands park facilities | 10 | - | 10 |
| L.I.D. #24 construction | 2,366 | - | 2,366 |
| Transit Center Fire station #72 | 6,565 | - | 6,565 |
| 2006 Park Bond | 528 | - | 528 |
| Total | $ 66,093 | $ 273 | $ 66,366 |

# NOTE 5:
# DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool available for use by all funds. Investments are also held separately by several funds, with interest earned directly for the benefit of each fund.

As of December 31, 2010, the carrying amount of the City's cash/cash equivalents was $44,801,000 (including the State Investment Pool) and the bank balance was $4,474,000. This includes cash on hand totaling $3,000 and $10,000 being held by the City of Bellevue for use by the Eastside Narcotics force.

*Custodial Credit Risk.* The FDIC insures the first $100,000 of the City's demand deposits and separately insures the first $100,000, in the aggregate, of the City's time deposits and savings deposits. The remaining deposit balances are insured by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC is a multiple financial institution collateral pool. State statute permits additional amounts to be assessed on a pro rata basis to members of the pool in the event the pool's collateral should be insufficient to cover a loss.

City investments were categorized as risk Category 1 or 2, as described in GASB Statement 3. Category 1 is defined to include those investments that are either insured, registered or held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which these securities are held by the counterparty's trust department or agent in the City's name. All of the City's investments at year-end were held by the City's depository bank Trust Department, as the City's agent, or held by the City. Investments purchased through the City's depository bank investment division and held by the same bank's trust department are in Category 2. All other investments held by the trust department are Category 1.

Cash and equity in pooled investments are comprised of government and business-type activities. The balances as of December 31, 2010, are as follows (*in thousands)*:

| | | Carrying Amounts |
|---|---|---|
| From statement of net assets: | | |
| Cash and cash equivalents | | $ 40,726 |
| Restricted assets: | | |
| Cash and cash equivalents | | 4,073 |
| Total all cash, deposits, and investments from balance sheet | | $ 44,799 |
| Summary by type: | | |
| Cash and cash equivalents: | | |
| Cash in bank (bank balance) | $ 4,474 | |
| Cash on hand | 3 | |
| Cash with other government | 10 | |
| Cash with state investment pool | 40,312 | |
| | | $ 44,799 |
| Total all cash, deposits, and investments | | $ 44,799 |

# NOTE 6:
# RECEIVABLES

## PROPERTY TAXES

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

### PROPERTY TAX CALENDAR

| | |
|---|---|
| January 1 | Taxes are levied and become an enforceable lien against properties. |
| February 14 | Tax bills are mailed. |
| April 30 | First of two equal installment payments is due. |
| May 31 | Assessed value of property established for next year's levy at 100 percent of market value. |
| October 31 | Second installment is due. |

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

Under State law, the City may levy up to $3.10 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 2010 was $1.09 per $1,000 of assessed valuation of $6,055,526,752 for a total regular levy of $6,673,445. Additionally, special levies for voter-approved General Obligation Bonds were $0.26 per $1,000 for an excess levy of $1,568,000.

# 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, 2010, was as follows *(in thousands)*:

| | Beginning Balance 01/01/2010 | 2010 Increases | 2010 Decreases | Ending Balance 12/31/2010 |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Art | $ 205 | $ 12 | $ - | $ 217 |
| Land | 287,866 | 2,976 | - | 290,842 |
| Construction in progress | 13,999 | 8,939 | (1,163) | 21,775 |
| Total capital assets, not being depreciated | 302,070 | 11,927 | (1,163) | 312,834 |
| Capital assets, being depreciated/amortized: | | | | |
| Buildings | 36,297 | - | - | 36,297 |
| Improvements other than buildings | 11,589 | - | - | 11,589 |
| Infrastructure | 220,650 | 508 | - | 221,158 |
| Intangible property | 1,458 | 60 | - | 1,518 |
| Machinery & equipment | 11,228 | 576 | (207) | 11,597 |
| Total capital assets, being depreciated | 281,222 | 1,144 | (207) | 282,159 |
| Less accumulated depreciation/amortization for: | | | | |
| Buildings | (9,132) | (739) | - | (9,871) |
| Improvements other than buildings | (1,857) | (250) | - | (2,107) |
| Infrastructure | (81,400) | (5,929) | - | (87,329) |
| Intangible property | (74) | (154) | - | (228) |
| Machinery & equipment | (6,972) | (850) | 207 | (7,615) |
| Total accumulated depreciation | (99,435) | (7,922) | 207 | (107,150) |
| Total capital assets, being depreciated, net | 181,787 | (6,778) | - | 175,009 |
| Governmental activities capital assets, net | $ 483,857 | $ 5,149 | $ (1,163) | $ 487,843 |

