Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Issaquah

For the period January 1, 2019 through December 31, 2019

Published September 30, 2020

Report No. 1027052

Office of the Washington State Auditor
Pat McCarthy

September 30, 2020

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,

Pat McCarthy

State Auditor

Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Issaquah
January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the City of Issaquah are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 deficiencies that we consider to be material weaknesses.

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

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2019-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Issaquah
January 1, 2019 through December 31, 2019

2019-001 The City did not have adequate internal controls and did not comply with federal suspension and debarment requirements.

CFDA Number and Title:	20.205 Highway Planning and Construction Grant
Federal Grantor Name:	Federal Highway Administration Department of Transportation
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	STPUL-1352(003), TAP-1352(004) and REP-1352(005)
Questioned Cost Amount:	$0

Description of Condition

During fiscal year 2019, the City spent $1,131,155 in federal grant funds awarded by the Federal Highway Administration and passed through by the Washington State Department of Transportation. The City used program funding on three projects during fiscal year 2019.

Federal regulations require recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Federal regulations prohibit grant recipients from contracting with parties suspended or debarred from doing business with the federal government. Whenever the City contracts for goods or services that are expected to equal or exceed $25,000, paid all or in part with federal funds, it must verify that the parties have not been suspended or debarred or otherwise excluded. This verification may be accomplished by obtaining a written certification from the contractor or inserting a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the City may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The City's controls were not effective to ensure it complied with federal suspension and debarment requirements for all contracts of $25,000 or more. The City entered into one new contract during 2019 totaling $69,490. The City did not obtain a written certification, insert a clause in the contract, or demonstrate it reviewed EPLS for the professional service contractor for the street improvement project.

We consider this control deficiency to be a material weakness.

The issue was reported as a finding in the prior audit as finding 2018-002.

Cause of Condition

Because of staff turnover, the City could not locate records to show it verified the contractor's suspension and debarment status.

Effect of Condition

Without adequate internal controls over suspension and debarment requirements, the City cannot ensure it pays federal funds to contractors that are eligible to participate in federal programs. Any payment of program funds to a contractor or subcontractor that has been suspended or debarred would be unallowable and subject to recovery by the funding agency.

We verified that the contractor was not suspended or debarred on the U.S. General Services Administration's award management website, www.sam.gov. Therefore, we are not questioning costs for these payments.

Recommendation

We recommend the City strengthen internal controls to ensure vendors paid with federal funds are not suspended or debarred and retain documentation to demonstrate compliance.

City's Response

The City of Issaquah appreciates the opportunity to respond to the observations and conclusions drawn by the staff of the Washington State Auditor's Office (SAO). We would like to thank the audit staff for the continued open dialogue and communications throughout the audit.

The City agreed that its policies and procedures needed improvement to ensure compliance with federal suspension and debarment requirements. The City became *aware of this deficiency in December 2019 as the State Auditor's Office was completing the 2018 Single Audit. The City reacted quickly by implementing the corrective action in January 2020. However, due to fact that the corrective action was implemented after 2019 concluded, the City was aware that it was likely that the finding would be reissued as part of the 2019 audit as the same grant that triggered the finding in 2018 continued into 2019. That is what occurred; the contract cited by the auditors was entered into during 2019 before the corrective action took effect.*

On January 22, 2020, the City updated its contract checklist to specifically identify the need for grant management staff to secure supporting documentation related to the contractor's federal suspension and debarment status. This checklist is used by the project manager and/or department operations specialist through the procurement process to ensure that all proper documentation is saved. This checklist and the supporting documents are reviewed by the department operations specialist or an administrative specialist when the contract is entered into the City's enterprise resource planning system (ERP) for approval. The City is taking additional steps to also update contract language to ensure that contractors are not suspended or debarred before entering into an agreement with the City.

Additionally, as noted by the auditors, the City did comply with the federal requirement to use contractors that are not suspended or debarred. However, the City could not substantiate that it actually followed the federal procedures without the supporting documentation. The City is confident that the corrective action will mitigate the circumstances that led to this finding in the future.

Auditor's Remarks

We appreciate the City's commitment to resolve the finding and thank the City for its cooperation and assistance during the audit. We recognize the City has made updates to its policies and procedures since our last audit. We will review the corrective action taken during the next regular audit.

Applicable Laws and Regulations

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 180, OMB Guidelines to Agencies on Government wide Debarment and Suspension (Nonprocurement), establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Issaquah
January 1, 2019 through December 31, 2019

This schedule presents the status of findings reported in prior audit periods.

Audit Period:	**Report Ref. No.:**	**Finding Ref. No.:**
January 1, 2018 through December 31, 2018	1025905	2018-001

Finding Caption:

The City's controls over financial statement preparation were inadequate to ensure accurate financial reporting.

Background:

City management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting.

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). These financial statements are complex, and the reporting requirements change frequently.

In our previous four audits, we identified material weaknesses in controls over financial reporting that hindered the City's ability to produce accurate financial statements. In the past four years, the City has experienced turnover in key finance and accounting positions. Several employees with key roles for managing the accounting operations left the City during the first several months of 2019 as the City was trying to close-out fiscal year 2018. As a result, the City hired an external consultant to help prepare the financial statements. Although the City has taken steps to improve its financial reporting and review process, it has been unable to correct all deficiencies given the significant changes experienced in the past four years. During the current audit, we continued to identify misstatements that we consider to be material weaknesses in controls over financial reporting.

Status of Corrective Action: (check one)

☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:

The City of Issaquah took significant steps to improve the accuracy of its most recent financial statements. For the 2019 financial statements, the City:

- *Proactively engaged the services of an outside accounting firm to assist in the preparation of the City's annual financial statements months earlier than it had done in the past. Waiting too long to seek this assistance in prior years resulted in delays in preparing the financial statements and meant that the City did not conduct the level of review of the financial statements that is required to ensure their accuracy. Because of this early engagement of services and despite disruptions caused by the COVID-19 pandemic, the City had sufficient time to prepare and review the 2019 financial statements and submit them to the State Auditor's Office before the reporting deadline. The City will continue to evaluate needs and proactively engage services in future years as deemed necessary to ensure accurate and timely financial statements.*
- *Reduced staff turnover in the Finance Department. The City hired a number of experienced and highly capable finance professionals who proactively worked to improve the accuracy and timeliness of the City's financial reporting. By year-end 2019, the City's Finance Department was at nearly full-staff capacity. By the end of 2020, the Finance Department will be fully staffed. With the new staff team, the City is entering financial transactions and preparing financial reports timelier. It is a priority of the City to sustain low staff turnover in the Finance Department.*

In addition, the City of Issaquah continues to take steps to improve internal controls to sustain accurate financial statement reporting in future years. While the City continues to experience challenges with its enterprise resource planning system (ERP), it continues to take concrete actions to address these issues. Beginning in April 2019, the City engaged the services of the Government Finance Officers Association to update the City's financial management policies and procedures to align with industry best practices and to develop an action plan to re-implement MUNIS, the City's ERP. The City launched MUNIS in 2015, but has not made full use of its capabilities, which has created challenges in how the City accesses and reports financial data. The reimplementation effort is taking place in phases, with the first phase (core financials) having kicked off in June 2020, and is expected to result in better access to financial data and should ultimately make it easier for the City to produce more timely and accurate financial statements. The City expects a January 1, 2021 "go live" date for Phase 1. The subsequent phases of the implementation efforts will begin on a staggered basis starting in the fall of 2020, with final completion expected in 2022. The City also continues to actively update its financial management policies and procedures in conjunction with the ERP reimplementation efforts, which will also result in improved internal controls.

The City greatly appreciates the State Auditor's Office's recommendations, advice, and assistance as it continues to improve internal controls and the quality of its financial statements.

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of Issaquah
January 1, 2019 through December 31, 2019

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2018 through December 31, 2018	**Report Ref. No.:** 1025905	**Finding Ref. No.:** 2018-002	**CFDA Number(s):** 20.205
Federal Program Name and Granting Agency: Highway Planning and Construction Grant - Federal Highway Administration		**Pass-Through Agency Name:** Washington State Department of Transportation	
Finding Caption: The City did not have adequate internal controls and did not comply with federal procurement and suspension and debarment requirements.			
Background: During fiscal year 2018, the City spent $850,386 in federal grant funds awarded by the Federal Highway Administration and was passed through by the Washington State Department of Transportation. The City used program funding on two projects during fiscal year 2018. We found the City's internal controls were not adequate to ensure compliance with the following federal requirements. *Procurement* The audit found: • The City's written procedure includes applicable state and local requirements but no federal procurement requirements specifically outlined in federal regulations • The City did not establish written standards of conduct covering conflict of interests and governing the actions of employees engaged in the selection, award or administration of contracts procured with federal funds, as required by federal regulations			

- The City received proposals for a street improvement project and entered into a contract for architectural and engineering services for $2,785,269. However, the City did not keep records to demonstrate it performed a cost or price analysis for this project.

Suspension and debarment

The City's controls were not effective to ensure it complied with federal suspension and debarment requirements for all contracts of $25,000 or more. The City did not obtain a written certification, insert a clause in the contract, or demonstrate it reviewed EPLS for the professional service contractor for the street improvement project.

Status of Corrective Action: (check one)

☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:

The City agreed that its policies and procedures needed improvement to ensure compliance with federal procurement and conflicts of interest regulations and that staff turnover was the primary contributing factor to the finding. As noted by the auditors, the City did comply with the federal requirements to solicit competitive proposals and with the requirement to use contractors that are not suspended or debarred. However, the City could not document that it actually followed the federal procedures at the time of the audit. Subsequent to the completion of the audit, the City located documentation evidencing that the City did a review to verify the contractor was not suspended or debarred for the street improvement project. Additionally, the City did a cost or price analysis prior to receiving bids but was unable to locate the document for audit review.

The City agreed the auditor's recommended actions noted in the finding will improve the City's internal controls and improve its ability to demonstrate compliance with federal regulations. The City took the following actions to implement each of the recommendations.

- *The City Council adopted Ordinance 2899 on January 21, 2020, which amended the procurement policy to conform to federal procurement requirements and purchasing standards to ensure compliance with federal regulations.*
- *On February 21, 2020, the City updated internal checklists to 1) instruct project managers to save a copy of the cost price analysis to a standard folder location prior to issuing the RFP so the City will be better positioned to locate the relevant files and provide them to the auditors in future years and 2) require a copy of the cost price analysis for all contracts over the simplified acquisition threshold of $250,000. Finally, the City's Contract Specialist's review procedure was updated to include an examination of the cost or price analysis.*
- *On January 22, 2020, the contract checklist was revised to specifically identify the need for grant management staff to secure supporting documentation related to the contractor's federal suspension and debarment status. This checklist is used by the project manager and/or department operations specialist through the procurement*

process to ensure that all proper documentation is saved. This checklist and the supporting documents are reviewed by the department operations specialist or an administrative specialist when the contract is entered into the City's enterprise resource planning system (ERP) for approval. The City is also taking additional steps to update contract language to ensure that contractors are not suspended or debarred before entering into an agreement with the City.

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

City of Issaquah
January 1, 2019 through December 31, 2019

Mayor and City Council
City of Issaquah
Issaquah, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 29, 2020.

As discussed in Note 16 to the financial statements, the 2018 financial statements have been restated to correct a misstatement.

As discussed in Note 17 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 17. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 29, 2020.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

September 29, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

City of Issaquah
January 1, 2019 through December 31, 2019

Mayor and City Council
City of Issaquah
Issaquah, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Issaquah, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-001 that we consider to be a material weakness.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Pat McCarthy

State Auditor

Olympia, WA

September 29, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Issaquah
January 1, 2019 through December 31, 2019

Mayor and City Council
City of Issaquah
Issaquah, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 26.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis – Correction of Prior Year Misstatement

As discussed in Note 16 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Matters of Emphasis

As discussed in Note 17 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 17. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

September 29, 2020

FINANCIAL SECTION

City of Issaquah
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

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Statement of Activities – 2019
Balance Sheet – Governmental Funds – 2019
Reconciliation of the Balance Sheet to the Statement of Net Position – 2019
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2019
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2019
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2019
Statement of Fund Net Position – Proprietary Funds – 2019
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2019
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REQUIRED SUPPLEMENTARY INFORMATION

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City of Issaquah
Management's Discussion and Analysis

The City of Issaquah (the City) presents this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2019. This MD&A focuses on significant financial matters, provides an overview of the City's financial activities, and highlights significant changes in the City's financial position and material variances between the approved budget and actual spending.

The City encourages readers to consider the information presented here in conjunction with the City's basic financial statements and accompanying notes to the financial statements following this section.

FINANCIAL HIGHLIGHTS

The following are highlights noted in the City's presentation of the basic financial statements.

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by $733.9 million (net position). Of this amount $55.6 million represents unrestricted net position, which may be used to meet the City's obligations to citizens and creditors.
- The City's net position increased $14.6 million in governmental activities and $2.5 million in business-type activities in 2019, for a total increase of $17.1 million. These increases represent results of 2019 operations before consideration to restatement of beginning balances.
- The City's total debt outstanding decreased $0.2 million. This decrease represents the net amount of the new additions and the principal payments. In 2019, the City issued a new obligation bond of $3.9 million and two refunding bonds of $4.4 million.
- With respect to governmental activities, the City's primary sources of revenue continue to be charges for services, operating and capital grants and contributions, property taxes, sales and excise taxes, and business and occupation (B&O) tax. The total amount of these revenue sources was $100.1 million in 2019, an increase of $7.2 million from 2018.
- The City reported $62.1 million program revenues and $45.8 million general revenues, an increase of $4.8 million and $1.0 million from 2018, respectively.
- At the end of year, the City's governmental funds reported a combined fund balance of $59.9 million, an increase of $1.0 million from 2018. Of the total governmental fund balance reported, $44.8 million is identified as non-spendable, restricted, committed, or assigned and the remaining $15.1 million is available for spending at the City's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis serve as an introduction to the City's basic financial statements, comprised of three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the basic financial statements.

This report also includes required supplementary information (RSI) to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed and presented to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. They are presented on the accrual basis of accounting where revenues and expenses are recognized on the date they occur rather than on the date they are collected or paid. The statements provide near-term and long-term information about the City's financial position, which assists in assessing the City's financial condition at the end of the fiscal year.

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

The Statement of Activities presents changes in net position during the current reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some reported revenues and expenses result in cash flows in future periods. Examples are uncollected taxes and earned but unused compensated absences.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, judicial, public safety, transportation, natural and economic development, social services, culture and recreation, and interest on outstanding debt. The business-type activities of the City include water, sewer, and stormwater utility functions.

The government-wide financial statements present only the operations of the City itself as the City has no component units. The government-wide financial statements can be found immediately following this analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like any other state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be categorized into three categories: governmental funds, proprietary funds, and fiduciary 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 are reported using an accounting method called modified accrual, which focuses on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. The governmental fund statements provide a detailed short-term view of the governmental fund operations and the basic services provided. These statements may be useful in assessing the City's near-term financing requirements. Most of the City's basic services are reported in the governmental funds.
>
> The focus of governmental funds is narrower than that of the government-wide financial statements, therefore, 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 government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains numerous governmental funds that are organized according to type (general, special revenue, debt service and capital project funds). Information for the major governmental funds is presented separately in the governmental funds. Information for the nonmajor funds is presented in the aggregate. The General Fund, Mitigation Capital Fund, and Street Capital Fund are considered major funds and are reported separately in the governmental fund statements. While the City adopts a budget for each of its funds, the budgetary comparison is included in the governmental fund statements only for the General Fund as required.

Proprietary funds are comprised of enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City's enterprise funds charge fees to customers to cover the costs of certain services provided. The City's water, sewer, and stormwater operations are reported as enterprise funds. The City's self-insurance activities, information technology function, and fleet services are reported as internal service funds, for which the principal operating revenues are charges to other organizational units within the City for services provided.

Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support City programs. The accounting used for fiduciary funds is similar to that used for propriety funds. The City's fiduciary funds include the Ruth Kees Award Fund and aggregately presented agency funds.

Notes to the Basic Financial Statements are an integral part of the financial statements. They provide additional disclosures that are essential to the full understanding of the City's financial statements. The notes immediately follow the fund financial statements.

GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

Net position serves as a useful indicator of the City's financial position especially when viewed over multiple periods of time. The City's assets and deferred outflows exceeded liabilities and deferred inflows of resources in the current and prior years by $733 and $726 million (as restated), respectively. Net position at the end of 2019 increased over that of 2018 by $7.8 million or 1%. The following table reflects a summary of the City's net position for 2019 as compared to the prior year. All numbers are presented in thousands (000's).

CONDENSED STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 81,263	$ 80,522	$ 39,699	$ 35,854	$ 120,962	$ 116,376
Capital assets, net of depreciation	548,260	546,572	112,215	113,471	660,475	660,043
Total Assets	629,523	627,094	151,914	149,325	781,437	776,419
Deferred outflows of resources	2,075	1,934	368	406	2,443	2,340
Total deferred outflows of resources	2,075	1,934	368	406	2,443	2,340
Current liabilities	4,797	5,665	1,393	775	6,190	6,440
Noncurrent liabilities	35,476	37,505	3,162	4,030	38,638	41,535
Total liabilities	40,273	43,170	4,555	4,805	44,828	47,975
Deferred inflows of resources	4,394	3,892	795	839	5,189	4,731
Total deferred inflows of resources	4,394	3,892	795	839	5,189	4,731
Net Position:						
Net investment in capital assets	524,181	523,617	111,015	111,701	635,196	635,318
Restricted	41,986	34,510	1,100	1,292	43,086	35,802
Unrestricted	20,764	23,839	34,817	31,094	55,581	54,933
Total net position	$ 586,931	$ 581,966	$ 146,932	$ 144,087	$ 733,863	$ 726,053

The City's $733.9 million net position is comprised of three parts or classifications. The largest portion of the City's net position, at $635.2 million (or 87% of total net position) is invested in capital assets (e.g. land, buildings, infrastructure, and equipment) and net of related outstanding debt. The City uses these capital assets to provide services to its citizens, thus they do not represent resources available for future spending.

Restricted net position totals $43.1 million (or 6% of total net position) and represents cash and investments that are legally restricted for capital expansion or debt service.

The remaining $55.6 million (or 7% of total net position) is unrestricted and is available for meeting the City's ongoing operational obligations. Total liabilities decreased by $3.1 million to $44.8 million in 2019. The City continues paying down debts. In addition, the City's net pension liability decreased by $2.6 million from $9.1 million in 2018 to $6.5 million in 2019.

The total net position increased by $7.28 million, including prior year corrections. Prior to consideration of prior year corrections, the total net position increased by $17.1 million. The reasons for the overall increase are discussed in the following section for governmental activities and business-type activities. Overall, the City's financial position has improved in 2019.

The Statement of Activities presents the changes in the City's net position from one year to the next. As illustrated in the table below, the total net position of the City increased $17.1 million in 2019 before consideration to restatement of beginning balances. The rate of the increase in net position was same as 2018. Descriptions of significant components of revenues and expenses contributing the change in net position are presented in the table below. All amounts are presented in thousands (000's).

CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Charges for services	$ 14,030	$ 16,782	$ 26,554	$ 26,290	$ 40,584	$ 43,072
Operating grants & contributions	2,893	2,953	153	338	3,046	3,291
Capital grants & contributions	16,150	8,141	2,366	2,832	18,516	10,973
Total program revenues	33,073	27,876	29,073	29,460	62,146	57,336
Property taxes	11,006	10,427	-	-	11,006	10,427
Sales taxes	16,352	16,591	-	-	16,352	16,591
Business taxes	10,642	10,361	-	-	10,642	10,361
Other general revenues	6,810	7,281	943	87	7,753	7,368
Total general revenues	44,810	44,660	943	87	45,753	44,747
Total revenues	77,883	72,536	30,016	29,547	107,899	102,083
Expenses:						
Governmental	63,696	58,003	-	-	63,696	58,003
Water	-	-	11,057	11,714	11,057	11,714
Sewer	-	-	9,795	9,832	9,795	9,832
Storm Water	-	-	6,267	5,481	6,267	5,481
Total expenses	63,696	58,003	27,119	27,027	90,815	85,030
Excess (deficiency) before transfers	14,187	14,533	2,897	2,520	17,084	17,053
Transfers	445	596	(445)	(596)	-	-
Increase in net position	14,632	15,129	2,452	1,924	17,084	17,052
Net position - beginning	581,966	571,816	144,087	142,164	726,053	713,981
Prior period adjustment	(9,667)	(3,441)	393	-	(9,274)	(3,441)
Change in accounting principle	-	(1,538)	-	-	-	(1,538)
Restated net position - beginning	572,299	566,837	144,480	142,164	716,779	709,001
Net position - ending	$ 586,931	$ 581,966	$ 146,932	$ 144,087	$ 733,863	$ 726,053

Governmental activities – the change in net position for governmental activities for 2019 totaled $14.6 million compared to $15.1 million for 2018. Total revenue increased by $4.8 million, primarily due to the increase in program revenues of $5.2 million. The increase in program revenue was primarily due to a capital grant of $5.3 million received in 2019 for a land acquisition. Total expenses increased by $5.8 million in 2019. As a result of the increase in expenses, the change in net position in 2019 deteriorated slightly.

Business-type activities – the change in net position for business-type activities for 2019 totaled $2.5 million compared to $1.9 million for 2018. Total revenue increased by $0.5 million, primarily due to the increase in general revenues of $0.9 million. Total expenses had a slight increase in 2019. As a result, the change in net position improved in 2019.

FUND FINANCIAL ANALYSIS

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reported combined ending fund balances of $59.9 million as of December 31, 2019, an increase of $1.0 million from 2018. Approximately 25 percent of the fund balances or $15.1 million constitutes unassigned fund balance after consideration for amounts identified as assigned ($1.3 million), committed ($4.1 million), restricted ($39.0 million) or in a non-spendable form ($0.5 million). Assigned amounts are intended for specific purposes as expressed by the City. Restricted amounts are constrained to specific purposes by their providers (such as grantors or bondholders) while committed amounts are formally constrained to specific purposes by the City through action of the Council. Overall, the City's governmental fund's financial position improved in 2019.

The City's major funds are analyzed in the following paragraphs.

The General Fund is the chief operating fund of the City. As of December 31, 2019, unassigned fund balance of the General Fund was $15.4 million, while total fund balance reported was $16.3 million. Total fund balance for the General Fund decreased by $4.2 million from the prior year. The decrease was due to a land acquisition in 2019. The total cost of the land acquisition was $10.7 million, which was funded by a grant of $5.3 million from King County and the City's General Fund, approximately $5.4 million. Total fund expenditures exceeded fund revenues by $2.7 million, a decrease of $8.7 million from the prior year.

The Mitigation Fund reported total fund balance of $19.4 million, all of which is restricted for capital projects. Total fund balance for the Mitigation Fund decreased by $3.0 million from the prior year as more funds were transferred to capital projects in 2019. The Mitigation Fund collects impact fees and then transfers the impact fees collected to capital project funds for capital projects. Total fund revenues decreased to $1.8 in 2019 from $2.0 million in 2018. The slight decrease in revenue was primarily due to less permit applications in 2019 compared to the prior year.

The Street Capital Fund reported total fund balance of $5.8 million for the year ended December 31, 2019, all of which is restricted for capital improvements to the City's transportation infrastructure. The total fund balance for the Street Capital Fund increased by $4.1 million from prior year. This increase was primarily due to transfers in from other funds, approximately $5.5 million in 2019. Total fund revenue decreased by $10.5 million while total fund expenditures decreased by $10.0 million in 2019. The decreases in both revenues and expenditures were primarily attributable to the SE 62nd Project, which was near completion in 2018 and substantially completed at the beginning of 2019 resulting in less project costs and partner revenue reimbursements in 2019.

Proprietary Funds

The City's Water Fund ended the year with a $2.0 million increase in net position before consideration of prior year corrections. The increase was primarily due to the increase in charges for services and the reduction in operating expenses other than depreciation expense. Capital contributions from developers amounted to $1.5 million, a decrease of $0.8 million. The decrease in capital contributions is attributable to the significant decrease in the amount of development activities. There were 36 permits applied in 2019 compared to 99 permits in 2018. Total net position at the end of 2019 was reported at $69.2 million, of which $54.2 million was invested in capital assets net of related debt, $1.1 million was restricted for capital construction and debt services, and the remaining net position of $13.9 million was unrestricted and available to fund ongoing operations.

The Sewer Fund ended the year with a $0.6 million increase in net position before consideration of prior year corrections. The increase was primarily due to the increase in charges for services. Total charges for services increased by $0.4 million. Capital contributions went down by $0.1 million compared to 2018. In 2018, the City received approximately $0.2 million in capital contributions from the City of Bellevue for utility infrastructure projects. The fund ended 2019 with a total net position of $25.5 million, comprised of an investment in capital assets net of related debt of $13.3 million and a remaining unrestricted balance of $12.2 million available to fund ongoing operations.

The Stormwater Fund ended the year with a $0.1 million decrease in net position before consideration of prior year corrections. The decrease was primarily due to the increase in the operating expenses other than depreciation expenses of $0.7 million offset by an increase in charges for services of $0.4 million. At the end of 2019, the fund reported total net position of $52.2 million, including net position invested in capital assets net of related debt $43.5 million and unrestricted net position available in the amount of $8.8 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. Total expenditures increased by approximately $10.8 million from the original budget to the final budget. This is primarily due to the increase of $10.6 million in capital outlay. During 2019, the City amended capital outlay expenditures budget from $0.1 million to $10.7 million for the Bergsma land acquisition. As a result, the final budget increased local grant revenue by $5.4 million and transfers in by $3.8 million to fund this acquisition.

Final budget compared to actual expenditures. The City adopts budgets annually on a modified accrual basis, at the fund level. A comparison of the actual performance of the General Fund on a budgetary basis to the final revised budget indicates that total revenues were $4.2 million, or 7 percent, less than the final budget. This was primarily due to revenue from licenses and permits and charges for services coming in less than budgeted by $1.8 million and $1.5 million, respectively. Expenditures were $2.3 million, or 4 percent, less than the final budget. The City continues its commitment to sustainability and manages its finances with this commitment in mind. The City continues to closely monitor and control its expenses, which is part of the City's commitment to its citizens for long-term fiscal sustainability.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's government-wide investment in capital assets as of December 31, 2019, amounts to $660.5 million (net of accumulated depreciation). This investment in capital assets includes land & other non-depreciable assets, infrastructure, intangible property, buildings & improvements, machinery & equipment, and construction in progress as shown in the following table.

Capital Assets, net of Depreciation
(stated in thousands 000's)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018 Restated	2019	2018 Restated	2019	2018 Restated
Land & other nondepreciables	$ 343,785	$ 327,665	$ 16,646	$ 16,646	$ 360,431	$ 344,311
Infrastructure	143,398	123,407	-	-	143,398	123,407
Plant in service	-	-	84,000	87,975	84,000	87,975
Intangible property	130	148	116	149	246	297
Buildings & improvements	49,121	50,848	6,717	6,913	55,838	57,761
Machinery & equipment	6,440	6,580	448	499	6,888	7,079
Construction in progress	5,386	28,257	4,288	1,682	9,674	29,939
Total	$ 548,260	$ 536,905	$ 112,215	$ 113,864	$ 660,475	$ 650,769

Construction in progress decreased by $20.3 million after consideration of prior period adjustments. This decrease was primarily due to the completion of a major capital project during 2019, the road improvements in North Issaquah for SE 62nd Street. Land and other non-depreciable capital assets increased by $16.1 million. The increase was primarily due to the acquisition of Bergsma, a land purchase of approximately $10.7 and the donated right of way of $5.4 million.

Additional information on the City's capital assets can be found in Note 7 in the Notes to the Financial Statements. Construction commitments can be found in Note 15 in the Notes to the Financial Statements.

Debt Administration

The City of Issaquah's total outstanding bonded debts as of December 31, 2019 is shown in the table below. Outstanding debt increased approximately $0.1 million from 2018 as a result of the net amount of bonds issued and scheduled principal payments during the year. In 2019, the City's new issues were $8.2 million, and the bonds payments were $8.1 million.

Outstanding Bonded Debt
(stated in thousands 000's)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	$ 22,660	$ 21,920	$ -	$ -	$ 22,660	$ 21,920
Special assessment bonds	130	130	-	-	130	130
Revenue bonds	-	-	1,200	1,770	1,200	1,770
Total	$ 22,790	$ 22,050	$ 1,200	$ 1,770	$ 23,990	$ 23,820

Additional information on the City's long-term debt can be found in Note 12, in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors currently affect the City and are being considered in developing the upcoming fiscal year budget:

- The City of Issaquah continues to refine and implement financial policies and practices. Administration and City Council work together to reflect the City's vision and priorities for the community and the City continues to build on its successes.

- The General Fund continues to levy the legally authorized increase in property taxes of one percent (1%). This is an annual property tax increase of approximately $5.00 from 2019 to 2020 for an average home valued at $830,000.

- The City's 2020 adopted budget totals $143.1 million, including $49.85 million for the general fund. The 2020 adopted budget is slightly less than 2019's $144.9 million budget. The general fund is down over $3 million relative to the 2019 adopted budget. The 2020 adopted budget will allow the City to continue providing high-quality services to Issaquah residents, and contains $34 million in funds for high-priority capital investments, including the installation of a new traffic signal on Southeast 43RD Way at Providence Point, improvements to Central Park, and investments in water, sewer, and stormwater utilities.

- On March 19, 2020, the Mayor of Issaquah proclaimed an emergency related to the COVID-19 pandemic. The pandemic is expected to impact the 2020 budget. Refer to the Subsequent Event in the Notes to the Financial Statements for additional details.

REQUESTS FOR INFORMATION

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

CITY OF ISSAQUAH
Statement of Net Position
December 31, 2019

		Governmental Activities		Business-Type Activities		Total Primary Government
ASSETS						
Current assets:						
Cash and investments	$	71,875,778	$	31,602,887	$	103,478,665
Receivables (net)		8,214,578		3,239,074		11,453,652
Inventories		703,937		552,924		1,256,861
Prepaid		215,851		-		215,851
Internal balance		(4,303,840)		4,303,840		-
Due from other governments		1,538,251		-		1,538,251
Total current assets		78,244,555		39,698,725		117,943,280
Non-current assets:						
Net pension asset		3,018,078		-		3,018,078
Nondepreciable capital assets		349,171,172		20,934,216		370,105,388
Depreciable capital assets, net of accumulated depreciation		199,089,410		91,281,295		290,370,705
Total non-current assets		551,278,660		112,215,511		663,494,171
Total assets		629,523,215		151,914,236		781,437,451
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount related to pensions		1,993,413		368,227		2,361,640
Deferred amount related to OPEB		51,305		-		51,305
Deferred amount related to refunding debts		30,011		-		30,011
Total deferred ouflows of resources		2,074,729		368,227		2,442,956
LIABILITIES						
Current liabilities:						
Accounts payable and other accrued liabilities		3,565,302		1,387,359		4,952,661
Accrued interest payable		64,174		5,900		70,074
Unearned revenues		522,578		-		522,578
Customer deposits		644,855		-		644,855
Total current liabilities		4,796,909		1,393,259		6,190,168
Noncurrent liabilities:						
Due within one year		4,656,482		818,257		5,474,739
Due in more than one year		23,504,819		1,097,562		24,602,381
Net pension liability		5,260,600		1,246,663		6,507,263
Total OPEB liability		2,053,934		-		2,053,934
Total non-current liabilities		35,475,835		3,162,482		38,638,317
Total Liabilities		40,272,744		4,555,741		44,828,485
DEFERRED INFLOWS OF RESOURCES						
Deferred amounts related to pensions		4,393,674		794,840		5,188,514
Total deferred inflows of resources		4,393,674		794,840		5,188,514
NET POSITION						
Net investment in capital assets		524,181,006		111,015,511		635,196,517
Restricted for:						
Pension		3,018,078		-		3,018,078
Capital projects		36,015,471		509,590		36,525,061
Debt service		2,338,321		590,000		2,928,321
Tourism		614,524		-		614,524
Unrestricted		20,764,126		34,816,781		55,580,907
Total Net Position	$	586,931,526	$	146,931,882	$	733,863,408

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

CITY OF ISSAQUAH
Statement of Activities
For the Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Primary government:							
Governmental activities:							
General government	$ 8,917,886	$ 1,271,139	$ 496,650	$ -	$ (7,150,097)	$ -	$ (7,150,097)
Judicial	2,787,767	487,380	9,468	-	(2,290,919)	-	(2,290,919)
Public safety	18,810,482	2,868,699	1,106,696	-	(14,835,087)	-	(14,835,087)
Transportation	14,104,662	311,251	681,944	10,627,944	(2,483,523)	-	(2,483,523)
Natural and economic environment	8,911,135	6,100,128	254,293	5,322,282	2,765,568	-	2,765,568
Social services	908,748	-	129,168	-	(779,580)	-	(779,580)
Culture and recreation	8,567,878	2,991,240	215,522	199,820	(5,161,296)	-	(5,161,296)
Interest and other debt costs	687,753	-	-	-	(687,753)	-	(687,753)
Total governmental activities	63,696,310	14,029,837	2,893,740	16,150,046	(30,622,687)	-	(30,622,687)
Business-Type Activities:							
Water	11,056,970	10,651,859	-	1,541,037	-	1,135,926	1,135,926
Sewer	9,795,270	10,352,070	-	189,911	-	746,711	746,711
Stormwater	6,266,807	5,550,127	153,136	635,340	-	71,796	71,796
Total business-type activities	27,119,048	26,554,056	153,136	2,366,288	-	1,954,432	1,954,432
Total primary government	$ 90,815,358	$ 40,583,893	$ 3,046,876	$ 18,516,334	$ (30,622,687)	$ 1,954,432	$ (28,668,255)
General Revenues							
Taxes							
Property Taxes					$ 11,006,143	$ -	$ 11,006,143
Sales and Use Taxes					16,351,769	-	16,351,769
Business and Occupation Taxes					10,642,402	-	10,642,402
Other taxes and assessments					5,342,295	-	5,342,295
Investment Earnings					1,107,346	373,772	1,481,118
Miscellaneous					361,135	568,750	929,885
Gain (Loss) on Disposal of Capital Assets					(755)	-	(755)
Transfers					445,000	(445,000)	-
Total General Revenues, special items and transfers					45,255,335	497,522	45,752,857
Change in Net Position					14,632,648	2,451,954	17,084,602
Net Position - Beginning					581,965,878	144,086,785	726,052,663
Prior Period Adjustments					(9,667,000)	393,143	(9,273,857)
Net Position - Beginning, as restated					572,298,878	144,479,928	716,778,806
Net Position - Ending					$ 586,931,526	$ 146,931,882	$ 733,863,408

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

CITY OF ISSAQUAH
Governmental Funds
Balance Sheet
December 31, 2019

	General Fund	Mitigation Capital Fund	Street Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	$ 13,609,369	$ 19,339,144	$ 10,159,022	$ 16,767,365	$ 59,874,900
Current receivables (net)	5,685,153	78,375	256,186	2,180,788	8,200,502
Inventories	-	-	-	455,078	455,078
Prepaid	46,017	-	-	-	46,017
Due from other governments	168,363	-	1,018,334	351,554	1,538,251
Total assets	$ 19,508,902	$ 19,417,519	$ 11,433,542	$ 19,754,785	$ 70,114,748
LIABILITIES					
Accounts payable and other accrued liabilities	$ 1,948,487	$ -	$ 657,510	$ 503,647	$ 3,109,644
Accrued interest	-	-	5,912	-	5,912
Unearned revenues	322,578	-	200,000	-	522,578
Customer deposits	644,855	-	-	-	644,855
Advances from other funds	-	-	4,000,000	303,840	4,303,840
Total liabilities	2,915,920	-	4,863,422	807,487	8,586,829
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - receivables	295,388	-	774,153	513,777	1,583,318
Total deferred inflows of resources	295,388	-	774,153	513,777	1,583,318
FUND BALANCES					
Nonspendable	46,017	-	-	455,078	501,095
Restricted	-	19,417,519	5,795,967	13,754,830	38,968,316
Committed	300,940	-	-	3,762,063	4,063,003
Assigned	600,312	-	-	682,533	1,282,845
Unassigned	15,350,325	-	-	(220,983)	15,129,342
Total fund balances	16,297,594	19,417,519	5,795,967	18,433,521	59,944,601
Total liabilities, deferred inflows of resource and fund balances	$ 19,508,902	$ 19,417,519	$ 11,433,542	$ 19,754,785	$ 70,114,748

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

CITY OF ISSAQUAH
Reconciliation of the Balance Sheet to
the Statement of Net Position
Year Ended December 31, 2019

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

Total governmental fund balances	$	59,944,601
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		544,231,717
Internal Service Funds are used to charge the costs of services to individual funds. The assets and liabilities of internal service funds are included in governmental activities on the statement of net position		14,881,650
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds—unavailable revenues		1,583,318
Items related to pension activity that are not financial resources therefore, not reported in the funds		(4,043,815)
Items related to OPEB that are not financial resources therefore, not reported in the funds		(2,002,629)
Long-term liabilities and related interest that are not due and payable in the current period and are not reported in the funds		(27,693,327)
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the fund		30,011
Net position of governmental activities	$	586,931,526

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

CITY OF ISSAQUAH

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended December 31, 2019

	General Fund	Mitigation Capital Fund	Street Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	$ 9,171,942	$ -	$ -	$ 1,753,956	$ 10,925,898
Sales taxes	16,107,031	-	-	244,738	16,351,769
Business and occupation taxes	10,344,221	-	-	298,181	10,642,402
Other taxes and assessments	188,385	-	-	5,251,082	5,439,467
Licenses and permits	4,274,792	-	-	10,068	4,284,860
Intergovernmental	6,995,581	-	2,989,204	1,368,945	11,353,730
Charges for services	4,702,862	1,341,763	196,536	722,530	6,963,691
Fines and forfeitures	223,068	88,800	-	865,138	1,177,006
Interest earnings	651,808	378,680	-	29,998	1,060,486
Rents and leases	1,368,976	-	-	74,759	1,443,735
Contributions and donations	42,660	25,332	1,182,871	71,298	1,322,161
Miscellaneous revenues	249,468	-	30	110,225	359,723
Total revenues	54,320,794	1,834,575	4,368,641	10,800,918	71,324,928
EXPENDITURES					
Current					
General government	9,097,725	-	-	18,430	9,116,155
Judicial	2,809,768	-	-	-	2,809,768
Public safety	18,636,607	-	-	183,169	18,819,776
Transportation	-	-	2,028,603	4,485,514	6,514,117
Natural and economic environment	7,668,765	-	-	1,446,206	9,114,971
Social services	915,211	-	-	-	915,211
Culture and recreation	7,194,058	-	-	388,786	7,582,844
Debt service:					
Principal retirement	-	-	350,000	3,193,955	3,543,955
Interest/fiscal charges	-	-	-	805,038	805,038
Bond issuance Costs	-	-	-	82,950	82,950
Capital outlay:	10,651,072	-	3,260,404	1,464,769	15,376,245
Total expenditures	56,973,206	-	5,639,007	12,068,817	74,681,030
Excess (deficiency) of revenues over (under) expenditures	(2,652,412)	1,834,575	(1,270,366)	(1,267,899)	(3,356,102)
OTHER FINANCING SOURCES (USES)					
Long-term debt proceeds	-	-	-	3,850,772	3,850,772
Refunding of long term debt issued	-	-	-	4,383,728	4,383,728
Repayment to refunded debt	-	-	-	(4,300,000)	(4,300,000)
Transfers in	3,938,000	-	5,481,579	9,156,180	18,575,759
Transfers out	(5,519,865)	(4,824,095)	(125,613)	(7,701,186)	(18,170,759)
Total other financing sources (uses)	(1,581,865)	(4,824,095)	5,355,966	5,389,494	4,339,500
Net change in fund balances	(4,234,277)	(2,989,520)	4,085,600	4,121,595	983,398
Fund balances - beginning	20,531,871	22,407,039	1,710,367	14,311,926	58,961,203
Fund balances - ending	$ 16,297,594	$ 19,417,519	$ 5,795,967	$ 18,433,521	$ 59,944,601

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

CITY OF ISSAQUAH

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

For the Year Ended December 31, 2019

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances - total governmental funds:	$	983,398
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period		11,734,880
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		433,208
Expenditures recognized in governmental activities for pension, OPEB, and compensated absences that are not financial resources and therefore not reported in the funds		2,554,975
The net effect of various miscellaneous transactions, such as special funding for LEOFF 1 is to increase net position		141,911
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(331,244)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (loss) of most of these activities is reported with governmental activities.		(884,480)
Changes in Net Position - governmental activities	$	14,632,648

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

CITY OF ISSAQUAH
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended December 31, 2019

	Budgeted Amounts			
	Original	Final	Actual Amount	Variance with Final Budget
REVENUES				
Property taxes	$ 9,100,219	$ 9,100,219	$ 9,171,942	$ 71,723
Sales taxes	16,666,000	16,666,000	16,107,031	(558,969)
Business and occupation taxes	11,296,100	11,296,100	10,344,221	(951,879)
Other taxes and assessments	295,000	295,000	188,385	(106,615)
Licenses and permits	6,098,250	6,098,250	4,274,792	(1,823,458)
Intergovernmental	1,605,687	7,002,969	6,995,581	(7,388)
Charges for services	6,175,868	6,175,868	4,702,862	(1,473,006)
Fines and forfeitures	210,400	210,400	223,068	12,668
Interest earnings	321,500	321,500	485,363	163,863
Rents and leases	971,482	971,482	1,368,976	397,494
Contributions and donations	40,000	40,000	42,660	2,660
Miscellaneous revenues	165,050	165,050	249,468	84,418
Total revenues	52,945,556	58,342,838	54,154,349	(4,188,489)
EXPENDITURES				
Current				
General government	9,799,601	9,799,601	9,097,725	701,876
Judicial	2,025,907	2,025,907	2,809,768	(783,861)
Public safety	18,866,450	19,056,450	18,636,607	419,843
Natural and economic environment	8,481,583	8,465,583	7,668,765	796,818
Social services	996,646	996,646	915,211	81,435
Culture and recreation	8,298,915	8,233,915	7,194,058	1,039,857
Capital outlay:	60,500	10,705,500	10,651,072	54,428
Total expenditures	48,529,602	59,283,602	56,973,206	2,310,396
Excess (deficiency) of revenues over (under) expenditures	4,415,954	(940,764)	(2,818,857)	(1,878,093)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	-	-
Transfers in	115,000	3,938,000	3,938,000	-
Transfers out	(4,914,495)	(5,519,865)	(5,519,865)	-
Total	(4,799,495)	(1,581,865)	(1,581,865)	-
Adjustment from budgetary basis to GAAP basis			166,445	
Net change in fund balances	$ (383,541)	$ (2,522,629)	$ (4,234,277)	$ (1,878,093)
Fund balances - beginning			20,531,871	
Fund balances - ending			$ 16,297,594	

Elements to adjustment from budgetary basis to GAAP basis:

Recognition of unrealized gain on investments	$ 166,445

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

CITY OF ISSAQUAH
Proprietary Funds
Statement of Fund Net Position
December 31, 2019

	Business-Type Activities				Governmental Activities
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	$ 15,551,926	$ 7,089,614	$ 8,961,347	$ 31,602,887	$ 12,000,878
Receivables (net)	900,765	1,141,212	1,197,097	3,239,074	14,076
Advances to other funds	-	4,303,840	-	4,303,840	-
Prepaid expenses	-	-	-	-	169,834
Inventory	483,606	15,570	53,748	552,924	248,859
Total current assets	16,936,297	12,550,236	10,212,192	39,698,725	12,433,647
Noncurrent assets:					
Nondepreciable capital assets	11,361,003	723,874	8,849,339	20,934,216	330,858
Depreciable property, plant and equipment (net)	44,084,895	12,590,000	34,606,400	91,281,295	3,698,007
Total non-current assets	55,445,898	13,313,874	43,455,739	112,215,511	4,028,865
Total assets	72,382,195	25,864,110	53,667,931	151,914,236	16,462,512
DEFERRED OUTFLOWS OF RESOURCES					
Amounts related to pensions	163,615	50,520	154,092	368,227	131,811
Total deferred outflows of resources	163,615	50,520	154,092	368,227	131,811
LIABILITIES					
Current liabilities:					
Accounts payable and other accrued liabilities	896,538	71,681	419,140	1,387,359	455,658
Accrued interest payable	5,900	-	-	5,900	-
Compensated absences	101,422	31,316	95,519	228,257	81,707
Claims payable	-	-	-	-	270,000
Bonds payable - current	590,000	-	-	590,000	-
Total current liabilities	1,593,860	102,997	514,659	2,211,516	807,365
Noncurrent liabilities:					
Compensated absences	216,639	66,892	204,031	487,562	174,529
Bonds payable	610,000	-	-	610,000	-
Net pension liability	553,931	171,039	521,693	1,246,663	446,257
Total long-term liabilities	1,380,570	237,931	725,724	2,344,225	620,786
Total liabilities	2,974,430	340,928	1,240,383	4,555,741	1,428,151
DEFERRED INFLOWS OF RESOURCES					
Amounts related to pensions	353,172	109,050	332,618	794,840	284,522
Total deferred inflows of resources	353,172	109,050	332,618	794,840	284,522
NET POSITION					
Net investment in capital assets	54,245,898	13,313,874	43,455,739	111,015,511	4,028,865
Restricted for capital projects	509,590	-	-	509,590	-
Restricted for debt service	590,000	-	-	590,000	-
Unrestricted	13,872,720	12,150,778	8,793,283	34,816,781	10,852,785
Total net position	$ 69,218,208	$ 25,464,652	$ 52,249,022	$ 146,931,882	$ 14,881,650