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

| | | |
|---|---|---|
| Governmental activities: | | |
| Governmental funds: | | |
| General government | $ 227 | |
| Public safety | 451 | |
| Physical environment | 18 | |
| Transportation | 6,154 | |
| Economic environment | 1 | |
| Culture & recreation | 411 | |
| Total depreciation expense - governmental funds | | 7,261 |
| Internal service funds: | | |
| Total depreciation expense - internal service funds | | 661 |
| Total depreciation expense - governmental activities | | $ 7,922 |

Business-type Activities Capital Asset activity for the year ended December 31, 2010, was as follows *(in thousands):*

| | Beginning Balance 01/01/2010 | 2010 Increases | 2010 Decreases | Ending Balance 12/31/2010 |
|---|---|---|---|---|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 12,104 | $ - | $ - | $ 12,104 |
| Construction in progress | 6,111 | 1,267 | (455) | 6,923 |
| Total capital assets, not being depreciated | 18,215 | 1,267 | (455) | 19,027 |
| Capital assets, being depreciated: | | | | |
| Buildings | 9,322 | - | - | 9,322 |
| Plant in service | 118,772 | 3,157 | - | 121,929 |
| Intangible property | 49 | - | - | 49 |
| Machinery & equipment | 996 | - | - | 996 |
| Total capital assets, being depreciated | 129,139 | 3,157 | - | 132,296 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,022) | (186) | - | (1,208) |
| Plant in service | (30,942) | (3,370) | - | (34,312) |
| Intangible property | (2) | (5) | - | (7) |
| Machinery & equipment | (574) | (29) | - | (603) |
| Total accumulated depreciation | (32,540) | (3,590) | - | (36,130) |
| Total capital assets, being depreciated, net | 96,599 | (433) | - | 96,166 |
| Business-type capital assets, net | $ 114,814 | $ 834 | $ (455) | $ 115,193 |

During 2010 the City expensed $455,504 thousand of prior reported Construction in Progress because it determined that improvements to the Hatchery Intake Dam should be expensed because the State of Washington owns the dam, not the City.

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

| | |
|---|---|
| Business-type activities: | |
| Water | $ 1,645 |
| Sewer | 658 |
| Storm | 1,286 |
| Total depreciation - business-type activities | $ 3,589 |

# 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 and defined contribution retirement plans.

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380;

Or it may be downloaded from the DRS website at www.drs.wa.gov.

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

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

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the 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.

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

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

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

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

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

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf, Operation Iraqi Freedom.*

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

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

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

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

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

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

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

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

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

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

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

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

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

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Number of Participating Members in PERS 1, 2 or 3:

| | |
|---|---|
| Retirees and beneficiaries receiving | 74,857 |
| Terminated plan members entitled to but not yet receiving benefits | 28,074 |
| Active plan members vested | 105,339 |
| Active plan members non-vested | 53,896 |
| Total | 262,166 |

*Funding Policy.* Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets

Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent to 15 percent; 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 are expressed as a percentage of covered payroll, as of December 31, 2010, were as follows:[1,2,3]

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3[2] |
|---|---|---|---|
| Employer[1] | 5.31% | 5.31% | 5.31% |
| Employee | 6.00% | 3.90% | 5 - 15%[3] |

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31, 2010, were:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3[2] |
|---|---|---|---|
| 2010 | $ 20,936 | $ 675,055 | $ 95,486 |
| 2009 | 2,226 | 80,206 | 11,256 |
| 2008 | 35,888 | 896,648 | 136,460 |

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

*Plan Description.* 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. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. 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.

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

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.

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

[2] *Plan 3 defined benefit portion only*

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

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

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

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

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

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

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

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

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

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

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

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit. LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

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

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

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

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

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Number of Participating Members in LEOFF 2:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 1,367 |
| Terminated plan members entitled to but not yet receiving benefits | 672 |
| Active plan members vested | 13,007 |
| Active plan members non-vested | 3,944 |
| Total | 18,990 |

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, are as follows:

| | LEOFF Plan 2 |
|---|---|
| Employer[1] | 8.46% |
| Employee | 5.24% |

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

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31, 2010, were as follows

| | LEOFF Plan 2 |
|---|---|
| 2010 | $ 152,536 |
| 2009 | 17,937 |
| 2008 | 154,307 |

## PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS) PLAN 2

*Plan Description.* PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 legislature and became effective July 1, 2006.