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

CITY OF ISSAQUAH
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2019

	Business-Type Activities				Governmental Activities
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES					
Charge for services	$ 10,900,682	$ 10,352,056	$ 5,550,041	$ 26,802,779	$ 10,288,116
Miscellaneous	177	14	86	277	189,493
Total Operating revenues	10,900,859	10,352,070	5,550,127	26,803,056	10,477,609
OPERATING EXPENSES					
Personnel expenses	2,397,617	740,062	2,187,413	5,325,092	2,702,290
Tools and supplies	723,950	45,830	198,420	968,200	1,861,898
Professional services	483,590	27,865	443,786	955,241	378,787
Taxes	1,065,043	83,169	81,689	1,229,901	-
Repairs and maintenance	280,754	150,011	739,379	1,170,144	593,731
Purchased services	1,737,818	7,525,569	-	9,263,387	-
Utilities	419,899	23,789	21,925	465,613	-
Other operating expenses	1,393,001	34,457	167,804	1,595,262	5,235,244
Internal services	590,364	600,499	633,318	1,824,181	135,258
Depreciation and amortization	1,964,934	749,020	1,857,074	4,571,028	681,920
Total operating expenses	11,056,970	9,980,271	6,330,808	27,368,049	11,589,128
Operating income (loss)	(156,111)	371,799	(780,681)	(564,993)	(1,111,519)
NONOPERATING REVENUES (EXPENSES)					
Interest earnings	227,363	152,742	65,067	445,172	187,794
Intergovernmental revenues	-	-	153,136	153,136	-
Interest and fiscal charges	(71,400)	-	-	(71,400)	-
Gain (loss) on disposal of assets	-	-	-	-	(755)
Other nonoperating revenues	568,750	-	-	568,750	-
Total nonoperating revenues (expenses)	724,713	152,742	218,203	1,095,658	187,039
Income (loss) before contributions, transfers and special Items	568,602	524,541	(562,478)	530,665	(924,480)
Capital contributions	1,541,037	189,911	635,340	2,366,288	-
Transfers in	55,000	-	-	55,000	40,000
Transfers out	(200,000)	(100,000)	(200,000)	(500,000)	-
Increase (decrease) in net position	1,964,639	614,452	(127,138)	2,451,953	(884,480)
Total Net Position at Beginning of Year	67,257,286	24,812,178	52,017,321	144,086,785	15,778,741
Prior period adjustments	(3,717)	38,022	358,838	393,143	(12,611)
Total Net Position at Beginning of Year - Restated	67,253,569	24,850,200	52,376,159	144,479,928	15,766,130
Total Net Position at End of Year	$ 69,218,208	$ 25,464,652	$ 52,249,022	$ 146,931,882	$ 14,881,650

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

CITY OF ISSAQUAH
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2019

	Enterprise Funds				Governmental Activities
	Water	Sewer	Storm Water	Total	Internal Service Funds
Cash Flows from Operating Activities:					
Receipts from customers	$ 10,980,026	$ 10,300,219	$ 5,129,030	$ 26,409,275	$ 10,467,303
Payments to suppliers	(6,002,485)	(7,952,426)	(1,559,771)	(15,514,683)	(8,332,560)
Payments to employees	(2,659,362)	(817,187)	(2,127,452)	(5,604,001)	(2,180,589)
Cash payments for interfund services	(590,364)	(600,499)	(633,318)	(1,824,181)	(135,258)
Cash received from other activities	-	-	-	-	-
Net cash provided (used) by operating activities	1,727,815	930,107	808,488	3,466,410	(181,104)
Cash Flows from Noncapital Financing Activities:					
Transfers - in	55,000	-	-	55,000	40,000
Transfers - out	(200,000)	(100,000)	(200,000)	(500,000)	-
Payments received from interfund advances	-	-	-	-	-
Proceeds (payments for interfund loans)	-	(3,940,000)	-	(3,940,000)	3,000,000
Operating grants and nonoperating revenue received	568,750	-	153,136	721,886	-
Net cash provided (used) by noncapital financing activities	423,750	(4,040,000)	(46,864)	(3,663,114)	3,040,000
Cash Flows from Capital and Related Financing Activities:					
Receipts from capital contributions	1,422,092	112,373	519,788	2,054,253	-
Acquisition and construction of capital assets	(1,514,139)	(401,407)	(694,864)	(2,610,410)	(302,847)
Proceeds from disposal of capital assets	-	-	-	-	(755)
Principal paid on debt	(570,000)	-	-	(570,000)	-
Interest paid on debt	(71,400)	-	-	(71,400)	-
Net cash provided (used) for capital and related financing activities	(733,447)	(289,034)	(175,076)	(1,197,557)	(303,602)
Cash Flows from Investing Activities:					
Interest on investments	227,363	152,742	65,067	445,172	187,794
Net cash provided (used) by investing activities	227,363	152,742	65,067	445,172	187,794
Net increase (decrease) in cash and cash equivalents	1,645,481	(3,246,185)	651,615	(949,089)	2,743,088
Cash and Cash Equivalents at Beginning of Year	13,906,445	10,335,799	8,309,732	32,551,976	9,257,790
Cash and Cash Equivalents at End of Year	$ 15,551,926	$ 7,089,614	$ 8,961,347	$ 31,602,887	$ 12,000,878

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

CITY OF ISSAQUAH
Proprietary Funds
Statement of Cash Flows (continued)
For the Year Ended December 31, 2019

	Enterprise Funds				Governmental Activities
	Water	Sewer	Storm Water	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash:					
Cash Used by Operating Activities:					
Net operating income (loss)	$ (156,111)	$ 371,799	$ (780,681)	$ (564,993)	$ (1,111,519)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	1,964,934	749,020	1,857,074	4,571,028	681,920
Decrease (increase) in account receivable	79,167	(51,851)	(421,097)	(393,781)	(10,305)
Decrease (increase) in inventory	(99,867)	893	(4,601)	(103,575)	(7,614)
Decrease (increase) in prepaid expense	-	-	7,550	7,550	(67,150)
Increase (decrease) in accounts payable	201,437	(62,629)	90,282	229,090	(93,136)
Increase (decrease) in compensated absences	8,284	(14,354)	76,290	70,220	(142,547)
Increase (decrease) in net pension liability	(280,525)	(58,691)	(35,543)	(374,759)	598,968
Increase (decrease) in claims payable	-	-	-	-	(95,000)
Increase (decrease) in accrued liabilities	10,496	(4,080)	19,214	25,630	65,279
Other operating receipts (payments)	-	-	-	-	-
	1,883,926	558,308	1,589,169	4,031,403	930,415
Net Cash Used by Operating Activities	$ 1,727,815	$ 930,107	$ 808,488	$ 3,466,410	$ (181,104)
Noncash Transactions					
Change in Fair Value of Investments	$ 87,917	$ 81,472	$ 35,768	$ 205,157	$ (19,563)
Donated Capital Assets	$ 118,945	$ 77,538	$ 115,552	$ 312,035	$ -

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

CITY OF ISSAQUAH
Statement of Fiduciary Net Position
December 31, 2019

		Ruth Kees Award Fund		Agency Funds		Total
Assets:						
Cash and investments	$	29,012	$	1,886,401	$	1,915,413
Total Assets		29,012		1,886,401		1,915,413
Liabilities:						
Liabilities payable		-		1,886,401		1,886,401
Total Liabilities		-	$	1,886,401		1,886,401
Fiduciary Net Position:						
Net position held in trust	$	29,012			$	29,012

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

CITY OF ISSAQUAH
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2019

		Ruth Kees Award Fund
Additions:	$	
Total Additions		-
Deductions		
Miscellaneous		500
Total Deductions		500
Net Change in Fiduciary Net Position		(500)
Net Position - Beginning		29,512
Net Position - Ending	$	29,012

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

City of Issaquah
Notes to the Financial Statements
December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The City of Issaquah (the City) is a municipal government incorporated on April 27, 1892 and operates under the laws of the State of Washington as a non-charter code city with a Mayor-Council form of government. A full-time Mayor and seven part-time Council members serve the City, all elected at large to four-year terms. The City provides a full range of municipal services authorized by state statutes, together with a Water Utility, a Sewer Utility and a Stormwater Utility.

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

B. BASIS OF PRESENTATION -GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City's policy is to allocate indirect costs (primarily through internal service funds) 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 or a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from these statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water utility and various other functions of the government. Elimination of these charges would distort the direct cost and program revenues for these functions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds that benefit the governmental activities, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The fund financial statements provide information about the government's funds, including its fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. For reporting purposes, the general fund also includes the communications fund and the contingency fund which are considered managerial funds.

The *mitigation capital fund* is a capital project fund that accounts for impact fees received.

The *street capital fund* accounts for the acquisition and construction of the City's transportation capital facilities.

The City reports the following major proprietary funds:

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

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

The *stormwater fund* accounts for the operations and capital improvement activity of the government's stormwater operations.

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

Special revenue funds account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

Capital project funds account for the acquisition or development of capital facilities for governmental activities. Their major sources of revenues are proceeds from general obligation bonds, grants from other agencies, and contributions from other funds.

Debt service funds are used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations related to governmental activities.

In addition, the City reports the following funds:

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

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

The *agency fund* is a clearing mechanism for cash resources that are collected by the City, held for 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.

Since governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a 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 activities column when presented at the government-wide level.

D. MEASUREMENT FOCUS & BASIS OF ACCOUNTING

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the proprietary fund and fiduciary 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 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 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.

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

The proprietary and fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally 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 City's utility funds and internal service funds are charges to external/internal customers for sales and services, such as, utility services, vehicle replacement, and insurance. The City 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 systems. Operating expenses include personnel expenses, tools and supplies, professional services, taxes, depreciation and amortization expenses, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

E. BUDGET AND BUDGETARY ACCOUNTING

1. Scope of the Budget

Budgets are prepared in accordance with GAAP. 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 except for the L.I.D. Debt Service Funds, the L.I.D. Guaranty Debt Service Fund, 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 fund, special revenue funds, and capital project funds lapse at year-end.

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because commitments will be reappropriated and honored during the subsequent year.

2. **Amending the Budget**

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

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.

The budgetary comparison schedule contains the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for this fiscal year.

3. **Deficit Fund Balance and Fund Net Position**

As of December 31, 2019, the LID No. 24 Fund had a deficit fund balance in the amount of $220,983 as a result of an interfund borrowing. As special assessments are received, the interfund borrowing is repaid and ultimately the deficit fund balance will be resolved.

F. **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCES**

1. **Cash and Cash Equivalents**

The City pools cash resources of its various funds with the State Investment Pool 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 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 the 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 that exceed amounts needed for City operations. As of December 31, 2019, the City was holding short-term deposits with the State Investment Pool. The Interest on these deposits is recorded to the general fund. (*See Note 5*)

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in the State Treasurer's Local Government Investment Pool (LGIP) and certificates of deposit held. Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. See *Note 5* for more details. The LGIP is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

3. **Receivables**

The City recognized receivables in its financial statements as follows:

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

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

Special Assessments. Special assessments are recorded when levied against certain property owners and become liens against the property benefited by the improvement. Special assessments receivable consists of current and delinquent assessments and related interest and penalties.

Accounts Receivable. Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, including amounts owned for which billings have not been prepared. Uncollectible amounts are considered immaterial.

4. **Amounts Due to and from Other Funds and Governments, Advances Due to and from Other Funds**

Due to and from Other Funds. Amounts due from other funds reported in the financial statements represent outstanding billings to other funds for services provided in the current year while due to other funds represents outstanding payables to other funds.

Advances Due to and from Other Funds. The Finance Director may authorize loans between funds. A separate schedule of Advances to and from other funds is reported in *Note 11.*

Due to and from Other Governments. 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.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. **Inventories**

Inventories consist of expendable supplies and vehicle repair parts and are valued at cost using the FIFO (first in, first out) method (which approximates the market value). The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures.

6. **Prepaid Items**

Payments made in advance to vendors for certain goods or services that will benefit future periods are recorded as prepaid items in both the government-wide and fund financial statements. The expenditures/expenses are recognized in the period of consumption or occupancy. Prepaids recorded in governmental type funds do not reflect current appropriated resources and, as such, are reported as non-spendable fund balance.

7. **Restricted Assets and Liabilities**

Restricted cash and investments are described in *Note 5 Deposits and Investments*.

8. Capital Assets

Capital assets, which include property, plant, equipment, software, and other improvements, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as land, buildings, capital improvements, machinery and equipment, software and other improvements with an original cost of $5,000 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 acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

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.

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

Asset Class	Estimated Service Life
Buildings	30-50 years
Plant in Service	30-40 years
Improvements Other Than Buildings and Infrastructure	15-60 years
Equipment	3-20 years

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position sometimes reports a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. There are two items that qualify for reporting in this category. They are the deferred charge on debt refunding and deferred outflow of resources for pensions and OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources for pensions and OPEB results from contribution subsequent to the measurement date, difference between projected and actual investment earnings, difference between expected and actual experience, changes in actuarial assumptions, and changes in proportions.

In addition to liabilities, the statement of financial position sometimes reports a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. There are two items that qualify for reporting in this category. Deferred inflows are used to offset property tax and grant revenues to be received in future periods and deferred inflows are related to pensions from differences between expected and actual experience, net difference between projected and actual investment earnings, changes of assumptions and changes in proportionate share.

Additional information on pension plans is provided in *Note 8*. Additional information on OPEB plans is provided in *Note 9*.

10. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made in order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund balance represents the difference between current assets, deferred outflows, current liabilities, and deferred inflows in the governmental fund financial statements. Fund balance classifications comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Fund balances are classified as follows:

Non-spendable Fund Balance - Items that cannot be spent due to form; prepaid amounts, inventories, or amounts that must be maintained intact legally.

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

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

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

Unassigned Fund Balance - Any residual portion of general fund balance that does not meet any of the criteria described above. Deficit fund balances in governmental funds are reported as unassigned.

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

11. Pension and Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total pension and OPEB liabilities, deferred outflows of resources related to pension and OPEB, and pension and OPEB expenses, information about the fiduciary net position of all state sponsored pension plans and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF 1) OPEB plan and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, the plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Compensated Absences

Vacation – The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from city service. Eligible employees accumulate 12 to 28 days of vacation for each anniversary year, depending upon the employee's length of service, but they may not accumulate more than two-year's vacation.

Compensatory time – Eligible employees may accrue compensatory time in lieu of overtime. The amount of compensatory time employees may carry over at the end of year is determined by their bargaining unit and applicable labor contract; this ranges from 90 hours to 1,050 hours.

Sick leave – Eligible employees accumulate sick leave at the rate of 8 to 12 days per year. The maximum number of hours employees may accrue is 1,280 hours. However, some labor contracts allow employees to convert a portion of unused sick leave earned in a calendar year to pay or vacation.

Holiday time – Eligible employees accrue holiday hours on July 1st of each year for either 40 or 48 hours and December 16th of each year for 48 hours. Any accrued amount remaining as of December 15th is not allowed to be carried forward and is cashed out in the last pay period of the year. Upon termination, any accrued holiday time is paid out or deducted on an earned basis.

The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

13. Unearned revenue

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

14. Long-term Obligations

Long-term obligations are described in Note 12.

15. Revenues, Expenditures and Expenses

Program Revenues. Amounts reported as program revenue include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

General Revenues. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as 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 City is classified as interfund transfers. For purposes of the government-wide statements all interfund transfers between individual governmental funds have been eliminated.

Expenditures/Expenses. Expenses in the governmental activities are reported by function or as interest on long-term debt. Expenditures in the governmental fund statements are reported by function or department.

16. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. The City used significant estimates in determining reported unearned revenue, asset life, claims payable, employee benefits, post-employment benefits, and other contingencies. Actual results may differ from those estimates.

G. ACCOUNTING STANDARDS

GASB Statement No. 83, Certain Asset Retirement Obligations. This new GASB statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. It requires that recognition occur when the liability is both incurred and reasonably estimable. It is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Due to the COVID-19 pandemic, GASB issued GASB Statement No. 95 to postpone several newly issued GASB statements, including GASB Statement No.83. The City has decided to postpone the implementation of GASB Statement No. 83 by one year.

GASB Statement No. 84, Fiduciary Activities. This new GASB statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. It is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. Due to the COVID-19 pandemic, GASB issued GASB Statement No. 95 to postpone several newly issued GASB statements, including GASB Statement No.84. The City has decided to postpone the implementation of GASB Statement No. 84 by one year.

In March 2017, GASB issued Statement No. 85, Omnibus 2017, to address various practice issues identified during the implementation and application of certain GASB statements. This Statement addresses a variety of topics including timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus; recognizing on-behalf payments for pensions or OPEB in employer financial statements; presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB; classifying employer-paid member contributions for OPEB; simplifying certain aspects of the alternative measurement method for OPEB; and accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. The new standard is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This new GASB statement was implemented by the City in prior year.

GASB Statement No. 86, Certain Debt Extinguishment Issues. This new GASB statement provides guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and reporting for prepaid insurance on debt that is extinguished. It is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This new GASB statement was considered by the City and determined it was not applicable.

GASB Statement No. 87, Leases. This new GASB statement establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. It is effective for reporting periods beginning after December 15, 2019. The City is currently evaluating the impact of this new GASB statement.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. It is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This new GASB statement was implemented in 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This new GASB statement establishes accounting requirements for interest cost incurred before the end of a construction period. It is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The City is currently evaluating the impact of this new GASB statement.

GASB Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No.61. This new GASB statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meet the definition of an investment should be measured using the equity method at fair value. It is effective for reporting beginning after December 15, 2018. Earlier application is encouraged. This new GASB statement was considered by the City and determined it was not applicable.

GASB Statement No. 91, Conduit Debt Obligations. This new GASB statement defines conduit debt obligations and requires issuers to disclose information about the conduit debt obligations organized by type of commitment and improve comparability by removing the diversity in current practice. This statement also includes note disclosures that help inform users of the potential impact of commitments on financial resources. It is effective for reporting beginning after December 15, 2020. Earlier application is encouraged. The City is currently evaluating the impact of this new GASB statement.

GASB Statement No. 92, Omnibus 2020. This new GASB statement addresses a variety of topics, including the effective date of GASB 87, Leases, and the related Implementation Guide No. 2019-3, Leases for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or OPEB plan; amending GASB 73 and GASB 74 to report assets accumulated for OPEB; the applicability of certain requirements of GASB 84 to OPEB arrangements; measurement of liabilities and assets related to asset retirement obligations in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, etc. This GASB is effective for reporting periods beginning after June 15, 2020 except for the requirements related to leases, which are effective upon issuance. Earlier application is encouraged. The City is currently evaluating the impact of this new GASB statement.

GASB Statement No. 93, Replacement of Interbank Offered Rates. This statement removes the interbank offered rate (IBOR) as an appropriate benchmark interest rate and identifies a Security Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap. The removal of LIBOR is effective for reporting periods ending after December 31, 2020. All other requirements are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The City is currently evaluating the impact of this new GASB statement.

GASB Statement No. 94, Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs). This statement provides guidance to account for PPPs and APAs. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. Earlier application is encouraged. The City is currently evaluating the impact of this new GASB statement.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This statement postpones the newly issued GASB Statements No. 83, 84, 88, 89, 90, 91, 92 and 93 by one year. In addition, this statement postpones GASB Statement No. 87 by 18 months. This new GASB was issued in May 2020 and is effective immediately. The City has decided to postpone the GASB Statements No. 83, 84, 89, 91, 92 and 93 by one year and postpone the GASB Statement No. 87 by 18 months.

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental funds balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "Items related to pension activity that are not financial resources therefore, not reported in the funds." The details of this difference are as follows:

Net pension asset	$	3,018,078
Deferred outflows related to pensions		1,861,602
Net pension liability		(4,814,343)
Deferred inflows related to pensions		(4,109,152)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(4,043,815)

Similarly, another element of the reconciliation explains that "Items related to OPEB activity that are not financial resources therefore, not reported in the funds." The details of this difference are as follows:

Deferred outflows related to OPEB	$	51,305
Total OPEB liability		(2,053,934)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(2,002,629)

Another element of the reconciliation explains that "Long-term liabilities of resources that are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	$	(22,660,310)
Special assessment bonds		(130,000)
Accrued interest payable		(58,262)
Due to other governments		(1,050,000)
Compensated absences		(3,794,755)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(27,693,327)

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	$	15,376,245
Donated capital assets		5,950,869
Depreciation expense		(9,592,234)
Net adjustment to increase *net changes in fund balances -total governmental funds* to arrive at *changes in net position of governmental activities*	$	11,734,880

An element of the reconciliation states that "revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds". The details of this difference are as follows:

Property taxes	$	80,245
Other taxes and assessments		(97,172)
Grants and contributions		276,526
Charges for services		173,609
Net adjustments to increase *net changes in fund balances total governmental funds* to arrive at changes in *net position of governmental activities*	$	433,208

Another element of the reconciliation states that "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are capitalized and amortized in the statement of activities." The details of this difference are as follows:

Principal repayment	$	3,543,955
Accrued interest		59,301
Long-term debt proceeds		(3,850,772)
Refunding of long-term debt issued		(4,383,728)
Repayment to refunded debt		4,300,000
Net adjustments to reduce net *changes in fund balances total governmental funds* to arrive at changes in *net position of governmental activities*	$	(331,244)

NOTE 3: FUND BALANCES

The specific purposes for each fund balance classification on the balance sheet are detailed in the table below for the year ended December 31, 2019.

	General Fund	Mitigation Capital Fund	Street Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable					
Inventory	$ -	$ -	$ -	$ 455,078	$ 455,078
Prepaid	46,017	-	-	-	46,017
Total	46,017	-	-	455,078	501,095
Restricted					
Debt service	-	-	-	2,338,321	2,338,321
Tourism	-	-	-	614,524	614,524
Capital projects	-	19,417,519	5,795,967	10,801,985	36,015,471
Total	-	19,417,519	5,795,967	13,754,830	38,968,316
Committed					
Street operations	-	-	-	345,960	345,960
Cemetery maintenance	-	-	-	433,772	433,772
Sustainability	300,940	-	-	538,433	839,373
Public safety	-	-	-	2,001,291	2,001,291
Art programs	-	-	-	442,607	442,607
Total	300,940	-	-	3,762,063	4,063,003
Assigned					
Capital projects	-	-	-	682,533	682,533
Communications	600,312	-	-	-	600,312
Total	600,312	-	-	682,533	1,282,845
Unassigned	15,350,325	-	-	(220,983)	15,129,342
Total Fund Balances	$ 16,297,594	$ 19,417,519	$ 5,795,967	$ 18,433,521	$ 59,944,601

The City of Issaquah's Financial Management Policy includes a general fund unassigned fund balance target level of 15 to 20 percent of expenditures of the general fund and any use of unassigned fund balance below fifteen percent of operating expenditures requires City Council authorization.

NOTE 4: COMPLIANCE AND ACCOUNTABILITY

The City has complied with finance-related legal or contractual provisions, and expenditures are within budget appropriations for most of the City funds. The City may over expend appropriations in those instances where no specific limit is identified. In these cases, services that have been appropriately authorized are considered to be eligible for payment and revenue is available to pay for the service.

NOTE 5: DEPOSITS AND INVESTMENTS

Cash consists of cash on hand and investments in the State of Washington Local Governmental Investment Pool. Investments consist of certificate of deposits and U.S. government agency securities. Cash and investments as of December 31, 2019 are summarized below:

Cash	$	56,231,420
Investments		47,247,245
Total government-wide cash and investments	$	103,478,665
Fiduciary - restricted cash	$	1,915,413
Total fiduciary restricted cash and investments	$	1,915,413

Deposits with Financial Institutions

The City maintains deposit relationships with financial institutions. The carrying amount of deposits as of December 31, 2019 was $42,825,365.

The City also has one certificate of deposit (CD) with a commercial bank. The CD is reported as an investment. The fair value of the CD approximates the carrying amount of $2,031,531 as of December 31, 2019.

Custodial credit risk for deposits is the risk, in event of a failure of a depository financial institution, the City would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party.

The Federal Deposit Insurance Corporation (FDIC) covers the City's insured deposits and the Washington Public Deposit Protection Commission (PDPC) provides collateral protection. State law restricts deposit of funds in financial institutions physically located in Washington unless otherwise expressly permitted by statute and authorized by PDPC.

LGIP

The City is a participant in the State of Washington Local Government Investment Pool (LGIP) authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investment pools that elected to measure, for financial reporting purposes, investments at amortized costs. As of December 31, 2019, the amount of the LGIP was $13,406,055 at amortized costs.

The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligation of supranational institutions, obligations of government-sponsored corporations, and deposits with qualified public depositories.

Custodial credit risk is the risk that, in the event, a depository institution or counterparty fails, the LGIP will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investments held as deposits in financial institutions are insured by the Federal Deposit Insurance Corporation and/or collateralized. Collateral protection is administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC, created by the Legislature per Chapter 39.58 of the Revised Code of Washington, constitutes a multiple financial institution collateral pool comprised of securities pledged to secure uninsured public deposits. Pledged securities are held by the PDPC's agent in the name of the collateral pool. The LGIP investment policy requires that the securities purchased be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. The restrictions are designed to limit the LGIP's exposure to risk and ensure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The market value of securities utilized in repurchase agreements must be at least 102 percent of the value of the repurchase agreement.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the purchase of securities to any one issuer, with the exception of U.S. Treasury and U.S. Agency securities, to no more than five percent of the portfolio. Repurchase agreements comprise 22.7 percent of the total LGIP's portfolio. The LGIP limits the securities utilized in repurchase agreements to U.S. Treasury and U.S. Agency securities. The LGIP requires delivery of all securities and that the securities are priced daily. At the LGIP's fiscal year ended June 30, 2019, U.S. Treasury securities comprised 19.9 percent of the total LGIP's portfolio. U.S. Agency securities comprised 35.3 percent, including Federal Home Loan Bank (24.5 percent), Federal Farm Credit Bank (10.5 percent), and Federal National Mortgage Association (0.3 percent). Supranational securities comprised 5.2 percent of the total portfolio, including International Bank for Reconstruction and Development (3.7 percent) and International Finance Corporation (0.6 percent).

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. To mitigate the effect of interest rate risk, the portfolio is invested in high quality, highly liquid obligations with limited maximum and average maturities. The LGIP's policy establishes weighted average maturity (WAM) and weighted average life (WAL) limits not to exceed 60 and 120 days, respectively.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov

Investments Measured at Fair Value

The City measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1: Price quoted in active markets for identical securities.
Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other quoted prices that are not observable.
Level 3: Unobservable inputs for an asset or liability.

The fair value of the investments was provided by the City's investment custodian, US Bank. As of December 31, 2019, the City had the following recurring fair value measurement of investments:

		Fair Value Measurement Using		
Investment Type	Fair value	Level 1	Level 2	Level 3
U.S. government agency securities	$ 45,215,714	$ 45,215,714	$ -	$ -
Totals	$ 45,215,714	$ 45,215,714	$ -	$ -

Interest Rate Risk. As a means of limiting the exposure to interest rate risk, the City diversifies its investments and coordinates investment maturities to closely match cash flow needs.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City diversifies its investments to accomplish safety, one of its primary investment objectives.

The table below identifies investments for each issuer, the concentration, and maturities of the City's investment portfolio, including LGIP and Certificate of Deposit, as of December 31, 2019:

Issuer	Balance	Maturity Less than 1 Year	1 to 5 Years	Greater than 5 Years	Percentage of Total Portfolio
Federal Farm Credit Banks	$ 19,870,256	$ 3,998,706	$ 15,871,550	$ -	33%
Fannie Mae Interest Strip	994,948	994,948	-	-	2%
Federal Home Loan Banks	8,106,661	1,000,199	7,106,462	-	13%
Federal Home Loan Mortgage Corp.	4,872,902	-	4,872,902	-	8%
US Treasury Strip	2,069,922	-	2,069,922	-	3%
Resolution Funding Corporation	3,055,313	3,055,313	-	-	5%
RCFCSP Principal/Strip	6,245,713	3,130,266	3,115,447	-	10%
Subtotal	45,215,714	12,179,432	33,036,283	-	75%
LGIP	13,406,055	13,406,055	-	-	22%
Opus CD	2,031,531	2,031,531	-	-	3%
Subtotal	15,437,586	15,437,586	-	-	25%
Totals	$ 60,653,300	$ 27,617,018	$ 33,036,283	$ -	100%
Percentage of Total Portfolio		46%	54%	0%	

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

The table below identifies the credit risk of the City's investment portfolio as of December 31, 2019:

Issuer	Fair Value	Ratings S&P	Moody's
Federal Farm Credit Banks	$ 19,870,256	AA+	AAA
Fannie Mae Interest Strip	994,948	Unrated	Unrated
Federal Home Loan Banks	8,106,661	AA+	AAA
Federal Home Loan Mortgage Corp.	4,872,902	AA+	AAA
US Treasury Strip	2,069,922	AA+	AAA
Resolution Funding Corporation	3,055,313	Unrated	AAA
RCFCSP Principal/Strip	6,245,713	Unrated	Unrated
Subtotal	$ 45,215,714		

NOTE 6: RECEIVABLES

The City had the following receivable balances, including due from other governments as of December 31, 2019:

	Governmental Activities	Business-type Activities	Total
Taxes	$ 6,775,680	$ -	$ 6,775,680
Customer accounts	822,473	2,966,791	3,789,264
Grants	1,538,251	199,524	1,737,775
Interest	121,789	72,759	194,548
Special assessments	494,636	-	494,636
Total receivables	$ 9,752,829	$ 3,239,074	$ 12,991,903

PROPERTY TAXES

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

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

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

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

1. Chapter 84.55 of the State RCW as amended 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 2019 was $0.79284 per $1,000 of assessed valuation of $11,567,549,438 for a total regular levy of $9,151,219. Additionally, special levies for voter-approved General Obligation Bonds were $0.15209 per $1,000 for an excess levy of $1,749,989.

NOTE 7: CAPITAL ASSETS

Governmental activities capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance Restated 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 327,407,102	$ 16,053,563	$ -	$ 343,460,665
Construction in progress	28,256,878	1,838,852	24,709,667	5,386,063
Art	257,944	66,500	-	324,444
Total capital assets, not being depreciated	355,921,924	17,958,915	24,709,667	349,171,172
Capital assets, being depreciated/amortized:				
Buildings	47,508,911	-	-	47,508,911
Improvements other than buildings	24,353,828	6,417	-	24,360,245
Infrastructure	262,641,430	27,167,017	-	289,808,447
Intangible property	845,791	-	-	845,791
Machinery and equipment	19,363,275	860,128	52,747	20,170,656
Total capital assets, being depreciated/amortized	354,713,235	28,033,562	52,747	382,694,050
Accumulated depreciation/amortization for:				
Buildings	(17,334,732)	(890,027)	-	(18,224,759)
Improvements other than buildings	(3,680,406)	(842,258)	-	(4,522,664)
Infrastructure	(139,233,772)	(7,176,602)	-	(146,410,374)
Intangible property	(698,390)	(17,524)	-	(715,914)
Machinery and equipment	(12,783,084)	(1,000,592)	(52,747)	(13,730,929)
Total accumulated depreciation/amortization	(173,730,384)	(9,927,003)	(52,747)	(183,604,640)
Total capital assets, being depreciated, net	180,982,851	18,106,559	-	199,089,410
Governmental activities capital assets, net	$ 536,904,775	$ 36,065,474	$ 24,709,667	$ 548,260,582

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

Governmental activities:	
General government	$ 85,360
Judicial	14,934
Public safety	505,693
Transportation	7,377,282
Natural & economic environment	4,077
Culture & recreation	1,257,737
Internal service funds	681,920
Total depreciation expense	$ 9,927,003

Business-type activities capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance Restated 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
Business-type activities				
Capital assets, not being depreciated:				
Land	$ 16,645,830	$ -	$ -	$ 16,645,830
Construction in progress	1,681,933	2,606,453	-	4,288,386
Total capital assets, not being depreciated	18,327,763	2,606,453	-	20,934,216
Capital assets, being depreciated/amortized:				
Buildings	9,673,569	-	-	9,673,569
Plant in service	149,583,195	315,994	-	149,899,189
Intangible property	363,514	-	-	363,514
Machinery and equipment	864,818	-	-	864,818
Total capital assets, being depreciated/amortized	160,485,096	315,994	-	160,801,090
Accumulated depreciation/amortization for:				
Buildings	(2,761,124)	(195,707)	-	(2,956,831)
Plant in service	(61,608,368)	(4,290,369)	-	(65,898,737)
Intangible property	(213,891)	(33,911)	-	(247,802)
Machinery and equipment	(365,383)	(51,042)	-	(416,425)
Total accumulated depreciation/amortization	(64,948,766)	(4,571,028)	-	(69,519,795)
Total capital assets, being depreciated, net	95,536,330	(4,255,034)	-	91,281,295
Business-Type activities capital assets, net	$ 113,864,093	$ (1,648,581)	$ -	$ 112,215,511

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

Water	$ 1,964,934
Sewer	749,020
Stormwater	1,857,074
Total depreciation expense	$ 4,571,028

NOTE 8: PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$6,507,263
Pension assets	$3,018,078
Deferred outflows of resources	$2,361,640
Deferred inflows of resources	$5,188,514
Pension expense/expenditures	$406,317

State Sponsored Pension Plans

Substantially all City of Issaquah's 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 State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1**'s member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months.