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

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, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington State counties; and Washington State cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and have one of the following:

- 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.
- Primary responsibility to ensure the custody and security of incarcerated or probationary individuals.
- Limited authority to function as a Washington peace officer, as defined in RCW 10.93.020.
- Primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

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

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

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

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

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

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

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2009:

Number of Participating Members in PSERS 2:

| | |
|---|---|
| Retirees and beneficiaries receiving | 2 |
| Terminated plan members entitled to but not yet receiving benefits | - |
| Active plan members vested | - |
| Active plan members non-vested | 4,340 |
| Total | 4,342 |

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, are as follows:

| | PSERS Plan 2 |
|---|---|
| Employer[1] | 7.85% |
| Employee | 6.55% |

Both the City and the employees made the required contributions. The City's required contributions for the year ended December 31, 2010, were as follows:

| | PSERS Plan 2 |
|---|---|
| 2010 | $ 18,180 |
| 2009 | 2,236 |
| 2008 | 15,381 |

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

# NOTE: 9
# OTHER PERSONNEL BENEFITS

## DEFERRED COMPENSATION:

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

## RETIREMENT HEALTH SAVINGS ACCOUNT (RHS)

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

## POST EMPLOYMENT BENEFITS:

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

The City provides costs on a pay-as-you-go basis and used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and six inactive members who have left service. At the end of 2008 average ages were as follows: two members average age of 59, three members average age of 67.667 and one member 78 years of age. Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the September 30, 2006 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 Office of the State Actuary (OSA) assuming Medical Inflation of +or- 5% and Amortization Period of 15 years. The following table shows the components of the City's annual OPEB costs and Net OPEB obligation for 2010:

| | | |
|---|---|---|
| Amortization of Unfunded Actuarial Accrued Liability (UAAL) | $ | 1,661,892 |

| | | |
|---|---|---|
| Annual Required Contribution | $ | 154,745 |
| Interest on Net OPEB Obligation | | - |
| Annual OPEB Cost | | 154,745 |
| Contributions Made | | 79,451 |
| Increase in Net OPEB Obligation | | 75,294 |
| Net OPEB Obligation - Beginning of year | | 156,794 |
| Net OPEB Obligation - End of year | $ | 232,088 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

| Year | Annual OPEB Cost | Employer Contribution | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2010 | $ 154,745 | $ 79,451 | 51.34% | 75,294 |
| 2009 | 154,745 | 77,208 | 49.89% | 77,537 |
| 2008 | 154,745 | 75,488 | 48.78% | 79,257 |

# 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 145 Members.

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

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

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

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

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, 2010, the City had the following significant contractual obligations on construction projects *(in thousands)*.

| Contracting Entity | Project Name | Balance on 12/31/2010 |
|---|---|---|
| Par-Tech Construction, Inc. | Maple Street Fire Station #72 | $ 3,346 |
| C.A. Carey Corporation | SR900 Regional Trail | 1,911 |
| Northwest Asphalt, Inc. | Complete Streets Project - Sidewalks | 427 |
| Washington State Department of Transportation | SR900 Regional Trail | 292 |
| Eastside Fire & Rescue | Maple Street Fire Station #72 | 229 |
| | Total Significant Contracts | $ 6,205 |

# NOTE 12:
# INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

## 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 2010 and transfers between the City and its component unit. Year-end balances are provided for interfund payables and receivables and amounts due between City funds and component unit. Interfund Transfers are presented *in thousands*:

| Fund | Transfers In | Transfers Out |
|---|---|---|
| General | $ 147 | $ 2,304 |
| Street | 2,160 | 31 |
| Cemetery | - | 25 |
| Municipal Art | 72 | 14 |
| Resource Conservation | 272 | - |
| Communications | - | 108 |
| Limited Debt Service | 2,646 | - |
| Capital Improvement | - | 2,647 |
| Mitigation | - | 700 |
| Newport Way | 136 | - |
| Street Improvement | 700 | 162 |
| Fire Station #72 | - | 33 |
| 2006 Park Bond | - | 12 |
| Water Revenue Bond | 1,000 | - |
| Water | - | 2,218 |
| Water Capital | 1,070 | - |
| Sewer | - | 563 |
| Sewer Capital | 480 | - |
| Storm Water | - | 1,426 |
| Stormwater Revenue Bond | 294 | - |
| Stormwater Capital | 1,000 | - |
| Unemployment Insurance | 144 | - |
| Equipment Rental | 122 | - |
| Total | $ 10,243 | $ 10,243 |

## INTERFUND LOANS

Interfund Loans for the year ended December 31, 2010, were as follows *(in thousands)*: [1]

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Receivable: | | | | |
| Equipment Replacement Fund - long term portion | $ 550 | $ - | $ 800 | $ (250) |
| Equipment Replacement Fund - short term portion | 3,700 | 1,300 | 800 | 4,200 |
| Total receivable | $ 4,250 | $ 1,300 | $ 1,600 | $ 3,950 |
| Payable: | | | | |
| Short term portion: | | | | |
| LID #24 Construction Fund | 1,800 | 500 | - | 2,300 |
| Capital Improvement Fund | 250 | 250 | 250 | 250 |
| Water Capital Fund | 300 | 300 | 300 | 300 |
| Stormwater Capital Fund | 250 | 250 | 250 | 250 |
| Total short term payable | 2,600 | 1,300 | 800 | 3,100 |
| Long term portion: | | | | |
| Capital Improvement Fund | 500 | - | 250 | 250 |
| Water Capital Fund | 600 | - | 300 | 300 |
| Stormwater Capital Fund | 550 | - | 250 | 300 |
| Total long term payable | 1,650 | - | 800 | 850 |
| Total payable | $ 4,250 | $ 1,300 | $ 1,600 | $ 3,950 |