There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 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 three percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

The City of Issaquah's actual PERS plan employer contributions were $1,000,525 to PERS Plan 1 and $1,493,377 to PERS Plan 2/3 for the year ended December 31, 2019.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full-time basis and:

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

PSERS membership includes:

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

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor and Cannabis Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2019 were as follows:

PSERS Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2019		
PSERS Plan 2	7.07%	7.07%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.38%	7.07%
July – December 2019		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.14%	7.20%

The City of Issaquah's actual plan employer contributions were $59,513 to PSERS Plan 2 for the year ended December 31, 2019.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, if the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% as of July 1, 2019.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2019		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%
July – December 2019		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities	8.59%	8.59%
Administrative Fee	0.18%	
Total	8.77%	8.59%

The Issaquah's actual employer contributions to the plan were $229,037 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2019, the state contributed $72,959,897 to LEOFF Plan 2. The amount recognized by the City of Issaquah as its proportionate share of this amount was $140,499.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study and the 2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- The Office of the State Actuary (OSA) updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programing to reflect legislation signed during the 2018 legislative session that provides PERS and TRS plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the City of Issaquah's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$6,216,277	$4,963,815	$3,877,139
PERS 2/3	$11,837,645	$1,543,450	$(6,903,618)
PSERS 2	$207,206	$(20,071)	$(198,615)
LEOFF 1	$(247,187)	$(302,165)	$(349,633)
LEOFF 2	$(501,271)	$(2,695,843)	$(4,487,116)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2019, the City of Issaquah reported $6,507,263 and $3,018,078 for its proportionate share of the net pension liabilities and net pension assets, respectively, as follows:

	Liability (or Asset)
PERS 1	$4,963,815
PERS 2/3	$1,543,450
PSERS 2	$(20,071)
LEOFF 1	$(302,165)
LEOFF 2	$(2,695,843)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
Employer's proportionate share	$(302,165)	$(2,695,843)
State's proportionate share of the net pension asset associated with the employer	(2,043,833)	(1,765,416)
TOTAL	$(2,345,998)	$(4,461,259)

As of June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.138967%	0.129086%	-0.009881%
PERS 2/3	0.169429%	0.158899%	-0.010530%
PSERS 2	0.184606%	0.154341%	-0.030265%
LEOFF 1	0.015019%	0.015287%	0.000268%
LEOFF 2	0.120159%	0.116366%	-0.003793%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the OSA. In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions, and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose, reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the City recognized pension expense as follows:

	Pension Expense
PERS 1	$(113,634)
PERS 2/3	416,461
PSERS 2	41,691
LEOFF 1	(20,306)
LEOFF 2	82,106
TOTAL	$406,317

Deferred Outflows of Resources and Deferred Inflows of Resources

As of December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	331,625
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	448,464	-
TOTAL	$448,464	$331,625

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$442,202	$331,833
Net difference between projected and actual investment earnings on pension plan investments	-	2,246,634
Changes of assumptions	39,523	647,580
Changes in proportion and differences between contributions and proportionate share of contributions	302,845	591,191
Contributions subsequent to the measurement date	689,015	-
TOTAL	$1,473,585	$3,817,238

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$16,949	$1,775
Net difference between projected and actual investment earnings on pension plan investments	-	34,853
Changes of assumptions	161	10,787
Changes in proportion and differences between contributions and proportionate share of contributions	8,490	11,067
Contributions subsequent to the measurement date	28,824	-
TOTAL	$54,425	$58,482

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$-	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	31,325
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
TOTAL	$-	$31,325

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$193,990	$48,478
Net difference between projected and actual investment earnings on pension plan investments	-	552,732
Changes of assumptions	4,441	303,369
Changes in proportion and differences between contributions and proportionate share of contributions	84,899	45,266
Contributions subsequent to the measurement date	101,836	-
TOTAL	$385,166	$949,845

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$653,141	$382,087
Net difference between projected and actual investment earnings on pension plan investments	-	3,197,169
Changes of assumptions	44,125	961,735
Changes in proportion and differences between contributions and proportionate share of contributions	396,234	647,523
Contributions subsequent to the measurement date	1,268,139	-
TOTAL	$2,361,640	$5,188,514

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	PERS 1	PERS 2/3	PSERS	LEOFF 1	LEOFF 2
2020	$(73,208)	$(735,599)	$(4,427)	$(7,276)	$(138,702)
2021	$(173,409)	$(1,185,150)	$(9,906)	$(16,037)	$(271,803)
2022	$(61,882)	$(543,463)	$(5,942)	$(5,819)	$(123,574)
2023	$(23,126)	$(305,777)	$(4,527)	$(2,193)	$(64,956)
2024	$-	$(208,410)	$(1,307)	$-	$(20,668)
Thereafter	$-	$(54,269)	$(6,772)	$-	$(46,812)

Western Conference of Teamsters Pension Plan

Non-management public works employees of the City are members of a defined benefit pension plan provided by the Western Conference of Teamsters. The Western Conference of Teamsters Pension Plan, administered by NW Administrators, is a cost-sharing, multiple-employer, non-governmental pension plan that provides defined benefit pensions both to governmental and nongovernmental employees. The plan has no predominant governmental employer.

The Plan has a publicly available financial report, which can be found at

http://www.wctpension.org/forms-documents/plan-documents

The employees joined the plan effective March 15, 2017. In the year ended December 31, 2019, 37 employees at the City were covered by the Plan. The Plan benefits are based on a percentage of contributions paid into the Plan on each employees' behalf. Types of coverage are normal retirement, early retirement, surviving spouse or child, disability, and death benefits.

Contributions, as set by the collective bargaining agreement currently in effect, are one dollar per hour worked, up to 40 hours per week per employee. Employees make no contributions to the plan. The total contributions paid by the City in 2019 were $76,784. The only balance outstanding at December 31, 2019 was a payable for contributions related to year-end payroll, in the amount of $3,360.

Benefit terms are established and amended pursuant to the collective bargaining agreement. The current agreement expires December 31, 2019, at which time the contribution amount may be amended.

If the City were to withdraw from the Plan, the plan administrator would conduct an actuarial calculation of the present value of future plan benefit payments for the City's employees who participated in the plan. The City would incur a payable for the excess of the present value of future benefits over the de minimis amount of $50,000. In addition, a partial withdrawal occurs if the City's total annual contributions fall below a certain percentage of its highest level of total annual contributions during a three-year rolling measurement period; in this instance, the City could incur a liability for the shortfall.

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 employee's contribution and that match vests over five years. The deferred compensation is available to employees upon termination, retirement, or certain unforeseeable emergencies and available to their beneficiaries upon the employee's death.

RETIREMENT HEALTH SAVINGS ACCOUNT (RHS):

All employees who leave the City with eligible sick leave receive a contribution in an ICMA Retirement Health Savings Account. This is an additional way to save for medical costs upon retirement. Employees are eligible to use this account at age 50. It is the employee's responsibility to comply with the regulations of the program.

OTHER POST EMPLOYMENT BENEFITS:

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of the GASB Statement 75, Accounting and Financial Reporting; Postemployment Benefits Other Than Pensions for the year ended December 31, 2019:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$2,053,934
OPEB assets	$-
Deferred outflows of resources	$51,305
Deferred inflows of resources	$-
OPEB expense/expenditures	$(143,128)

Plan Description

The City administers a single-employer defined benefit healthcare plan. It is a closed plan that provides post-retirement health care benefits, in accordance with State statute to all LEOFF 1 retirees. As of December 31, 2019, there are 5 LEOFF 1 retirees covered by the benefit terms. There are no active employees or inactive employees not receiving benefits covered under this plan. This plan was closed to new entrants on October 1, 1977.

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	-
Active employees	-
Total	5

Benefits Provided

For purposes of LEOFF 1, OPEB are benefits that are provided to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, dental, vision, and long-term care insurance. The City reimburses one hundred percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Therefore, upon reaching the eligible age for Medicare, the City requires the retirees to apply for and utilize Medicare Part B coverage.

Funding Policy

Employer contributions are financed on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of $185,908 were recognized for post-retirement health care.

Assumptions and Other inputs

The City has elected to calculate the total OPEB liability using the alternative measurement method (AAM) permitted by GASB Statement 75 for employers with plans that have fewer than one hundred total plan members. The AAM Online Tool prepared by Washington State Office of the State Actuary (OSA) is available at OSA's website, http://leg.wa.gov/osa. The valuation methods and assumptions built into the AAM Online Tool were consistent with the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report. The plan actuarial valuation report is also available at OSA's website. The Entry Age Normal actuarial cost method was used in the valuation, which is permitted under GASB 75. The actuarial assumptions used in the valuation were based on the results of the 2017 Economic Experience Study. The significant assumptions in the valuation included:

- Inflation of 2.75 percent is based on the CPI: Urban Wage Earners & Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items.
- Discount rate is based on the Bond Buyer General Obligation 20-Bond Municipal Index at measurement date. This resulted in 1 a 3.87% discount rate at July 1, 2018 (beginning of measurement year) and 3.5% at June 30, 2019 (end of measurement year).
- Healthcare cost trend rates: Initial medical costs rate is approximately 6 percent and trend down to approximately 5 percent in the 2020's. Long-term care is 4.5 percent. Medicare Part B premiums is approximately 5 percent and varies by year.
- Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Additional assumptions made by the OSA in the AAM Online Tool includes:

- Any remaining active members are assumed to retire immediately following the measurement date as over 99 percent of LEOFF 1 members are already retired.
- Each cohort is assumed to be 100 percent male as over 98 percent of the eligible LEOFF 1 population is male.
- 4 age-based cohorts are selected for the AMM Online Tool based upon the overall distribution of the LEOFF 1 eligible population.

Sensitivity of the Total OPEB Liability

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rates as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

	1% Decrease (5%)	Current Healthcare Trend Rate (6%)	1% Increase (7%)
Total OPEB Liability	$1,870,759	$2,053,934	$2,263,176

Discount Rate

The following presents the total OPEB liability of the City calculated using the current discount rate of 3.87 percent as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Total OPEB Liability	$2,277,634	$2,053,934	$1,862,595

Change in the Total OPEB Liability

	Total OPEB Liability
Beginning Balance	$ 2,198,316
Changes for the year	
Interest cost	82,999
Changes in experience data and assumptions	(119,071)
Estimated benefit payments	(108,310)
Net changes	(144,382)
Ending Balance	$ 2,053,934

The City used the AMM Online Tool to calculate the OPEB liability of $2,053,934. The actuarial valuation and AMM Online Tool measurement dates were both as of June 30, 2019. No roll forward of OPEB liability was needed since both measurement dates were simultaneous. In total, the OPEB liability decreased by $144,382, approximately 6.6 percent. The decrease was the net effect of increase in interest and decreases in changes in assumptions and estimated benefit payments. The decrease in changes in assumptions were due to 1) discount rate changed to 3.87 percent from 3.75 percent at prior measurement date; 2) healthcare cost assumption decrease as a result of recent experience and prescription drug costs, that were less than previously assumed and decreases in Medicare Part B premium and long-term care costs.

A reduction of OPEB expense of $143,128 was recognized for the year ended December 31, 2019. Deferred outflows of resources of $51,305 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2020.

NOTE 10: RISK MANAGEMENT

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

a. The City is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2018 and 2019:

	2018	2019
IBNR Claims at beginning of year	$ -	$ -
Current year claims	27,459	63,511
Claims payments	(27,459)	(63,511)
IBNR Claims at end of year	$ -	$ -

b. The City 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 approximately 163 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 a deductible. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefit liability. Limits are $4 million per occurrence in the self-insured layer, and $16 million in limits above the self-insured layer is provided by reinsurance. Total limits are $20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel issues and land use issues, insurance brokerage, actuarial 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, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

For the last three years no settlements exceeded insurance coverage.

c. As of January 1, 2013, the City began offering self-insured medical programs to employees. The City is self-insured for three medical plans administered by Premera Blue Cross, two dental plans administered by Washington Dental Service (WDS), and a vision plan administered by Vision Service Plan (VSP). Group Health is offered as a Health Maintenance Organization (HMO) additional plan.

Effective January 1, 2014 the self-insured rates for the medical program were based upon historical data as well as market trends. Payments made in subsequent years were for actual claims activity.

The City authorizes an actuarial study every year to determine the fund's actuarial soundness and the impact on future rates. A new study was completed for fiscal year 2019 to estimate medical, prescription drug, and vision reserves for incurred but not reported claims (IBNR).

Claims exceeding $100,000 per occurrence are covered by a stop loss policy. To mitigate its risk exposure, the City holds individual and aggregate stop loss insurance. There were 6 claims in excess of the $100,000 per person stop loss maximum in 2019. Estimated liabilities are accrued for current outstanding claims and claims incurred but not reported (IBNR).

	2018	2019
IBNR Claims at beginning of year	$ 346,900	$ 365,000
Incurred claims, including IBNR	2,692,209	2,660,801
Claims payments	(2,674,109)	(2,755,801)
IBNR Claims at end of year	$ 365,000	$ 270,000

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

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

As of December 31, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of $1.5 million through Commencement Bay Risk Management, and Kaiser ISL at $1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust

HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

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

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 11: INTERFUND ACTIVITY

INTERFUND TRANSFERS

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These are transfers to support other funds without a requirement for repayment. The interfund transfer activity for the year ended December 31, 2019 is as follows:

	Transfer In					
Transfer Out	General Fund	Street Cap fund	Water Fund	Nonmajor Gov Fund	ISF	Total
General Fund	$ -	$ 156,370	$ 55,000	$ 5,268,495	$ 40,000	$ 5,519,865
Mitigation Fund	-	3,548,869	-	1,275,226	-	4,824,095
Street Capital Fund	-	-	-	125,613	-	125,613
Water Fund	-	-	-	200,000	-	200,000
Sewer Fund	-	-	-	100,000	-	100,000
Stormwater Fund	-	-	-	200,000	-	200,000
Nonmajor Gov Fund	3,938,000	1,776,340	-	1,986,846	-	7,701,186
Total	$ 3,938,000	$ 5,481,579	$ 55,000	$ 9,156,180	$ 40,000	$ 18,670,759

Interfund transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations. There were no significant transfers made during 2019 that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

Transfers as indicated above are comprised of:	
Reimbursement for services provided	$ 40,000
Operating transfers in support of fund specific activities	3,870,000
Operating transfers in support of capital activities	12,261,759
Operating transfers in support of debt services	2,499,000
	$ 18,670,759

ADVANCES TO/FROM OTHER FUNDS

Advances to/from other funds for the year ended December 31, 2019, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advances from:					
Fleet Service Fund	$ 3,000,000	$ -	$ (3,000,000)	$ -	$ -
Sewer Fund	363,840	4,000,000	(60,000)	4,303,840	4,060,000
Total advance from	$ 3,363,840	$ 4,000,000	$ (3,060,000)	$ 4,303,840	$ 4,060,000
Advance to:					
Street Capital Fund	$ 3,000,000	$ 4,000,000	$ (3,000,000)	$ 4,000,000	$ 4,000,000
LID No. 24 Fund	363,840	-	(60,000)	303,840	60,000
Total advance to	$ 3,363,840	$ 4,000,000	$ (3,060,000)	$ 4,303,840	$ 4,060,000

The advanced loan from the Fleet Service Fund to the Street Capital Fund was paid off in 2019 when it matured.