The following further describes the Interfund Loans outstanding as of December 31, 2010, (in thousands):

| Amount of Loan | Purpose | From Fund | To Fund | Term |
|---|---|---|---|---|
| $2,300 | L.I.D. #24 Round-about Traffic Improvement | Equipment Replacement | L.I.D.#24 Construction | 12/31/2011 |
| $600 | Cougar Ridge Reservoir | Equipment Replacement | Water Capital | 12/31/2012 |
| $500 | Land Acquisition | Equipment Replacement | Capital Improvement | 12/31/2012 |
| $550 | Various Capital Projects | Equipment Replacement | Stormwater Capital | 12/31/2012 |

[1] *Internal Service Funds*

# NOTE 13:
# LONG-TERM DEBT

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs.

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

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

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

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

In December of 2010 the City Council adopted an ordinance for a loan not to exceed $2,300,000 from the Equipment Rental Fund to the Local Improvement District No. 24 Construction Fund. The loan shall be repaid from LID Special Assessment Bond proceeds, or other authorized funds, by December 31, 2011.

In 2010, the remaining $315,000 debt for the 1995 Community Center General Obligation bond was retired.

Also retired in 2010 was the remaining $4,164 balance of the 2003 Sewer ULID #22 .

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

The following schedules detail the long term debt activity and balances of the City. Please note the following schedules are prepared on cash basis and are presented *in thousands.*

## Long Term Debt – Governmental Activities
## For the Fiscal Year Ended December 31, 2010
*(in thousands)*

| | | Issue Date | Maturity Date | Average Coupon Interest Rate % | Amount Authorized | Debt Outstanding 1/1/2010 | Debt Issued in 2010 | Debt Retired in 2010 | Amount Outstanding 12/31/2010 |
|---|---|---|---|---|---|---|---|---|---|
| GENERAL OBLIGATION BONDS | | | | | | | | | |
| 2001 Senior Center Construction (Voted) | | 12/01/2001 | 12/01/2021 | 4.42% | $ 1,500 | $ 1,050 | $ - | $ 65 | $ 985 |
| 2005 ITS & Police Refunding Bond (Voted) | | 12/01/2005 | 12/01/2025 | 4.34% | 4,745 | 3,450 | - | 355 | 3,095 |
| 2006 Parks Bond (Voted) | | 12/01/2006 | 12/01/2026 | 3.91% | 6,250 | 5,575 | - | 235 | 5,340 |
| 2009A Fire Station #72 (Voted) | | 12/01/2009 | 12/01/2019 | 3.64% | 1,840 | 1,840 | - | 155 | 1,685 |
| 2009T BABs Fire Station #72 (Voted) | | 12/01/2009 | 12/01/2029 | 5.74% | 2,660 | 2,660 | - | - | 2,660 |
| 1995 Community Center | | 12/01/1995 | 12/01/2010 | 5.17% | 3,460 | 315 | - | 315 | - |
| 2000 Police Station & Capital Projects | | 12/21/2000 | 01/01/2011 | 5.00% | 2,660 | 240 | - | 115 | 125 |
| 2001 Fire Station | 4 | 12/01/2001 | 12/01/2011 | 4.38% | 10,100 | 920 | - | 450 | 470 |
| 2004 Highland Park Facilities | | 12/01/2004 | 12/01/2011 | 4.14% | 3,820 | 3,115 | - | 155 | 2,960 |
| 2006 Police/Barn Refunding | 1 | 12/01/2006 | 01/01/2021 | 4.05% | 3,485 | 3,175 | - | 165 | 3,010 |
| 2007 Police Station Refunding | 2 | 01/01/2007 | 01/01/2019 | 3.98% | 5,100 | 5,040 | - | 415 | 4,625 |
| 2009 Bolliger Property | | 02/17/2009 | 12/01/2028 | 3.80% | 2,780 | 2,705 | - | 105 | 2,600 |
| 2009B Fire Station Property | 3 | 12/01/2009 | 12/01/2021 | 3.80% | 6,355 | 6,355 | - | 60 | 6,295 |
| Total General Obligation Bonds | | | | | 54,755 | 36,440 | - | 2,590 | 33,850 |
| SPECIAL ASSESSMENTS | | | | | | | | | |
| LID #23 - Governmental | | 12/01/2009 | 12/01/2024 | 4.70% | 977 | 977 | - | 67 | 910 |
| Total Special Assessments | | | | | 977 | 977 | - | 67 | 910 |
| INTERLOCAL AGREEMENTS | | | | | | | | | |
| KC North SPAR Interlocal Agreement | | 1/1/2003 | 12/31/2023 | 0.00% | 7,000 | 4,550 | - | 350 | 4,200 |
| Total Interlocal Agreements | | | | | 7,000 | 4,550 | - | 350 | 4,200 |
| TOTAL GOVERNMENTAL ACTIVITIES | | | | | $ 62,732 | $ 41,967 | $ - | $ 3,007 | $ 38,960 |