The advanced loan from the Sewer Fund to the LID No. 24 Fund is to finance the costs of the construction of certain improvements and sewer improvements located at the intersection of East Lake Sammamish Parkway and Southeast 43rd Way. The note matures on December 1, 2028. $60,000 is scheduled to be paid back in 2020.

In 2019, the City authorized a note of $4,000,000 from the Sewer Fund to the Street Capital Fund. The loan is for the purpose of improvements related to the SE 43rd Way Signal Improvements project. This entire loan amount is to be repaid by December 31, 2020.

NOTE 12: LONG-TERM DEBT

The City issued general obligation and revenue bonds to finance acquisition or construction of major capital facilities, or to refund debt previously issued for those purposes.

General obligation bonds are backed by the City's faith and credit. "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. They are reported under governmental activities in the statement of net position.

Revenue bonds are being repaid through revenues generated by the City's various enterprise activities. Under the economic resources measurement focus used by the enterprise funds, revenue bonds are recorded as debts by the individual enterprise fund responsible for the related debt repayment.

General obligation bonds and revenue bonds are subject to federal arbitrage rules under Section 148(f) of the Internal Revenue Code. As of December 31, 2019, the City reported no arbitrage rebate liability on its bonds.

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

In addition, the City received intergovernmental loans to provide for capital construction projects. These intergovernmental loans are considered obligations of the general government and are being repaid with general governmental revenue sources.

GENERAL OBLIGATION BONDS

Debt service is paid from the debt service fund with special property tax levies for the voter-approved bond issues.

Debt service for City Council-authorized issues is funded from other City taxes. Bonds carried a Moody's A 1 rating until November of 2006 when the City changed to Standard and Poor's and received an AA rating on both unlimited and limited general obligation Bonds. The City's most recent rating received in 2014 from Standard and Poor's is AAA.

General obligation bonds currently outstanding are as follows:

Issue Name/Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate	Original Issue	Debt Outstanding
2006 Police/Barn Refunding	12/1/2006	1/1/2021	4.05%	$ 3,485,000	$ 400,000
2009B Fire Station Property	12/1/2009	12/1/2021	3.80%	6,355,000	1,445,000
2014 Park Bond (Voted)	6/5/2014	12/1/2033	3.23%	7,745,000	6,385,000
2014 Senior Center Refunding (Voted)	6/5/2014	12/1/2021	3.00%	635,000	195,000
2014 Highland Park Facilities	11/5/2014	12/1/2024	4.15%	2,310,000	1,205,000
2017 ITS & Police Refunding (Voted)	6/19/2017	12/1/2025	1.95%	972,500	667,500
2017 Park Bond Refunding (Voted)	6/19/2017	12/1/2026	1.95%	3,752,500	2,710,000
2017 Park Bond (Voted)	6/19/2017	12/1/2026	1.95%	2,000,000	1,585,472
2019 Bergsma Property	2/27/2019	12/1/2028	2.77%	3,850,772	3,850,772
2019 Bollinger Property Refunding	3/15/2019	12/1/2028	2.75%	1,681,095	1,513,933
2019 BABS Fire Station #72 Refunding	12/4/2019	12/1/2029	1.89%	2,702,633	2,702,633
				$ 35,489,500	$ 22,660,310

The new bonds issued are recorded at net of premiums/discounts and issuance costs in the government-wide financial statements.

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

Year Ending	Governmental Activities	
December 31,	Principal	Interest
2020	$ 2,679,724	$ 610,496
2021	2,763,527	534,052
2022	2,118,746	458,286
2023	2,176,684	403,676
2024	2,232,938	347,110
2025-2029	8,568,691	921,913
2030-2034	2,120,000	176,933
Total	$ 22,660,310	$ 3,452,466

Bonds issued recently were direct placements, including 2014 Highland Park Facilities, 2017 Park Bond, 2017 Refunding of 2005 ITS & Police, 2017 Refunding of 2006 Park Bonds, 2019 Bergsma Property, 2019 Bolling Property Refunding, and 2019 BABS Fire Station #72 Refunding. The annual debt service requirements to maturity for debt from direct placements are as follows:

Year Ending December 31,		Governmental Activities Principal		Interest
2020	$	1,319,724	$	325,501
2021		1,343,527		298,857
2022		1,728,746		270,938
2023		1,771,684		231,928
2024		1,812,938		191,562
2025-2029		6,258,691		362,726
Total	$	14,235,310	$	1,681,512

As of December 31, 2019, the City has approximately $1,600,000 available in debt service funds to service the general bonded debt.

REVENUE BONDS

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

The revenue bonds outstanding as of December 31, 2019 are as follows:

Issue Name/Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate	Original Issue	Balance Outstanding
2011 Water Revenue Bonds	9/15/2011	12/1/2021	3.18%	$ 5,350,000	$ 1,200,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31,	Business-type Activities Principal	Interest
2020	590,000	48,000
2021	610,000	24,400
	$ 1,200,000	$ 72,400

The City has pledged future water utility revenue, net of operating expenses (net revenue), to repay $5,350,000 in revenue bonds issued in 2011. Proceeds from the bonds provided financing for the refunding of the City's outstanding Water Revenue Bonds 2001. The bonds are payable solely from water utility net revenue and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 17 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,272,400. Principal and interest paid and total pledged revenue for the current year were $640,800 and $3,771,941, respectively.

SPECIAL ASSESSMENT BONDS

Special Assessment Bonds paid through the collection of assessments levied against the benefited properties located within the boundaries of the Local Improvement District (LID). Though guaranteed by the City's LID Guaranty Fund, this type of special assessment bonds does not constitute an obligation of any political subdivision thereof other than the City, and neither the full faith and credit nor the taxing power of the City is pledged for the bond repayment. The assessments are liens against the respective properties which are subject to foreclosure. The City is obligated to make principal and interest payments regardless of collections.

In December of 2010, the City issued LID #23, paid through the collection of assessments levied against the property owners of the Mall Street Sidewalk Improvements. The LID #23 debt outstanding as of December 31, 2019 are as follows:

Issue Name/Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate	Original Issue	Balance Outstanding
LID No. 23 - Governmental	12/31/2009	12/1/2024	4.70%	$ 977,390	$ 130,000

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

Year Ending	Business-type Activities	
December 31,	Principal	Interest
2020	65,000	6,858
2021	65,000	6,500
	$ 130,000	$ 13,358

As of December 31, 2019, there were no delinquent LID assessment installment.

INTERGOVERMENTAL LOANS

The City received intergovernmental loans to provide for capital construction projects. The agreements information along with original and outstanding debt, as of December 31, 2019, is as follows:

Issue Name/Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate	Original Issue	Balance Outstanding
KC North SPAR Interlocal Agreement - Governm	1/1/2003	12/31/2022	0.00%	$ 7,000,000	$ 1,050,000

The annual debt service requirements to maturity for the intergovernmental loan agreements are as follows:

Year Ending	Governmental Activities	
December 31,	Principal	Interest
2020	350,000	-
2021	350,000	-
2022	350,000	-
	$ 1,050,000	$ -

REFUNDED DEBT

To lower interest costs, the City refunded and defeased certain bonds. The City issued new refunding bonds to refund certain prior bond issues; as a result, the old bonds including those refunded are considered defeased, and the corresponding liabilities are not included in the statement of net position.

In 2019, the City issued $1,681,095 of general obligation refunding bonds to refund 2009 Bolliger Property Bonds. The proceeds of the refunding bonds were used to pay off the refunded bonds immediately (within 30 days). As a result, the refunded bonds are defeased and the liability has been removed from the governmental activities column of the statement of net position. The City estimated an economic gain of $106,183.

In 2019, the City also issued $2,702,633 of general obligation refunding bonds to refund 2009T BABs Fire Station #72 Bonds. The proceeds of the refunding bonds were used to pay off the refunded bonds immediately (within 30 days). As a result, the refunded bonds are defeased and the liability has been removed from the governmental activities column of the statement of net position. The City estimated an economic gain of $242,822.

CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the year ended December 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	$ 21,919,765	$ 8,234,500	$ 7,493,955	$ 22,660,310	$ 2,679,724
Special assessment bonds	130,000	-	-	130,000	65,000
Intergovermental loans	1,400,000	-	350,000	1,050,000	350,000
Compensated absences	4,005,039	4,050,991	4,005,039	4,050,991	1,291,758
Claims payable	365,000	2,660,801	2,755,801	270,000	270,000
Pension liability	7,486,871	-	2,226,271	5,260,600	-
OPEB liability	2,198,316	-	144,382	2,053,934	-
Total governmental activity long-term liabilities	$ 37,504,991	$ 14,946,292	$ 16,975,448	$ 35,475,835	$ 4,656,482
Business-type activities					
Revenue bonds	$ 1,770,000	$ -	$ 570,000	$ 1,200,000	$ 590,000
Compensated absences	645,599	715,819	645,599	715,819	228,257
Pension liability	1,614,579	-	367,916	1,246,663	-
Total business-type activities long-term liabilities	$ 4,030,178	$ 715,819	$ 1,583,515	$ 3,162,482	$ 818,257

For the governmental activities, claims, compensated absences, pension, and OPEB liabilities are generally liquidated by the general fund.

NOTE 13: CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. As of December 31, 2019, there were several damage claims and lawsuits pending against the City. It is the opinion of management that the disposition of these claims is not presently expected to have a material adverse effect on the City's financial statements.

As discussed in *Note 12, Long-Term Debt*, the City is contingently liable for repayment of refunded debt.

The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. It is the opinion of management that such disallowances, if any, will be immaterial.

NOTE 14: JOINT VENTURES

EASTSIDE PUBLIC SAFETY COMMUNICATIONS AGENCY

In 1993, the City joined the Eastside Public Safety Communications Agency (EPSCA), a joint venture. EPSCA was established by the cities of Bellevue, Redmond, Kirkland, and Mercer Island (Principals) in May 1992. 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.

An Operations Committee, composed of the Chief of Police and the Chief of Fire of each Principal, reports to the Executive Board and oversees budget preparation, rates, revenues, expenditures, policies, and other operational issues. The Operations Committee also includes representation from non-Principal EPSCA user agencies.

The interlocal 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, 2019, the weighted vote was as follows:

	2019
Redmond	22.96%
Bellevue	47.03%
Kirkland	17.98%
Mercer Island	5.99%
Issaquah	6.04%
	100.00%

The voting 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 December 31 of the preceding year.

In 2019, the City incurred service and radio maintenance fees in the amounts of $22,059 and $8,817, respectively. As of December 31, 2019, there was an outstanding payable of $83 to EPSCA.

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 ESPCA have no equity interest in EPSCA's contributed capital ($10.0 million from King County levy proceeds).

Budget monitoring and compiled financial statements for EPSCA can be obtained from EPSCA, c/o Kale Fong, MS PSEPS, PO Box 97010, Redmond, WA 98073-9710 or http://epsca.net/.

EASTSIDE FIRE AND RESCUE

In 1999, through an interlocal agreement as provided by RCW Title 39.34, the consolidation of several agencies created a new Fire and Emergency Medical Services agency called Eastside Fire and Rescue (EF&R). The agencies (principals) joining in this consolidation included King County Washington Fire Districts 10 and 38, and the Cities of Issaquah and North Bend, with the City of Sammamish joining in January 2000. The current interlocal agreement is in effect through December 31, 2021. Any party may terminate this agreement at the end of the first term or at the end of any one-year term by filing with the other parties a notice of termination three years prior to 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, 2019, the equity percentage was as follows:

	2019
Fire District 10	37.06%
Fire District 38	6.60%
City of Issaquah	23.79%
City of North Bend	4.44%
City of Sammamish	28.11%
	100.00%

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

	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
	8

EF&R has no taxing authority. The Fire Districts levy regular real property and emergency medical service taxes at the maximum rate allowed by law. The Fire Districts transfer taxes to EF&R, as agreed upon and approved by the Directors with the Board of Directors in June and December.

The amount of annual contribution for the agencies, 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, agencies 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. Agencies 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 contributed service fees of $7,335,431 in 2019.

All real and personal property acquired prior to the EE&R interlocal agreement remains property of the acquiring member, with exclusive access and control over the property by EF&R. All property acquired pursuant to the interlocal agreements shall be identified by the Board upon acquisition as joint or separate property. Upon termination of the interlocal 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 activities column of the Statement of Net Position.

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

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

A REGIONAL COALITION FOR HOUSING

In November 1992, the Cities of Bellevue, Redmond, and Kirkland and King County joined to establish A Regional Coalition for Housing (ARCH). The interlocal agreement was amended in January 1993 and November 1999 to add clarifying language regarding responsibility and dissolution. Since its inception, the Cities of Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Medina, Mercer Island, Newcastle, Sammamish, Woodinville, Yarrow Point, and Beaux Arts Village also 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 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. Contributions by member agencies are held in the ARCH Housing Trust Fund Account and dispersed by the Administering Agency for approved projects. The City committed to make operation contributions of $45,217 in 2019 and there was outstanding payable of $11,304 at December 31, 2019. In addition, the City contributed $153,000 to the Trust Fund in 2019 and as of December 31, 2019, the City had accumulated fund balance of $421,611 in the Trust Fund for funding affordable housing projects. The cities maintain independent decision-making regarding activity and level of funding for specific projects. The result of this was the combining of all equities.

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

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

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 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. In 2019, the City paid its administrative membership dues of $287,370. The City also incurred expenditures of $1,055,432 and $5,187 in 2019 for Regional Capital Facilities Charges (RCFCs) for new residential hookups to the water distribution system, and for wastewater charges, respectively. As of December 31, 2019, the outstanding payables were $208,520 and $5,187, respectively.

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 and the member shall have no right to, or interest in any water supply assets owned by the Alliance. Upon disincorporation, the net position of the Alliance will be shared equitably by current members at the time of dissolution based on demand shares.

In 2011, the CWA's Board passed a resolution offering to purchase the outstanding RCFCs credits from its members at a discounted rate. These credits were awarded to its members who transferred or retained an independent water supply in excess of its needs. The Alliance's members were allowed to use such credits to apply against future RCFCs. The CWA offered to buy out the RCFC credits at $2,500 per Cascade Equivalent Residential Unit (CERU) from its members. The City chose the one-time redemption option. The payment was finalized and the total of $ 3,241,250 was sent to the City in December 2012. Such receipt was reported as capital contributions in the City's Water fund and are held for future construction projects.

Audited financial information can be obtained from Cascade Water Alliance, c/o Chris Paulucci, Manager of Finance and Administration, 520 112th Avenue SE, Suite 400, Bellevue, WA 98004 or http://cascadewater.org/.

E-CITY GOV ALLIANCE

On March 25, 2002, the City of Bellevue Council unanimously adopted a resolution establishing the E-City Gov Alliance (the E-City) between the City of Bellevue and the cities of Bothell, Burien, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish, and Woodinville. Since 2002, additional cities have joined the E-City. The E-City establishes on-line services through a jointly operated internet portal. Additionally, the E-City has established a partnership with Microsoft to help define the E-City Gov architecture, provide consulting services, offer training, and donate software. In 2014 the E-City became a non-profit corporation.