*1 2001 Joint refunding of remaining 1997 and 2000 limited G.O. Bonds*

*2 2007 Refunding of remaining 1999 Limited G.O. Bonds*

*3 2009 B Refunding of 2001 Fire Station, Property*

*4 2009 A&T Refunding of remaining 2001 Fire Station, Property*

## Long Term Debt – Business-Type Activities
## For the Fiscal Year Ended December 31, 2010
*(in thousands)*

| | Issue Date | Maturity Date | Average Coupon Interest Rate % | Amount Authorized | Debt Outstanding 1/1/2010 | Debt Issued in 2010 | Debt Retired in 2010 | Amount Outstanding 12/31/2010 |
|---|---|---|---|---|---|---|---|---|
| REVENUE BONDS | | | | | | | | |
| 2003 Water Revenue Bonds [1] | 01/01/1994 | 12/01/2013 | 3.50% | $ 3,600 | $ 965 | $ - | $ 225 | $ 740 |
| 2001 Water Revenue Bonds | 12/01/2001 | 12/01/2021 | 4.85% | 9,200 | 6,440 | - | 410 | 6,030 |
| 1998 Storm Water Revenue Bonds | 08/15/1998 | 12/01/2017 | 5.38% | 2,000 | 1,060 | - | 110 | 950 |
| 2001 Storm Water Revenue Bonds | 12/01/2001 | 12/01/2021 | 5.25% | 1,600 | 1,130 | - | 70 | 1,060 |
| Total Revenue Bonds | | | | 16,400 | 9,595 | - | 815 | 8,780 |
| SPECIAL ASSESSMENTS | | | | | | | | |
| ULID #22 - Proprietary | 10/01/2003 | 10/01/2013 | 5.00% | $ 156 | $ 4 | $ - | $ 4 | $ - |
| Total Special Assessments | | | | 156 | 4 | - | 4 | - |
| INSTALLMENT CONTRACTS | | | | | | | | |
| PW Trust Fund - Newport Way Bridge | 11/01/1998 | 07/01/2019 | 1.00% | 1,143 | 552 | - | 61 | 491 |
| Total Installment Contracts | | | | 1,143 | 552 | - | 61 | 491 |
| TOTAL BUSINESS-TYPE ACTIVITIES | | | | $ 17,699 | $ 10,151 | $ - | $ 880 | $ 9,271 |

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

## GENERAL OBLIGATION BONDS

General Obligation Bonds outstanding at December 31, 2010, totaled $33,850,000. Debt service is paid from the General Obligation Debt Service Fund with special property tax levies for the voter-approved bond issues.

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

General Obligation Bonds outstanding as of December 31, 2010, are as follows *(in thousands)*:

| Purpose | Interest Rate | Amount Outstanding |
|---|---|---|
| 2001 Senior Center Construction (Voted) | 4.42% | $ 985 |
| 2005 ITS & Police Refunding Bond (Voted) | 4.34% | 3,095 |
| 2006 Parks Bond (Voted) | 3.91% | 5,340 |
| 2009A Fire Station #72 (Voted) | 3.64% | 1,685 |
| 2009T BABs Fire Station #72 (Voted) | 5.74% | 2,660 |
| 2000 Police Station & Capital Projects | 5.00% | 125 |
| 2001 Fire Station | 4.38% | 470 |
| 2004 Highland Park Facilities | 4.14% | 2,960 |
| 2006 Police/Barn Refunding | 4.05% | 3,010 |
| 2007 Police Station Refunding | 3.98% | 4,625 |
| 2009 Bolliger Property | 3.80% | 2,600 |
| 2009B Fire Station Property | 3.80% | 6,295 |
| Total outstanding General Obligation Bonds | | $ 33,850 |

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

| Year Ending December 31 | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2011 | $ 2,370 | $ 1,381 |
| 2012 | 2,455 | 1,288 |
| 2013 | 2,560 | 1,196 |
| 2014 | 2,655 | 1,100 |
| 2015 | 2,765 | 1,000 |
| 2016-2020 | 12,010 | 3,486 |
| 2021-2025 | 6,860 | 1,440 |
| 2026-2029 | 2,175 | 260 |
| Total | $ 33,850 | $ 11,151 |

## REVENUE BONDS

Revenue Bonds are payable from pledged revenues generated by the respective Enterprise Funds. The City's revenue bonds are rated A3.

As of December 31, 2010, the Water Fund's outstanding bond totaled $6,770,000. The Stormwater Fund outstanding bond total is $2,010,000.

Revenue Bonds outstanding as of December 31, 2010, are as follows *(in thousands):*

| Purpose | Average Coupon Rate | Amount Outstanding |
|---|---|---|
| Water Revenue Bonds | | |
| 2003 Water Refunding | 3.50% | $ 740 |
| 2001 Water | 4.85% | 6,030 |
| Total Outstanding Water Revenue Bonds | | 6,770 |
| Storm Water Revenue Bonds | | |
| 1998 Storm Water | 5.38% | 950 |
| 2001 Storm Water | 5.25% | 1,060 |
| Total Outstanding Storm Water Revenue Bonds | | 2,010 |
| Total Outstanding Revenue Bonds | | $ 8,780 |

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

| Year Ending December 31 | Business - Type Activities Principal | Interest |
|---|---|---|
| 2011 | $ 860 | $ 436 |
| 2012 | 890 | 398 |
| 2013 | 935 | 358 |
| 2014 | 710 | 315 |
| 2015 | 745 | 280 |
| 2016-2020 | 3,795 | 797 |
| 2021 | 815 | 42 |
| Total | $ 8,750 | $ 2,625 |

## 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. At December 31, 2010, outstanding assessments totaled $910,000 and are as follows *(in thousands):*

| Purpose | Average Interest Rate | Amount Outstanding |
|---|---|---|
| LID #23 - Governmental Activity | 4.70% | $ 910 |
| Total outstanding Governmental Special Assessment Bonds | | $ 910 |

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 |
| 2011 | $ 65 | $ 39 |
| 2012 | 65 | 38 |
| 2013 | 65 | 36 |
| 2014 | 65 | 33 |
| 2015 | 65 | 31 |
| 2016-2020 | 325 | 114 |
| 2021-2024 | 260 | 34 |
| Total | $ 910 | $ 326 |

The City anticipates a new LID Assessment in the year 2011 for LID #24 – Traffic Roundabout at E. Lake Sammamish Parkway and SE 43rd Way.

## 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, 2010, the balance owing on the Trust Fund Loan is $490,329 as illustrated below *(in thousands):*

| Purpose | Interest Rate | Amount Outstanding |
|---|---|---|
| P.W. Trust Fund Loan/Newport | 1.00% | $ 491 |
| Total Outstanding Installment Contracts | | $ 491 |

## 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, 2010, was $4,200,000. The liability is reported in the Governmental Funds and the City pays King County $350,000 per year from the Street Fund.

Interlocal Agreements outstanding as of December 31, 2010, are as follows *(in thousands)*:

| Purpose | Interest Rate | Amount Outstanding |
|---|---|---|
| King County North Spar Fund 355 | n/a | $ 4,200 |
| Total Outstanding Interlocal Agreements | | $ 4,200 |

## SHORT-TERM LIABILITIES

The City had no short-term liabilities at December 31, 2010.

## CHANGES IN LONG-TERM LIABILITIES

The following is a summary of all long-term debt transactions for the year ended December 31, 2010 *(in thousands)*:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| General obligation bonds | $ 36,440 | $ - | $ 2,590 | $ 33,850 | $ 2,590 |
| Special Assessments | 977 | - | 67 | 910 | 65 |
| Interlocal agreements | 4,550 | - | 350 | 4,200 | 350 |
| Compensated absences-Gov[1] | 2,420 | 1,481 | 1,438 | 2,463 | - |
| Compensated absences-ISF[1] | 524 | 350 | 310 | 564 | - |
| Other postemployment benefits | 158 | 74 | - | 232 | - |
| Total governmental activity - long-term liabilities | 45,069 | 1,905 | 4,755 | 42,219 | 3,005 |
| Business-type activities: | | | | | |
| Revenue bonds | 9,595 | - | 815 | 8,780 | 860 |
| Special assessments | 4 | - | 4 | - | - |
| Installment contracts | 552 | - | 61 | 491 | 61 |
| Compensated absences-Bus[1] | 199 | 199 | 192 | 206 | - |
| Total business-type activites long-term liabilities | 10,350 | 199 | 1,072 | 9,477 | 921 |
| Total long-term liabilities | $ 55,419 | $ 2,104 | $ 5,827 | $ 51,696 | $ 3,926 |

[1] *Included sick leave liability is a net calculation.*

# NOTE 14:
# CONTINGENCIES AND LITIGATION

As of December 31, 2010, there were several damage claims and lawsuits pending against the City. It is the opinion of management and the City Attorney that the disposition of these claims is not presently expected to have a material adverse effect on the City's financial statements.

# NOTE 15:
# JOINT VENTURES

## EASTSIDE PUBLIC SAFETY COMMUNICATIONS AGENCY (EPSCA)

In May 1992, the cities of Bellevue, Redmond, Kirkland, and Mercer Island (Principals) established 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, 2010, the weighted vote was as follows:

ESPCA Joint Venture
Weighted Vote

| | |
|---|---|
| Bellevue | 52.30% |
| Redmond | 19.83% |
| Kirkland | 15.52% |
| Mercer Island | 6.57% |
| Issaquah | 5.78% |
| 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:

ESPCA Joint Venture

| Year | Service Fees |
|---|---|
| 2006 | $ 31,312 |
| 2007 | 32,852 |
| 2008 | 33,848 |
| 2009 | 35,358 |
| 2010 | 36,845 |

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

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

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

While Agreement 1 provides that EPSCA's retained earnings of $613,488 as of December 31, 2010, are, upon dissolution, to be apportioned among the Principals, the City's share in 2010 of $35,460 is deemed immaterial and thus is not reflected in the financial statements. Compiled financial statements for EPSCA can be obtained from EPSCA, c/o Alan Komenski, 16100 NE 8th Street, Bellevue, WA 98008.

## EASTSIDE FIRE AND RESCUE (EF&R)

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

EF&R is a joint venture partnership. The entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2009 (most recently audited), the equity percentage was as follows:

Eastside Fire and Rescue
Agency Shares

| | |
|---|---|
| Fire District 10 | 44.59% |
| Fire District 38 | 5.91% |
| City of Issaquah | 20.24% |
| City of North Bend | 4.43% |
| City of Sammamish | 24.83% |
| Total | 100.00% |

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

Eastside Fire and Rescue

| 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 2010 are as follows *(in thousands):*

Eastside Fire and Rescue

| Year | Service Fees |
|---|---|
| 2002 | $ 2,461 |
| 2003 | 2,401 |
| 2004 | 2,952 |
| 2005 | 3,026 |
| 2006 | 3,140 |
| 2007 | 3,278 |
| 2008 | 4,297 |
| 2009 | 4,577 |
| 2010 | 5,277 |

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 Dave Gray, Eastside Fire and Rescue, 175 NW Newport Way, Issaquah, WA 98027.

## A REGIONAL COALITION FOR HOUSING (ARCH)

In November 1992, the City of Bellevue joined the cities of Redmond and Kirkland and King County to establish A Regional Coalition for Housing (ARCH). The agreement was amended in January 1993 and November 1999 to add clarifying language regarding responsibility and dissolution. Since its inception, the Cities of Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Mercer Island, Newcastle, 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 while the cities remained independent as to the direction of where their funds were appropriated. The result of this was the combining of all equities.

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

ARCH Joint Venture

| Year | Equity | City's Share | Percentage |
|---|---|---|---|
| 2006 | $ 238,520 | $ 12,400 | 5.20% |
| 2007 | 321,461 | 13,582 | 4.23% |
| 2008 | 424,705 | 13,736 | 3.23% |
| 2009 | 465,312 | 14,698 | 3.16% |
| 2010 | 2,565,030 | 14,698 | 0.57% |

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 statement.

## 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.

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

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

Eastside Narcotics Task Force
Agency Shares

| | |
|---|---|
| Bellevue | 51.00% |
| Redmond | 14.70% |
| Kirkland | 14.70% |
| Mercer Island | 14.70% |
| Issaquah | 4.90% |
| | 100.00% |

Total revenues for 2010 were $224,557 of which $11,003 was the City of Issaquah's share. Total expenditures for 2010 were $306,029 of which $14,995 was the City of Issaquah's share. The total decrease in net assets for 2010 was $81,461 of which $3,992 was the City of Issaquah's share. The City's share of the net assets is deemed immaterial and thus is not reflected in the financial statements.

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

## CASCADE WATER ALLIANCE

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

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

The Alliance is governed by a Board of Directors consisting of one individual representative appointed by resolution of the Member's legislative authority. Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction. The Alliance collected 2010 membership dues totaling $1,269,289, of which Issaquah's share was $91,345. Issaquah also paid the Alliance $373,634 in 2010 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 March, 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 2010 were $1,040,737, revenues were $987,498.

Partner fees and voting are based on relative population. Equity balances are as follows:

EGOV Alliance

| | City's Share | Percentage |
|---|---|---|
| Bellevue | $ 122,900 | 28.91% |
| Renton | 86,230 | 20.28% |
| Kirkland | 49,620 | 11.67% |
| Sammamish | 41,070 | 9.66% |
| Bothell | 33,430 | 7.86% |
| Issaquah | 27,160 | 6.39% |
| Mercer Island | 22,890 | 5.38% |
| Kenmore | 20,650 | 4.86% |
| Woodinville | 11,350 | 2.67% |
| Snoqualmie | 9,850 | 2.32% |
| Total | $ 425,150 | 100.00% |

# NOTE 16:
# OTHER DISCLOSURES

## SPECIAL ITEMS

The City of Issaquah has one expendable trust fund that was funded in 2010.

The purpose of this $30,000 trust donation from Ruth and Dan Kees is to enable the City 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 and areas affecting the Issaquah community deserve special recognition by the City. While held in such fund, the annual net income shall fund the award and any surplus shall be added to and become a part of the principal amount of such fund. If in any year there is insufficient income earned by the fund to make the award in the sum of $500, the amount of the deficiency may be satisfied by a distribution of principal. If any additional donations are made to the fund, the annual award may be increased by such additional amounts derived from the additional donations as directed by the donors or, if applicable, by the City of Issaquah. Upon the earlier occurrence of the sum of $20,000 or the year 2040, the City may, in its discretion, either modify the amount of the award or terminate the annual award and the administration of the fund. In such event any principal and undistributed net income shall be contributed by the City of Issaquah in its sole discretion to, for, or in furtherance of environmental purpose or objective.

As noted in the Capital Asset Funds Note 7 and in the Statements for the Enterprise Funds in 2010 the City expensed $455,504 thousand of prior reported Construction in Progress in the Storm Fund because the State of Washington owns the dam, not the City, therefore improvements to the Hatchery Intake Dam should be expensed not capitalized.

## SUBSEQUENT EVENTS

On September 15, 2011 the City refunded $5,350,000 of Water Revenue Bonds.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**City of Issaquah**

**For Year Ended December 31, 2010**

| 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** |
| Department of Commerce (NOAA) | Habitat Conservation | 11.463 | NA10NMF4630224 City #g00908 | $ - | $ 1,170 | $ 1,170 | 2 |
| Department of Justice Bureau of Justice Assistance | Bulletproof Vest Partnership Program | 16.607 | | | 2,100 | $ 2,100 | 2 |
| Department of Transportation / Pass-Through from WA DOT | Highway Planning and Construction | 20.205 | LA-6289 SR-900 Regional Trail City #t01707 | 2,923,072 | - | 2,923,072 | 2 |
| | | | LA-6790 Issaquah Valley Trolley City #t03009 | 15,147 | - | 15,147 | |
| | | | ***Subtotal*** | ***$ 2,938,219*** | | ***$ 2,938,219*** | |
| Department of Transportation National Highway Traffic Safety Administration (NHTSA) /pass-through from WA Traffic Safety Commission | Occupant Protection Grants | 20.602 | X-52 | $ 14,221 | | $ 14,221 | 2 |
| Department of Energy/ WSDOE / Pass-Through from Puget Sound Clean Air Agency (ARRA Funds) | ARRA - Conservation and Research Development | 81.086 | Contract 2010000 Hybrid Vehicle Purchases City rs1210 | 4,000 | - | 4,000 | 2, 3 |
| Department of Energy/EECBG / Pass-Through from Washington State Department of Commerce (ARRA funds) | ARRA - Energy Efficiency and Conservation Block Grant | 81.128 | F10-52110-031 ARRA EECBG Grant City #rs1410 | 21,993 | - | 21,993 | 2, 3 |
| Department of Homeland Security Hazard Mitigation/Pass-Through from Washington State Military Department | Flood Mitigation Assistance | 97.029 | 1825 | 45,563 | | 45,563 | 2 |
| | | | 1734 | 100 | | 100 | 2 |
| | | | ***Subtotal*** | ***$ 45,663*** | ***$ -*** | ***$ 45,663*** | |
| Department of Homeland Security Hazard Mitigation / Pass-Through from Washington State Military Department | Hazard Mitigation Grant | 97.039 | FEMA-1817-DR-WA-19-R FEMA Hazard Mitigation City #g01610 | 5,011 | - | 5,011 | 2 |
| | | | **Total Federal Awards Expended** | **$ 3,029,107** | **$ 3,270** | **$ 3,032,377** | |

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

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

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

# ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

| | |
|---|---|
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| **Chief of Staff** | **Ted Rutt** |
| **Deputy Chief of Staff** | **Doug Cochran** |
| **Chief Policy Advisor** | **Jerry Pugnetti** |
| **Director of Audit** | **Chuck Pfeil, CPA** |
| **Director of Performance Audit** | **Larisa Benson** |
| **Director of Special Investigations** | **Jim Brittain, CPA** |
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| **Toll-free Citizen Hotline** | **(866) 902-3900** |
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