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

The E-City is governed by an Executive Board comprised of one Board member from each of the principal partner cities. Expenditures consist of capital and operations costs, per the budget adopted by the E-City Executive Board, and Bellevue's administrative costs associated with performing duties as the E-City's fiscal agent. In 2019, the City of Issaquah paid membership dues of $3,870. The City also incurred surcharges of $60,094 in 2019 and there was an outstanding payable of $15,203 at December 31, 2019.

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

Note 15 CONSTRUCTION COMMITMENTS

The City has active construction projects as of December 31, 2019. The City's commitments with contractors for these active construction projects are as follows:

Project		Spent to Date		Remaining Commitment
Confluence Park Improvements	$	508,932	$	51,833
Holiday Inn Lift Station Revisions		-		768,532
LRIG Decommissioning Project		375,171		127,159
Gilman Pedestrian Bridge Rail Replacement		-		69,500
East Lake Sammamish Drainage Improvements		177,359		108,581
Replacement Design		120,655		14,501
Newport Way SR900-54th Design		1,976,182		2,115,167
SE 43RD Way/Prov. Pt. Intersection Final Design		158,229		22,837
Engineering Design for WSDOT PE Phase		685,647		1,906,591
WSDOT I-90 Aux Lane Project Agreement		-		3,000,000
Water Treatment Plant Concept Design & Facility Siting		167,952		76,043
Lower Issaquah Creek Habitat Enhancement Project		127,971		111,085
SE 62nd St - Construction Management		2,650,264		3,497
Mitigation and Monitoring		3,802		9,218
SPAR Booster Pump Station Design		593,446		206,595
Total	$	7,545,610	$	8,591,139

NOTE 16: CHANGE IN BEGINNING NET POSITION

During 2019, the City identified errors related to capital assets for prior years and thus, the City made the corrections to adjust the beginning balance of capital assets and the net position. The table below summarizes the impact of the respective changes to the beginning net position.

		Governmental Activities		Business-Type Activities		Total
Net Position - beginning (as reported)	$	581,965,878	$	144,086,785	$	726,052,663
Corrections to capital assets		(9,667,000)		393,143		(9,273,857)
Net Position - beginning (as restated)	$	572,298,878	$	144,479,928	$	716,778,806

The corrections to capital assets impacted the beginning net position of the internal services funds and enterprise as follows:

		Internal Services Funds		Water		Sewer		Stormwater		Total Enterprise Funds
Net Position - beginning (as reported)	$	15,778,741	$	67,257,286	$	24,812,178	$	52,017,321	$	144,086,785
Corrections to capital assets		(12,611)		(3,717)		38,022		358,838		393,143
Net Position - beginning (as restated)	$	15,766,130	$	67,253,569	$	24,850,200	$	52,376,159	$	144,479,928

NOTE 17: SUBSEQUENT EVENT

On February 29, 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus, COVID-19. Additionally, the Mayor of Issaquah issued a proclamation of emergency due to the COVID-19 virus on March 6, 2020. In the weeks following the declarations, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, cancelling public events, prohibiting public and private gatherings, and requiring people to stay at home unless they are leaving for an essential function. As a result of the state of emergency declarations, many City's employees have been required to stay at home. Certain operations, if not related to public safety and health and other essential activities, have been temporarily ceased. The City expects a significant reduction in revenue in 2020 as a result of the reduced economic activity due to the stay at home order, which will impact sales tax, business and occupation tax, the timing of property tax receipts, and many other revenue sources. The City is reducing expenditures in 2020 in response to this anticipated declined in revenues. The length of time these stay-at-home measures will be in place, and the full extent of the financial impact on the City is unknown at this time.

City of Issaquah
Required Supplementary Information
December 31, 2019

Schedule of Changes in OPEB Liability and Related Ratios
LEOFF 1 Medical Benefits OPEB Plan
As of June 30, 2019
Last Ten Fiscal Years

Total OPEB liability	2018	2019
Interest	$ 79,954	$ 82,999
Changes in experience data and assumptions	(66,027)	(119,071)
Estimated benefit payments	(97,056)	(108,310)
Net change in total OPEB liability	(83,129)	(144,382)
Total OPEB liability - beginning	2,281,445	2,198,316
Total OPEB liability - ending	$ 2,198,316	$ 2,053,934
Total OPEB liability, as a percentage of covered employee payroll	N/A	N/A

The notes to the required supplementary information are an integral part of this schedule.

Schedule of Proportionate Share of Net Pension Liability (Asset)
State-Sponsored Plan - PERS 1
As of June 30
Last Ten Fiscal Years

Year Ended June 30,	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of Net Pension Liability (Asset)	Covered Payroll	Employer's Proportionate Share of Net Pension Liability (Asset) as Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2019	0.129086%	$ 4,963,815	$ 19,747,616	25.14%	67.12%
2018 (*)	0.138967%	6,206,313	18,480,732	33.58%	63.22%
2017	0.146165%	6,935,643	16,198,546	42.82%	61.24%
2016	0.136550%	7,333,378	18,612,331	39.40%	57.03%
2015	0.146292%	7,652,432	16,675,156	45.89%	59.10%

* Correction made to 2018 employer's proportion of net pension liability (asset).

Schedule of Proportionate Share of Net Pension Liability (Asset)
State-Sponsored Plan - PERS 2/3
As of June 30
Last Ten Fiscal Years

Year Ended June 30,	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of Net Pension Liability (Asset)	Covered Payroll	Employer's Proportionate Share of Net Pension Liability (Asset) as Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2019	0.158899%	$ 1,543,450	$ 18,914,590	8.16%	97.77%
2018	0.169429%	2,892,849	17,681,675	16.36%	95.77%
2017	0.178732%	6,210,083	15,470,170	40.14%	90.97%
2016	0.166677%	8,392,055	17,787,071	47.18%	85.82%
2015	0.178975%	6,394,879	15,890,631	40.24%	89.20%

Schedule of Proportionate Share of Net Pension Liability (Asset)
State-Sponsored Plan - PSERS
As of June 30
Last Ten Fiscal Years

Year Ended June 30,	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of Net Pension Liability (Asset)	Covered Payroll	Employer's Proportionate Share of Net Pension Liability (Asset) as Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2019	0.154341%	$ (20,071)	$ 780,718	-2.57%	101.85%
2018	0.184606%	2,287	725,387	0.32%	99.79%
2017	0.215045%	42,134	664,932	6.34%	93.14%
2016	0.201567%	85,662	753,428	11.37%	90.41%
2015	0.224063%	40,896	665,828	6.14%	89.20%

The notes to the required supplementary information are an integral part of these schedules.

Schedule of Proportionate Share of Net Pension Liability (Asset)
State-Sponsored Plan - LEOFF 1
As of June 30
Last Ten Fiscal Years

Year Ended June 30,	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of Net Pension Liability (Asset)	State's Proportionate Share of Net Pension Liability (Asset) Associated with the Employer	Total	Covered Payroll	Employer's Proportionate Share of Net Pension Liability (Asset) as Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2019	0.015287%	$ (302,165)	$ (2,043,833)	$ (2,345,998)	N/A	N/A	148.78%
2018	0.015019%	(272,670)	(1,844,335)	(2,117,005)	N/A	N/A	144.42%
2017	0.014863%	(225,504)	(1,525,306)	(1,750,810)	N/A	N/A	135.96%
2016	0.014493%	(149,319)	(1,009,992)	(1,159,311)	N/A	N/A	123.74%
2015	0.014496%	(174,733)	(1,181,890)	(1,356,623)	N/A	N/A	127.36%

Schedule of Proportionate Share of Net Pension Liability (Asset)
State-Sponsored Plan - LEOFF 2
As of June 30
Last Ten Fiscal Years

Year Ended June 30,	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of Net Pension Liability (Asset)	State's Proportionate Share of Net Pension Liability (Asset) Associated with the Employer	Total	Covered Payroll	Employer's Proportionate Share of Net Pension Liability (Asset) as Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2019	0.116366%	$ (2,695,843)	$ (1,765,416)	$ (4,461,259)	4,453,310	-60.54%	119.43%
2018	0.120159%	(2,439,490)	(1,579,524)	(4,019,014)	3,991,146	-61.12%	118.50%
2017	0.123242%	(1,710,200)	(1,109,375)	(2,819,575)	3,397,610	-50.34%	113.36%
2016	0.116006%	(674,726)	(439,872)	(1,114,598)	3,982,566	-16.94%	106.04%
2015	0.127854%	(1,314,083)	(868,873)	(2,182,956)	3,710,330	-35.42%	111.67%

The notes to the required supplementary information are an integral part of these schedules.

Schedule of Employer Contributions
State-Sponsored Plan - PERS 1
As of December 31
Last Ten Fiscal Years

Year Ended December 31,	Statutorily or Contractually Required Contributions	Contributions in Relation to the Statutorily or Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	$ 1,000,525	$ 1,000,525	$ -	$ 20,227,730	4.95%
2018	963,230	963,230	-	19,056,271	5.05%
2017	886,737	886,737	-	18,008,466	4.92%
2016	842,298	842,298	-	17,643,280	4.77%
2015	743,625	743,625	-	16,967,211	4.38%

Schedule of Employer Contributions
State-Sponsored Plan - PERS 2/3
As of December 31
Last Ten Fiscal Years

Year Ended December 31,	Statutorily or Contractually Required Contributions	Contributions in Relation to the Statutorily or Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	$ 1,493,377	$ 1,493,377	$ -	$ 19,376,256	7.71%
2018	1,357,367	1,357,367	-	18,242,650	7.44%
2017	1,180,087	1,180,087	-	17,209,364	6.86%
2016	1,046,034	1,046,034	-	16,842,252	6.21%
2015	908,629	908,629	-	16,209,671	5.61%

Schedule of Employer Contributions
State-Sponsored Plan - PSERS
As of December 31
Last Ten Fiscal Years

Year Ended December 31,	Statutorily or Contractually Required Contributions	Contributions in Relation to the Statutorily or Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	$ 59,513	$ 59,513	$ -	$ 834,519	7.13%
2018	50,567	50,567	-	742,917	6.81%
2017	48,388	48,388	-	726,080	6.66%
2016	48,242	48,242	-	732,052	6.59%
2015	43,477	43,477	-	671,688	6.47%

The notes to the required supplementary information are an integral part of these schedules.

Schedule of Employer Contributions
State-Sponsored Plan - LEOFF 2
As of December 31
Last Ten Fiscal Years

Year Ended June 30,	Statutorily or Contractually Required Contributions	Contributions in Relation to the Statutorily or Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	$ 229,037	$ 229,037	$ -	$ 4,403,309	5.20%
2018	223,668	223,668	-	4,293,080	5.21%
2017	194,922	194,922	-	3,785,090	5.15%
2016	187,951	187,951	-	3,721,590	5.05%
2015	186,794	186,794	-	3,698,030	5.05%

Schedule of Employer Contributions
Western Conference of Teamsters Pension Plan
As of December 31
Last Ten Fiscal Years

Year Ended December 31,	Statutorily or Contractually Required Contributions	Contributions in Relation to the Statutorily or Contractually Required Contributions	Contribution Deficiency (Excess)
2019	$ 76,784	$ 76,784	$ -
2018	65,816	65,816	-
2017	62,001	62,001	-

The notes to the required supplementary information are an integral part of these schedules.

City of Issaquah
Notes to Required Supplementary Information
As of December 31, 2019

Note 1: Information Provided

The City implemented GASB 68 for the year ended December 31, 2015 as required. The City has implemented GASB 75 for the year ended December 31, 2018 as required. The schedules presented as required supplementary information will eventually report ten years of trends as that information becomes available.

The City joined the Western Conference of Teamsters Pension Plan in 2017. Contributions information for this Plan is presented for the years ended December 31, 2017, 2018 and 2019. Until a full 10-year trend is compiled, only information for those years available is presented.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions beyond those identified in the Notes to the Financial Statements.

Note 3: Covered Payroll

Covered payroll has been presented in accordance with GASB 82 and GASB 75. Covered payroll includes all payroll on which contributions are based.

Note 4: OPEB Plan

LEOFF 1 Medical Benefits OPEB plan are financed on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB 75.

City of Issaquah
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607	NA	-	1,847	1,847	-	1, 2, 3
COMMUNITY ORIENTED POLICING SERVICE, JUSTICE, DEPARTMENT OF	Public Safety Partnership and Community Policing Grants	16.710	NA	-	78,002	78,002	-	1, 2, 3
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-9248 STPUL-1352 (003)	455,003	-	455,003	-	1, 2, 3
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-9342 TAP-1352(004)	676,113	-	676,113	-	1, 2, 3
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-9691 REP-1352(005)	39	-	39	-	1, 2, 3
			Total Highway Planning and Construction Cluster:	**1,131,155**	**-**	**1,131,155**	-	
Federal Transit Cluster								

The accompanying notes are an integral part of this schedule.

City of Issaquah
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via King County Department of Transportation, Metro Transit Division)	Federal Transit Formula Grants	20.507	6051002	26,665	-	26,665	-	1, 2, 3
		Total Federal Transit Cluster:		**26,665**	**-**	**26,665**	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	18535735	2,352	-	2,352	-	1, 2, 3
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Association of Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	NA	3,000	-	3,000	-	1, 2, 3
		Total Highway Safety Cluster:		**5,352**	**-**	**5,352**	-	
CDC NATIONAL CENTER FOR CHRONIC DISEASE PREVENTION AND HEALTH PROMOTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF	Drug-Free Communities Support Program Grants	93.276	NA	-	129,168	129,168	129,168	1, 2, 3

The accompanying notes are an integral part of this schedule.

City of Issaquah
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington State Military Department)	Emergency Management Performance Grants	97.042	E19-137	20,218	-	20,218	-	1, 2, 3
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via King County Office of Emergency Management)	Preparing for Emerging Threats and Hazards	97.133	FFY16-CCTA-ISSAQUAH PD	4,289	-	4,289	-	1, 2, 3
			Total Federal Awards Expended:	**1,187,679**	**209,017**	**1,396,696**	**129,168**	

The accompanying notes are an integral part of this schedule.

CITY OF ISSAQUAH
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Note 1 – Basis of Accounting

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 of accounting for governmental funds.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Issaquah's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The City of Issaquah has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Issaquah
January 1, 2019 through December 31, 2019

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<table>
<tr><td>Finding ref number:
2019-001</td><td>Finding caption:
The City did not have adequate internal controls and did not comply with federal suspension and debarment requirements.</td></tr>
<tr><td colspan="2">Name, address, and telephone of City contact person:
Beth Goldberg, Finance Director
City of Issaquah
130 E. Sunset Way
Issaquah, WA 98027
(425) 837-3056</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
The City has already taken corrective actions to address the finding cited by the State Auditor’s Office (SAO). This deficiency was first brought to the City’s attention in December 2019 as the SAO was completing the 2018 audit.
To address the deficiency, the City updated its contract checklist used by staff in conjunction with federal grants to identify the need for staff to secure supporting documentation related to the contractor’s federal suspension and debarment status. This checklist is used by the project manager and/or department operations specialist through the procurement process to ensure that all proper documentation is saved. This checklist and the supporting documents are reviewed</td></tr>
</table>

by the department operations specialist or an administrative specialist when the contract is entered into the City's enterprise resource planning system (ERP) for approval. The City is also considering updating contract language to ensure that contractors are not suspended or debarred before entering into an agreement with the City. *These actions will improve internal controls and the City's compliance with federal suspension and debarment requirements.*
Anticipated date to complete the corrective action: January 22, 2020

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov