



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Issaquah

King County

For the period January 1, 2016 through December 31, 2016

Published January 4, 2018

Report No. 1020564





**Office of the Washington State Auditor
Pat McCarthy**

January 4, 2018

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
King County
January 1, 2016 through December 31, 2016**

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 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 deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed 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.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	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

See finding 2016-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Issaquah King County January 1, 2016 through December 31, 2016

2016-001 The City's controls over financial statement preparation were inadequate to ensure accurate and complete 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 two audits, we identified material weaknesses in controls over financial reporting that hindered the City's ability to produce accurate financial statements. In the last two years, the City has experienced turnover in key accounting positions and implemented a new Enterprise Resources Planning (ERP) system. The new system required extensive employee training and process changes. The City has taken steps to improve its financial reporting process; however, it has been unable to correct all deficiencies given the significant changes experienced in the past two years. During the current audit, we continued to identify misstatements that we consider to be material weaknesses in controls over financial reporting.

Government Auditing Standards requires the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We noted the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a material weakness:

- Although the City has procedures to perform a final review of the financial statements and required schedules, the review was not effective or adequate to detect and correct errors before our audit.

- City employees responsible for preparing and reviewing the financial statements were unable to dedicate sufficient time and resources to ensure accurate and complete financial reports.
- The City did not properly apply Governmental Accounting Standards Board (GASB) Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions when classifying ending fund balances.

Cause of Condition

While adjusting to the new ERP system, the City continued to experience staffing shortages and was unable to dedicate the necessary time and resources to ensure the financial statements were free from material misstatements.

Effect of Condition

Inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies and other interested parties. They also hinder the audit process and increase audit costs.

The following misstatements were identified during the audit:

- The City included \$867,135 of a noncurrent portion of special assessments in the Debt Service Fund, which does not comply with the modified accrual basis of accounting. As a result, total Deferred Inflows of Resources and Assigned Fund Balance was understated by \$867,135. This was subsequently corrected as a result of our audit.
- The City incorrectly classified \$2,248,840 as an investment in the Sewer Fund. This amount should be classified as an interfund transaction. In 2011, the City issued a \$2.345 million installment note from the Sewer Fund to the Capital Projects Fund to finance Local Improvement District (LID) 24.
- The City misclassified \$6,118,198 as Net Investments in Capital Assets instead of Unrestricted Net Position. The City also misclassified \$387,308 as Assigned Fund Balance in the Capital Projects Fund instead of Restricted Fund Balance.

We also noted additional less significant errors in the financial statements that we communicated to the City's management during the audit. The City subsequently corrected most of the errors identified.

Recommendations

- We recommend the City continue to establish and follow effective internal controls over financial statement reporting. Specifically, we recommend the City ensure staff responsible for preparing financial statements have the necessary resources and training to prepare accurate and complete financial statements in accordance with reporting standards.
- Conduct an effective, independent financial statement review that ensures the statements and footnotes comply with reporting standards.

City's Response

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

The City continues to improve processes and procedures over the preparation and review of the financial statements to ensure their accuracy. However, in 2017, the audit of FY2015 was completed in May 2017 and the audit of FY2016 was started in August 2017, due to the short turnaround between audits we were unable to complete a thorough review process. This did cause some errors in reporting to be undetected at the time the financial statements were submitted. After that time, these errors were discovered and corrected.

The City understands its responsibilities to have adequate procedures in place for the preparation and review of the financial statements to ensure the accuracy of the financial statements. The Finance Director has updated the City's financial management policy and is currently working on updating the related financial procedures to ensure adequate internal controls are in place over financial statement preparation and review. As well as, requiring staff training on GASB standards, pronouncements and financial statement preparation, revising audit work paper tools and fully implementing the ERP CAFR Builder feature.

Auditor's Remarks

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

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 – Local government accounting – Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.3, Internal Control describes the responsibilities of governments and their management regarding internal controls.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Issaquah
King County
January 1, 2016 through December 31, 2016**

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Issaquah. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: 1/1/2015 to 12/31/2015	Report Ref. No: 1019289	Finding Ref. No: 2015-001				
Finding Caption: The City's controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.						
Background: City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. In our previous audit, we identified and communicated control deficiencies that affected the City's ability to produce reliable financial statements. The City implemented a new Enterprise Resource Planning (ERP) system, and the general ledger, purchasing and general billing modules went live on November 1, 2015, and the payroll module in January 2016. The implementation brought changes to procedures and transaction processing that required extensive employee training. In addition, the Senior Accountant left the City in March 2015, which is a critical time for financial statement preparation. The City hired a new Senior Accountant in June 2015, who understands financial statement preparation but was tasked with system implementation when another staff member left in November 2015. The City submitted an initial set of 2015 financial statements, which contained significant misstatements that the City chose to correct. During this time, the City's Finance Director also retired at the end of July 2016 and the City had an interim Director until the current Finance Director was hired in October 2016. The financial statement preparation is complex and was made more challenging by the system implementation and staff turnover.						
Status of Corrective Action: <table style="width: 100%;"><tr><td style="width: 25%;"><input type="checkbox"/> Fully Corrected</td><td style="width: 25%;"><input type="checkbox"/> Partially Corrected</td><td style="width: 25%;"><input checked="" type="checkbox"/> Not Corrected</td><td style="width: 25%;"><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input checked="" type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input checked="" type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid			

Corrective Action Taken:

The Finance Director has taken full responsibility for addressing internal controls over financial preparation and reporting. The Finance Director continues to implement changes to the financial management policy and related financial procedures for internal control, required staff training on GASB standards and pronouncements and financial statement preparation, revised audit work paper tools and a fully implemented ERP CAFR Statement Builder feature. The City has taken corrective action but was unable to complete all improvements for the preparation of the 2016 financial statements since the audit of the 2015 financial statements was completed in May 2016.

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

**City of Issaquah
King County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Issaquah
Issaquah, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2017.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

CITY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

December 15, 2017

**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
King County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Issaquah
Issaquah, Washington

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

We have audited the compliance of the City of Issaquah, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2016. 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, 2016.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

December 15, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Issaquah King County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Issaquah
Issaquah, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 21.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Issaquah, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 December 15, 2017 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

December 15, 2017

FINANCIAL SECTION

**City of Issaquah
King County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds – 2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Statement of Changes in Net Position – Fiduciary Funds – 2016

Notes to the Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – LEOFF 1 – Retiree Medical & Long-Term Care Benefits – 2016

Schedule of Funding Progress – LEOFF 1 Employees – Medical & Long-Term Care Benefits and Schedule of Employer Contributions – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF 1, LEOFF 2 – 2016

Schedule of Proportionate Share of the Net Pension Liability – PSERS – 2016
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2016
Schedule of Employer Contributions – LEOFF 2, PSERS – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Issaquah, we offer readers of the City of Issaquah's financial statements this narrative overview and analysis of the financial activities of the City of Issaquah for fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with the City's financial statements that follow.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Issaquah exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended December 31, 2016 by \$667,692,174 (total net position). Of this amount, \$51,055,189 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies.
- The City of Issaquah's total net position increased by \$19,559,199 or 3.01 percent as a result of this year's operations of \$14,638,659 plus prior period adjustment related to accounts receivable of \$4,920,543.
- At the close of the fiscal year ended December 31, 2016, the City's governmental funds reported combined ending fund balances of \$43,229,029, an increase of \$2,492,186 in comparison with the prior year. Approximately 28.5 percent of the combined ending fund balance, in the amount of \$12,322,783, is available for use (unassigned fund balance).
- The unassigned fund balance for the general fund was \$12,322,783 or nearly 29 percent of total general fund expenditures plus other financing sources and uses. This represents an \$883,264 increase from the prior fiscal year.
- The City's total liabilities and deferred inflow of resources decreased by almost \$6.82 million during the current fiscal year. There was an increase of \$985,263 in current liabilities, a decrease of \$4,537,961 in noncurrent liabilities, an increase of \$31,238 in unavailable revenue related to receivables, a decrease of \$1,238,347 in unavailable revenue related to special assessments and a decrease of \$2,059,719 in deferred inflows related to pensions on the government-wide financial statements.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

The *Statement of Activities* presents designed to show how the City's net position changed during the year. The statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show the degree to which each function supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as (but not limited to) uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

Both 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, public safety, transportation, natural and economic environment, and culture and recreation. The business-type activities of the City include water, sewer and storm water utilities. Governmental activities are primarily supported by taxes, charges for services and grants. Business-type activities are primarily supported through user fees and charges.

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 of Issaquah, like other state and local governments, uses fund accounting to ensure and demonstrate compliance over finance-related legal requirements. All of the funds of the City of Issaquah can be divided 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. The focus of Governmental Fund Financial Statements is on near term inflows and outflows of available financial resources and on balances of resources available at the end of the fiscal year. Such information is useful in evaluating whether there are more or less financial resources that can be used in the near future to finance City services.

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

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

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

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

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

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

Internal service funds are an essential accounting tool used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment, unemployment insurance, insurance premiums and self-insured medical costs.

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also present certain required supplementary information concerning the budget vs. actual report of the City's General Fund. The budget vs. actual required supplementary information can be found on page 16 and the pension benefit and other postemployment benefit required supplementary information is found in the required supplementary information section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time, may serve as a useful indicator of a city's financial position. The City of Issaquah's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$667,692,176 at the close of the most recent fiscal year.

Table 1 is a condensed version of the government-wide statement of net position:

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 69,683,441	\$ 63,046,684	\$ 27,778,486	\$ 25,059,870	\$ 97,461,927	\$ 88,106,554
Capital assets, net of depreciation	513,981,545	511,956,771	115,547,969	115,315,654	629,529,514	627,272,425
Total Assets	583,664,986	575,003,455	143,326,455	140,375,524	726,991,441	715,378,979
Deferred outflows related to pensions	2,454,476	1,514,816	527,198	339,649	2,981,674	1,854,465
Current liabilities	10,223,955	10,049,808	2,511,779	1,700,663	12,735,734	11,750,471
Noncurrent liabilities	40,268,749	44,585,614	6,026,365	6,247,461	46,295,114	50,833,075
Total liabilities	50,492,704	54,635,422	8,538,144	7,948,124	59,030,848	62,583,546
Deferred inflows related to pensions	405,461	2,117,741	108,565	456,004	514,026	2,573,745
Unavailable revenue- special assessments	2,014,626	3,252,973	-	-	2,014,626	3,252,973
Unavailable revenue- receivables	721,441	690,203	-	-	721,441	690,203
Total deferred inflows of resources	3,141,528	6,060,917	108,565	456,004	3,250,093	6,516,921
Net Position:						
Net investment in capital assets	491,518,759	478,087,181	112,580,334	111,776,780	604,099,093	589,863,961
Restricted	10,255,028	15,208,332	2,282,864	657,658	12,537,892	15,865,990
Unrestricted	30,711,443	22,526,419	20,343,746	19,876,607	51,055,189	42,403,026
Total net position	\$ 532,485,230	\$ 515,821,932	\$135,206,944	\$132,311,045	\$ 667,692,174	\$ 648,132,977

The largest portion of the City's combined net position (90.5 percent) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide a variety of services to its citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (1.88 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$51,055,189 is unrestricted (7.65 percent) and may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of the current fiscal year, the City of Issaquah is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City of Issaquah's net position increased \$14,638,659 or 3.01%, in 2016. The change in governmental activities shows an increase of \$11,742,755 and an increase of \$2,895,901 in the business-type activities. Table 2 shows the revenues, expenses and changes in net position for the governmental activities separate from the business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$16,663,298 from the prior fiscal year. An increase in net position of \$11,742,755 is a result of revenues in excess of expenses and other financing sources (uses) which was increased further by \$4,920,543 from prior period adjustment. The prior period adjustment consists of three adjustments; 1) an increase of \$277,636 for tax revenue was offset by a decrease of \$132,733 for an accrual oversight; 2) a decrease of \$867,135 to deferred inflow of resources for the Debt Service Fund; and 3) an increase of \$3,908,505 for developer agreement revenue covering fiscal periods 2010 through 2015.

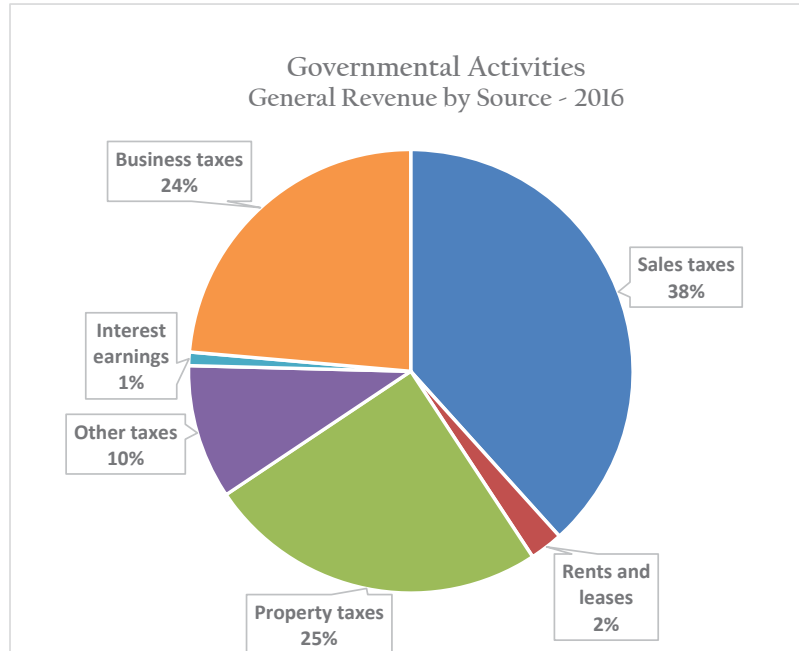
Total revenues of the governmental activities increased by \$1,386,667 or 1.94% when compared to prior year. The revenue for 2016 shows charges for services increased \$3,540,874; operating and capital grants & contribution decreased by \$1,797,951; and, property taxes, sales taxes, business & occupation (B&O) taxes, other taxes and rents and leases had total revenue of \$38,341,641. Sales tax and B&O tax had increases while property and other taxes were lower.

As discussed earlier, the Statement of Net Position provides a measure of the financial health of an entity at a specific date in time. The Statement of Activities provides details on how the City's net position changed from the beginning of the year to the end of the year and whether net position increased or decreased. Therefore the Statement of Activities provides information as to whether the City as a whole is better off financially by year end as illustrated in Table 2.

TABLE 2
Condensed Statement of Activities

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues						
Charges for services	\$ 22,637,220	\$ 19,096,346	\$ 20,527,006	\$ 20,628,531	\$ 43,164,226	\$ 39,724,877
Operating grants & contributions	1,583,615	662,957	91,538	15,864	1,675,153	678,821
Capital grants & contributions	10,438,087	13,156,696	2,709,361	9,470,177	13,147,448	22,626,873
General revenues:						
Property taxes	9,527,242	9,585,210	-	-	9,527,242	9,585,210
Sales taxes	14,700,457	14,279,986	-	-	14,700,457	14,279,986
Business taxes	9,051,453	8,878,296	-	-	9,051,453	8,878,296
Other taxes	3,758,207	4,427,366	-	-	3,758,207	4,427,366
Rents and leases	927,301	1,014,348	575,348	-	1,502,649	1,014,348
Interest earnings	376,981	512,691	167,993	235,315	544,974	748,006
Total revenues	73,000,563	71,613,896	24,071,246	30,349,887	97,071,809	101,963,783
Expenses:						
Judicial	958,449	1,024,317	-	-	958,449	1,024,317
General government	13,942,679	8,149,049	-	-	13,942,679	8,149,049
Public safety	17,464,437	17,285,113	-	-	17,464,437	17,285,113
Utilities	706,059	488,426	-	-	706,059	488,426
Transportation	11,521,830	10,924,673	-	-	11,521,830	10,924,673
Social services	671,676	612,626	-	-	671,676	612,626
Natural and economic environment	7,949,123	7,857,985	-	-	7,949,123	7,857,985
Culture and recreation	7,786,331	7,723,250	-	-	7,786,331	7,723,250
Interest on long term debt	1,115,585	1,006,828	-	-	1,115,585	1,006,828
Water	-	-	8,188,954	10,134,898	8,188,954	10,134,898
Sewer	-	-	8,194,989	8,155,043	8,194,989	8,155,043
Storm Water	-	-	4,544,505	3,170,303	4,544,505	3,170,303
Total expenses	62,116,169	55,072,267	20,928,448	21,460,244	83,044,617	76,532,511
other financing sources (uses) and extraordinary items	10,884,394	16,541,629	3,142,798	8,889,643	14,027,192	25,431,272
Other financing sources (uses):						
Transfers, net	256,300	241,000	(256,300)	(241,000)	-	-
Miscellaneous revenue (expense)	573,409	415,854	9,227	437,734	582,636	853,588
Sale of capital assets	28,652	53,930	176	(19,399)	28,828	34,531
Total other financing sources (uses)	858,361	710,784	(246,897)	177,335	611,464	888,119
Increase (decrease) in net position	11,742,755	17,252,413	2,895,901	9,066,978	14,638,656	26,319,391
Net position - beginning	515,821,932	510,432,577	132,311,043	126,862,944	648,132,975	637,295,521
Prior period adjustment	4,920,543	(1,047,667)	-	(382,424)	4,920,543	(1,430,091)
Change in accounting principle	-	(10,815,391)	-	(3,236,455)	-	(14,051,846)
Restated net position - beginning	520,742,475	498,569,519	132,311,043	123,244,065	653,053,518	621,813,584
Net position - ending	\$ 532,485,230	\$ 515,821,932	\$ 135,206,944	\$ 132,311,043	\$ 667,692,174	\$ 648,132,975

The pie chart below shows the allocation of general revenue within governmental activities.



Business-type Activities. For the City of Issaquah's business-type activities, the results for the current fiscal year were positive in that overall net position increased to an ending balance of \$135,206,944. The total increase for business-type activities was \$2,895,901 or 2.19 percent from the prior fiscal year. The increase is primarily due to capital contributions and developer donated assets for the water, sewer and stormwater utilities.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

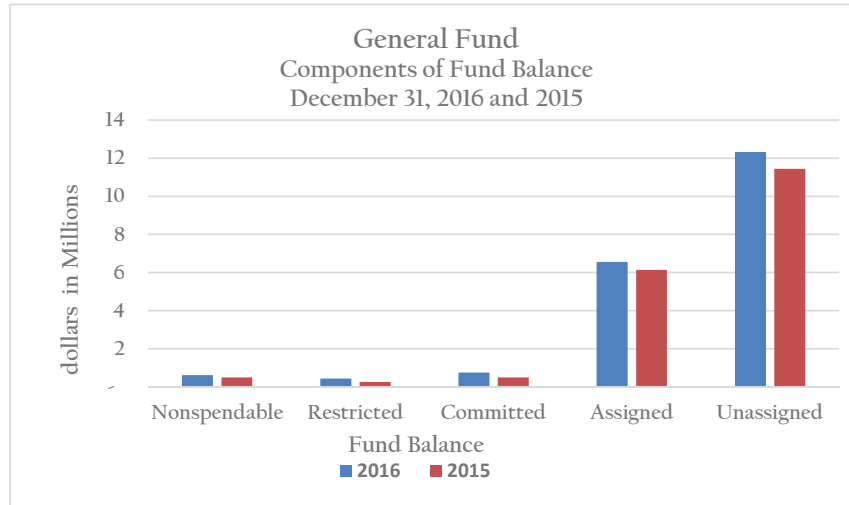
As noted earlier, the City of Issaquah uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds. The focus of the City of Issaquah's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in determining the City's ability to meet financial requirements in the near future. In particular, unassigned fund balance is a good indicator of the City's resources available for spending at the end of the year.

At December 31, 2016, the City of Issaquah's governmental funds reported combined fund balances of \$43,229,029, an increase of \$2,492,186 in comparison with the prior year. Approximately 28.5% of this amount or \$12,322,783 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form \$610,406, 2) restricted for specific purposes \$10,010,232, 3) committed for specific purposes \$739,592, or 4) assigned for specific purposes \$19,546,016.

The City's **General Fund** contains the following funds: the general fund which is the primary operating fund of the city and special revenue funds for streets, cemetery, municipal art, sustainability, cable television and lodging tax activities. At December 31, 2016, unassigned fund balance of the general fund was \$12,322,783, while total fund balance increased \$1,855,252 for a total of \$20,652,772. As a measure of the general fund's liquidity, it may be useful to compare

both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 29% of total general fund expenditures, while total fund balance represents approximately 48% of that same amount.



The capital projects fund, had a \$530,663 increase in fund balance during the current fiscal year. This increase in fund balance was primarily due to an interfund loan made to cover costs for a major transportation project while waiting for cost reimbursement from outside sources.

The debt service fund, had a decrease in fund balance during the current year of \$1,195,458 to bring the year end fund balance to \$729,755. The decrease is a combination of \$189,701 increase including other financing sources and prior period adjustments of \$(1,385,159).

Proprietary Funds. The City of Issaquah's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position for the business-type activities at the end of the year was \$20,343,746. The total growth in net position for these funds was \$2,895,904. As noted earlier in the discussion of business-type activities, the increase for the Water Fund of \$1,547,878 was due to a combination of increased revenue and lower operating expenses. The Sewer Fund had a decrease of \$420,910 primarily from a decline in capital contributions and developer donated assets; and the increase for the Stormwater Fund of \$1,718,936 was mainly from a decline in intergovernmental activities, shown under the non-operating section.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. During the year budget amendments were made to increase the revenues and other financing sources by \$2,963,650 and to increase of beginning fund balance by \$6,804,170 for a total increase of \$9,767,820. The increase in revenues can be attributed to an increase in sales and other business taxes, along with a one-time amount of \$1,000,000 from sale of a capital asset. This budget amendment of \$9,767,820 for expenditures increased ending fund balance by \$7,422,720; \$1,000,000 to be used to purchase land; expenditures were amended to include an increase to the Development Services Department for increased activity related to development and allow spending of the development services technology fee.

The City of Issaquah budgets annually on a modified accrual basis. A comparison of the actual performance of the General Fund on a budgetary basis to the final revised budget indicates that total revenues were \$1,678,644 (or 3.62%) less than the final revised budget amount. Expenditures were \$4,437,263 (or 9.4%) less than budgeted. The City has made a commitment to sustainability. From the day-to-day expenses, to larger onetime initiatives, the City manages its finances with this commitment in mind. The City continues to closely monitor and control its expenses which is part of the City's commitment to its citizens for long-term fiscal sustainability.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Issaquah's investment in capital assets for its government-wide activities as of December 31, 2016, amounts to \$513,981,544 (net of accumulated depreciation). This investment in capital assets includes land & other nondepreciables, infrastructure, intangible property, buildings & improvements, machinery & equipment and construction in progress as shown in the following table 3.

Table 3
City of Issaquah's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land & other nondepreciables	\$ 318,338,541	\$ 317,751,293	\$ 16,645,829	\$ 16,645,830	\$ 334,984,370	\$ 334,397,123
Infrastructure	129,542,514	132,230,716	-	-	129,542,514	132,230,716
Intangible property	198,303	250,958	214,470	250,822	412,773	501,780
Buildings & improvements	45,943,750	47,179,915	94,097,473	96,347,756	140,041,223	143,527,671
Machinery & equipment	6,870,851	7,419,125	317,924	269,008	7,188,775	7,688,133
Construction in progress	13,087,585	7,124,763	4,272,272	1,802,238	17,359,857	8,927,001
Total	\$ 513,981,544	\$ 511,956,770	\$ 115,547,968	\$ 115,315,654	\$ 629,529,512	\$ 627,272,424

Major capital assets events during 2016 included the following:

- Completion of Dogwood Bridge replacement.
- Construction in progress for road improvements in North Issaquah for SE 62nd Street, and E. Lake Sammamish Parkway.

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

Debt Administration

The City of Issaquah's total outstanding debt at December 31, 2016, was \$29,205,000 as shown in table 4. This was a \$4,926,500 decrease from the prior year.

Table 4
City of Issaquah's Outstanding Bonded Debt

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 25,905,000	\$ 30,131,500	\$ -	\$ -	\$ 25,905,000	\$ 30,131,500
Special assessment bonds	455,000	645,000	-	-	455,000	645,000
Revenue bonds	-	-	2,845,000	3,355,000	2,845,000	3,355,000
Total	\$ 26,360,000	\$ 30,776,500	\$ 2,845,000	\$ 3,355,000	\$ 29,205,000	\$ 34,131,500

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors currently affect the City of Issaquah and are being considered in developing the 2017 fiscal year budget:

- In preparing the 2017 budget, the City of Issaquah continues to follow financial policy and practices which are detailed in the Comprehensive Financial and Budget Policies. 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 includes the legally authorized increase in city property taxes of one percent (1%). This is an annual city property tax increase of approximately \$29.00 per year for an averaged valued house at \$655,000 for 2017. The 12.4% rise in the assessed valuation of existing property will result in a tax levy rate decrease for 2017.
- Per capita revenues for the City of Issaquah are anticipated to remain constant for 2017 at \$1,235. As the city population continues to increase, revenues and the need for services are expected to increase proportionately.
- Per capita expenditures for the City are estimated to increase \$192 per capita and is reflective of a rapidly growing population for the same level of service spending and inflationary adjustments.

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, 2016

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 51,063,032	\$ 22,897,321	\$ 73,960,353
Restricted cash	12,412	-	12,412
Deposit held with trustee	38,044	-	38,044
Receivables (net)	16,034,709	2,505,366	18,540,075
Advances to/(from) other funds	(1,948,840)	1,948,840	-
Inventories	705,581	424,338	1,129,919
Prepaid expenses	73,549	2,621	76,170
Capital asset held for resale	1,878,197	-	1,878,197
Total current assets	<u>67,856,684</u>	<u>27,778,486</u>	<u>95,635,170</u>
Non-current assets			
Net pension asset	824,045	-	824,045
Non-current receivables (net)	1,002,712	-	1,002,712
Capital assets not being depreciated:			
Land and land rights	318,090,597	16,645,830	334,736,427
Construction in progress	13,087,585	4,272,272	17,359,857
Art	247,944	-	247,944
Capital assets, net of accumulated depreciation:			
Buildings	32,041,839	7,315,630	39,357,469
Improvements other than buildings	13,901,911	-	13,901,911
Infrastructure	129,542,515	-	129,542,515
Intangible	198,303	214,470	412,773
Plant in service	-	86,781,843	86,781,843
Machinery and equipment	6,870,851	317,924	7,188,775
Total non-current assets	<u>515,808,302</u>	<u>115,547,969</u>	<u>631,356,271</u>
Total assets	<u>583,664,986</u>	<u>143,326,455</u>	<u>726,991,441</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow of resources - pension obligations	2,454,476	527,198	2,981,674
Deferred outflow of resources - special assessments	-	-	-
Total deferred outflows of resources	<u>2,454,476</u>	<u>527,198</u>	<u>2,981,674</u>
Total assets and deferred outflows of resources	<u>586,119,462</u>	<u>143,853,653</u>	<u>729,973,115</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,653,661	1,404,734	4,058,395
Accrued wages	1,134,677	192,170	1,326,847
Accrued interest payable	211,676	9,483	221,159
Other accrued liabilities	26,259	-	26,259
Bonds payable	3,005,000	525,000	3,530,000
Intergovernmental payable	653,414	61,291	714,705
Customer deposits	138,000	-	138,000
Unearned revenue	296,422	-	296,422
Restricted deposits	13,504	-	13,504
Compensated absences	2,091,342	319,101	2,410,443
Total current liabilities	<u>10,223,955</u>	<u>2,511,779</u>	<u>12,735,734</u>
Noncurrent liabilities			
Intergovernmental payable	1,863,781	61,292	1,925,073
Bonds payable	23,355,000	2,320,000	25,675,000
Net pension liability - due in more than one year	12,437,847	3,373,248	15,811,095
Other post employment benefits	727,528	-	727,528
Compensated absences	1,884,593	271,825	2,156,418
Total noncurrent liabilities	<u>40,268,749</u>	<u>6,026,365</u>	<u>46,295,114</u>
Total liabilities	<u>50,492,704</u>	<u>8,538,144</u>	<u>59,030,848</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources - pension obligations	405,461	108,565	514,026
Unavailable revenue - special assessments	2,014,626	-	2,014,626
Unavailable revenue - receivables	721,441	-	721,441
Total deferred inflows of resources	<u>3,141,528</u>	<u>108,565</u>	<u>3,250,093</u>
Total liabilities and deferred inflows of resources	<u>53,634,232</u>	<u>8,646,709</u>	<u>62,280,941</u>
NET POSITION			
Net investment in capital assets	491,518,759	112,580,334	604,099,093
Restricted for:			
Capital	8,856,279	1,696,572	10,552,851
Debt Service	974,551	586,292	1,560,843
Tourism	411,786	-	411,786
Public safety & emergency management	12,412	-	12,412
Unrestricted	30,711,443	20,343,746	51,055,189
Total net position	<u>\$ 532,485,230</u>	<u>\$ 135,206,944</u>	<u>\$ 667,692,174</u>

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

City of Issaquah
Statement of Activities
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 13,942,679	\$ 11,115,416	\$ 232,492	\$ 81,020	\$ (2,513,751)	\$ -	\$ (2,513,751)
Judicial	958,449	1,320,446	-	-	361,997	-	361,997
Public safety	17,464,437	2,327,961	379,956	-	(14,756,520)	-	(14,756,520)
Utilities	706,059	1,238,613	-	-	532,554	-	532,554
Transportation	11,521,830	588,701	791,006	9,591,551	(530,572)	-	(530,572)
Natural and economic environment	7,949,123	3,679,661	144,201	236,666	(3,888,595)	-	(3,888,595)
Social services	671,676	-	-	-	(671,676)	-	(671,676)
Culture and recreation	7,786,331	2,366,422	35,960	528,850	(4,855,099)	-	(4,855,099)
Interest and other debt costs	1,115,585	-	-	-	(1,115,585)	-	(1,115,585)
Total governmental activities	62,116,169	22,637,220	1,583,615	10,438,087	(27,457,247)	-	(27,457,247)
Business-type activities:							
Water	8,188,954	7,881,073	-	1,369,623	-	1,061,742	1,061,742
Sewer	8,194,989	8,030,597	-	117,396	-	(46,996)	(46,996)
Stormwater	4,544,505	4,615,336	-	1,222,342	-	1,384,711	1,384,711
Total business-type activities	20,928,448	20,527,006	91,538	2,709,361	-	2,399,457	2,399,457
Total primary government	\$ 83,044,617	\$ 43,164,226	\$ 1,675,153	\$ 13,147,448	(27,457,247)	2,399,457	(25,057,790)
General revenues:							
Property taxes					9,527,242	-	9,527,242
Sales tax					14,700,457	-	14,700,457
B & O tax					9,051,453	-	9,051,453
Other taxes and assessments					3,758,207	-	3,758,207
Interest earnings					376,981	167,993	544,974
Rents & leases					927,301	575,348	1,502,649
Miscellaneous					573,409	9,227	582,636
Gain (loss) on disposal of assets					28,652	176	28,828
Transfers in (out)					256,300	(256,300)	-
Total general revenues, special items, and transfers					39,200,002	496,444	39,696,446
Change in net position					11,742,755	2,895,901	14,638,656
Net position - beginning					515,821,932	132,311,043	648,132,975
Prior period adjustment					4,920,543	-	4,920,543
Restated net position - beginning					520,742,475	132,311,043	653,053,518
Net position - ending					\$ 532,485,230	\$ 135,206,944	\$ 667,692,174

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

City of Issaquah
Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and investments	\$ 17,987,764	\$ 1,674,678	\$ 23,520,727	\$ 43,183,169
Restricted cash and investments	12,412	-	-	12,412
Current receivables (net)	5,140,383	176,987	2,520,513	7,837,883
Inventories	538,357	-	-	538,357
Prepays	72,049	-	-	72,049
Capital asset held for resale	-	1,730,403	-	1,730,403
Total assets	<u>\$ 23,750,965</u>	<u>\$ 3,582,068</u>	<u>\$ 26,041,240</u>	<u>\$ 53,374,273</u>
LIABILITIES				
Accounts payable	\$ 1,304,623	\$ -	\$ 682,891	\$ 1,987,514
Retainage Payable	567	-	76,013	76,580
Accrued wages	1,083,186	-	17,237	1,100,423
Accrued interest	-	211,676	-	211,676
Other accrued liabilities	-	88,383	-	88,383
Custodial accounts	138,908	-	1,552	140,460
Unearned revenues	296,422	-	260,000	556,422
Restricted Deposits	13,504	-	-	13,504
Advances from other funds	-	2,248,840	3,000,000	5,248,840
Current portion of special assessment principal	-	303,414	-	303,414
Total liabilities	<u>2,837,210</u>	<u>2,852,313</u>	<u>4,037,693</u>	<u>9,727,216</u>
DEFERRED INFLOWS OF RESOURCES				
Grants received in advance	1,608	-	-	1,608
Unavailable revenue - receivables	259,375	-	157,045	416,420
Total deferred inflow of resources	<u>260,983</u>	<u>-</u>	<u>157,045</u>	<u>418,028</u>
Total liabilities and deferred inflows of resources	<u>3,098,193</u>	<u>2,852,313</u>	<u>4,194,738</u>	<u>10,145,244</u>
FUND BALANCES (DEFICITS)				
Nonspendable	610,406	-	-	610,406
Restricted	424,198	729,755	8,856,279	10,010,232
Committed	739,592	-	-	739,592
Assigned	6,555,793	-	12,990,223	19,546,016
Unassigned	12,322,783	-	-	12,322,783
Total fund balances (deficits)	<u>\$ 20,652,772</u>	<u>\$ 729,755</u>	<u>\$ 21,846,502</u>	<u>\$ 43,229,029</u>
Total liabilities and fund balances (deficits)	<u>\$ 23,750,965</u>	<u>\$ 3,582,068</u>	<u>\$ 26,041,240</u>	<u>\$ 53,374,273</u>

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

City of Issaquah, Washington
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
December 31, 2016

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

Total fund balances - governmental funds	\$ 43,229,029
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	510,044,758
Capital asset held for resale in governmental activities is offset by the reclassification of the LID 24 debt and the ULID installment contract	(147,794)
Net pension asset is not an available resource and, therefore, is not required in the funds.	824,045
Net pension liability	(12,437,847)
Deferred outflows related to pension obligations	2,454,476
Deferred inflows related to pension obligations	(405,461)
Deferred inflows of resources related to unavailable revenue for receivables other than those related to pension obligations	726,279
Other assets not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	3,005,733
Prior period adjustment related to other assets	3,908,505
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(33,606,918)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and self-insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	14,890,425
Net position of governmental activities	<u>\$ 532,485,230</u>

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

City of Issaquah
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 7,955,535	\$ 1,571,707	\$ -	\$ 9,527,242
Sales taxes	11,537,115	-	3,163,342	14,700,457
Business and occupation taxes	9,051,453	-	-	9,051,453
Other taxes and assessments	439,114	-	3,319,093	3,758,207
Licenses and permits	3,005,763	-	-	3,005,763
Intergovernmental	2,438,821	49,549	5,633,663	8,122,033
Charges for services	8,081,260	-	3,409,952	11,491,212
Fines and forfeitures	958,057	70,006	-	1,028,063
Interest earnings	223,243	126,830	91,769	441,842
Rents and leases	807,107	-	120,194	927,301
Contributions and donations	44,156	-	436,962	481,118
Miscellaneous revenues	20,001	250,885	-	270,886
Total revenues	<u>44,561,625</u>	<u>2,068,977</u>	<u>16,174,975</u>	<u>62,805,577</u>
EXPENDITURES				
Current:				
General government	6,767,536	-	1,095,981	7,863,517
Judicial	985,494	-	-	985,494
Public safety	15,979,918	-	520,526	16,500,444
Utilities	618,238	1,791	-	620,029
Transportation	2,741,409	-	2,478,174	5,219,583
Natural and economic environment	8,081,240	-	-	8,081,240
Social services	891,545	-	70,883	962,428
Culture and recreation	6,633,921	-	257,891	6,891,812
Debt service:				
Interest	-	1,115,585	-	1,115,585
Principal retirement	-	3,030,000	350,000	3,380,000
Capital outlay:				
General government	-	-	38,553	38,553
Public safety	58,746	-	-	58,746
Transportation	-	-	7,493,999	7,493,999
Culture and recreation	-	-	1,205,205	1,205,205
Total expenditures	<u>42,758,047</u>	<u>4,147,376</u>	<u>13,511,212</u>	<u>60,416,635</u>
Excess (deficiency) of revenues over expenditures	<u>1,803,578</u>	<u>(2,078,399)</u>	<u>2,663,763</u>	<u>2,388,942</u>
OTHER FINANCING SOURCES (USES)				
Insurance recovery	6,553	-	-	6,553
Gain (loss) on disposition of assets	25,391	-	-	25,391
Transfers in	256,300	2,268,100	265,000	2,789,400
Transfers out	(320,000)	-	(2,398,100)	(2,718,100)
Total other financing sources (uses)	<u>(31,756)</u>	<u>2,268,100</u>	<u>(2,133,100)</u>	<u>103,244</u>
Net change in fund balances	1,771,822	189,701	530,663	2,492,186
Fund balances - beginning	18,797,520	1,925,213	21,270,912	41,993,645
Prior period adjustment	83,430	(1,385,159)	44,927	(1,256,802)
Total restated fund balance - beginning	<u>18,880,950</u>	<u>540,054</u>	<u>21,315,839</u>	<u>40,736,843</u>
Fund balances - ending	<u>\$ 20,652,772</u>	<u>\$ 729,755</u>	<u>\$ 21,846,502</u>	<u>\$ 43,229,029</u>

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

City of Issaquah, Washington
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, 2016

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

Net changes in fund balances for governmental funds	\$ 2,492,186
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	1,904,777
Developers construct and then donate capital assets to the government. Capital assets are not reported in governmental funds.	234,840
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,233,100
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,406,259
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, is not reported as expenditures in the government funds.	390,087
Net revenue(loss) of internal service funds	81,506
Change in net position of governmental activities	<u>\$ 11,742,755</u>

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 Balance - Budget and Actual
For the Year Ended December 31, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Property taxes	\$ 7,950,000	\$ 8,450,000	\$ 8,038,966	\$ (411,034)
Sales taxes	10,060,000	12,060,000	11,537,115	(522,885)
Business and occupation taxes	8,946,600	8,946,600	9,051,453	104,853
Other taxes and assessments	540,000	540,000	439,114	(100,886)
Licenses and permits	4,032,000	3,232,000	3,005,763	(226,237)
Intergovernmental	2,496,900	2,596,900	2,438,821	(158,079)
Charges for services	8,387,900	8,437,900	8,081,260	(356,640)
Fines and penalties	833,200	833,200	958,057	124,857
Interest earnings	191,900	191,900	223,243	31,343
Rents and leases	910,100	910,100	807,107	(102,993)
Contributions and donations	73,000	73,000	44,156	(28,844)
Miscellaneous revenues	52,100	52,100	20,001	(32,099)
Total revenues	44,473,700	46,323,700	44,645,056	(1,678,644)
EXPENDITURES				
Current:				
General government	7,417,360	7,460,860	6,767,536	(693,324)
Judicial	999,700	999,700	985,494	(14,206)
Public safety	16,407,000	16,467,500	15,979,918	(487,582)
Utilities	321,600	321,600	618,238	296,638
Transportation	3,797,900	3,930,050	2,800,155	(1,129,895)
Natural and economic environment	8,184,000	9,081,000	8,081,240	(999,760)
Social services	798,600	813,600	891,545	77,945
Culture and recreation	7,037,700	8,121,000	6,633,921	(1,487,079)
Total expenditures	44,963,860	47,195,310	42,758,047	(4,437,263)
Excess(deficiency) of revenues over (under) expenditures	(490,160)	(871,610)	1,887,009	2,758,619
OTHER FINANCING SOURCES (USES)				
Transfers in	3,302,800	3,416,450	3,302,800	(113,650)
Transfers out	(3,562,700)	(3,676,350)	(3,366,500)	309,850
Insurance recovery	-	-	6,553	6,553
Gain (loss) on sale of asset	-	1,000,000	25,391	(974,609)
Total other financing sources (uses)	(259,900)	740,100	(31,756)	(771,856)
Net change in fund balances	(750,060)	(131,510)	1,855,253	1,986,763
Fund balance-beginning	11,588,900	18,393,070	18,797,519	404,449
Fund balance-ending	\$ 10,838,840	\$ 18,261,560	\$ 20,652,772	\$ 2,391,212

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

City of Issaquah
Statement of Net Position
Proprietary Funds
December 31, 2016

	Business-type Activities			Governmental Activities	
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash and investments	\$ 11,516,321	\$ 5,665,043	\$ 5,715,957	\$ 22,897,321	\$ 7,879,863
Deposit held with trustee	-	-	-	-	38,044
Current receivables (net)	782,934	993,606	728,826	2,505,366	149,997
Inventories	353,738	17,802	52,798	424,338	167,224
Advances to other funds	-	2,248,840	-	2,248,840	3,300,000
Prepays	1,887	-	734	2,621	1,500
Total current assets	12,654,880	8,925,291	6,498,315	28,078,486	11,536,628
Noncurrent assets					
Construction in progress	2,288,865	240,211	1,743,196	4,272,272	71,672
Land	9,186,183	-	7,459,647	16,645,830	-
Building and improvements	7,217,158	-	98,472	7,315,630	-
Machinery and equipment	178,509	139,415	-	317,924	3,787,167
Intangibles	119,187	95,283	-	214,470	77,947
Plant in service	36,337,879	13,833,642	36,610,322	86,781,843	-
Total noncurrent assets	55,327,781	14,308,551	45,911,637	115,547,969	3,936,786
Total assets	67,982,661	23,233,842	52,409,952	143,626,455	15,473,414
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - pension obligation	232,120	71,165	223,913	527,198	-
Total deferred outflows of resource	232,120	71,165	223,913	527,198	-
Total assets and deferred outflows of resources	68,214,781	23,305,007	52,633,865	144,153,653	15,473,414
LIABILITIES					
Current liabilities					
Accounts payable	1,096,792	94,658	144,017	1,335,467	498,724
Retainage Payable	37,099	3,744	28,424	69,267	-
Accrued wages	106,243	24,739	61,188	192,170	34,256
Accrued interest	9,483	-	-	9,483	-
Compensated absences	129,109	49,362	140,630	319,101	27,005
Bonds payable	525,000	-	-	525,000	-
Advances from other funds	-	-	300,000	300,000	-
Public works trust fund debt	-	-	61,291	61,291	-
Total current liability	1,903,726	172,503	735,550	2,811,779	559,985
Noncurrent liabilities					
Bonds payable	2,320,000	-	-	2,320,000	-
Public works trust fund debt	-	-	61,292	61,292	-
Compensated absences	109,981	42,048	119,796	271,825	23,004
Net pension liability	1,485,214	455,340	1,432,694	3,373,248	-
Total noncurrent liability	3,915,195	497,388	1,613,782	6,026,365	23,004
Total liability:	5,818,921	669,891	2,349,332	8,838,144	582,989
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - pension obligation	47,800	14,655	46,110	108,565	-
Total deferred inflows of resource	47,800	14,655	46,110	108,565	-
Total liabilities and deferred inflows of resources	5,866,721	684,546	2,395,442	8,946,709	582,989
NET POSITION					
Net investment in capital assets	52,482,779	14,308,551	45,789,054	112,580,384	3,936,786
Restricted for:					
Debt Service	525,000	-	61,292	586,292	-
Capital	634,235	99,184	963,153	1,696,572	-
Unrestricted	8,706,046	8,212,726	3,424,924	20,343,696	10,953,639
Total net position	\$ 62,348,060	\$ 22,620,461	\$ 50,238,423	\$ 135,206,944	\$ 14,890,425

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

City of Issaquah
Statement of Revenue, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities			Governmental Activities	
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 7,881,073	\$ 8,030,597	\$ 4,615,336	\$ 20,527,006	\$ 6,849,666
Total operating revenues	7,881,073	8,030,597	4,615,336	20,527,006	6,849,666
OPERATING EXPENSES					
Maintenance and operations	6,285,689	7,460,418	2,234,039	15,980,146	6,389,930
Depreciation	1,825,137	734,571	1,683,365	4,243,073	786,968
Total operating expenses	8,110,826	8,194,989	3,917,404	20,223,219	7,176,898
Operating income (loss)	(229,753)	(164,392)	697,932	303,787	(327,232)
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental revenues	-	-	625,263	625,263	-
Intergovernmental expenses			(625,263)	(625,263)	-
Interest earnings	58,482	100,226	9,285	167,993	87,576
Interest expense	(128,125)	-	(1,838)	(129,963)	-
Other non-operating revenue (expense)	583,775	-	800	584,575	57,900
Gain (loss) on disposition of assets	176	-	-	176	3,262
Total nonoperating revenues (expenses)	514,308	100,226	8,247	622,781	148,738
Income (loss) before contributions and transfers	284,555	(64,166)	706,179	926,568	(178,494)
Capital contributions	1,369,623	117,396	389,237	1,876,256	75,000
Developer donated assets	-	-	299,380	299,380	-
Transfers in	-	-	-	-	185,000
Transfers out	(106,300)	(47,900)	(102,100)	(256,300)	-
Change in net position	1,547,878	5,330	1,292,696	2,845,904	81,506
Total net position - beginning	60,800,182	23,041,371	48,519,487	132,361,040	14,808,919
Prior period adjustment	-	(426,240)	426,240	-	-
Total restated net position - beginning	60,800,182	22,615,131	48,945,727	132,361,040	14,808,919
Total net position - ending	\$ 62,348,060	\$ 22,620,461	\$ 50,238,423	\$ 135,206,944	\$ 14,890,425

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

City of Issaquah
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 7,771,208	\$ 7,996,167	\$ 5,077,921	\$ 20,845,296	\$ -
Receipts from interfund services provided	-	-	-	-	6,525,736
Payments to employees	(2,103,663)	(617,580)	(1,321,429)	(4,042,672)	(619,779)
Payments to suppliers	(4,301,940)	(6,170,342)	(776,021)	(11,248,303)	(5,557,651)
Due to other funds	(363,700)	(625,200)	(467,000)	(1,455,900)	(88,000)
Net cash provided (used) by operating activities	<u>1,001,905</u>	<u>583,045</u>	<u>2,513,471</u>	<u>4,098,421</u>	<u>260,306</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	-	-	-	185,000
Transfers to other funds	(106,300)	(47,900)	(102,100)	(256,300)	-
Intergovernmental revenues	-	-	625,263	625,263	-
Intergovernmental expenses	-	-	(625,263)	(625,263)	-
Other receipts (expenses)	583,275	-	800	584,075	57,398
Net cash provided (used) by noncapital financing activities	<u>476,975</u>	<u>(47,900)</u>	<u>(101,300)</u>	<u>327,775</u>	<u>242,398</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Advances to other funds	-	20,000	-	20,000	(3,000,000)
Capital contributions	1,369,623	117,396	389,237	1,876,256	75,000
Principal on capital debt	(510,000)	-	(61,291)	(571,291)	-
Interest and related costs on capital debt	(129,400)	-	(1,839)	(131,239)	-
Capital assets	(2,940,143)	96,526	(2,196,376)	(5,039,993)	(519,982)
Net cash provided (used) by capital and related financing activities	<u>(2,209,920)</u>	<u>233,922</u>	<u>(1,870,269)</u>	<u>(3,846,267)</u>	<u>(3,444,982)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(3,503,748)	-	(1,000,579)	(4,504,327)	(504,538)
Proceeds from sale of investments	5,341,958	(243,965)	1,238,094	6,336,087	512,954
Interest on investments	60,998	100,874	11,628	173,500	87,576
Net cash provided (used) by investing activities	<u>1,899,208</u>	<u>(143,091)</u>	<u>249,143</u>	<u>2,005,260</u>	<u>95,992</u>
Net increase (decrease) in cash and cash equivalents	<u>1,168,168</u>	<u>625,976</u>	<u>791,045</u>	<u>2,585,189</u>	<u>(2,846,286)</u>
Balances - beginning of year, restated	<u>10,348,153</u>	<u>5,039,067</u>	<u>4,924,912</u>	<u>20,312,132</u>	<u>10,726,149</u>
Balances - end of the year	<u>\$ 11,516,321</u>	<u>\$ 5,665,043</u>	<u>\$ 5,715,957</u>	<u>\$ 22,897,321</u>	<u>\$ 7,879,863</u>

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

City of Issaquah
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Sewer	Stormwater	Total Enterprise Funds	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (229,753)	\$ (164,392)	\$ 697,932	\$ 303,787	\$ (327,232)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	\$ 1,825,137	\$ 734,571	\$ 1,683,365	4,243,073	\$ 786,968
Increase (decrease) in accounts payable	(710,961)	(69,851)	105,295	(675,517)	(67,614)
Decrease (increase) in receivables	109,865	69,740	(11,232)	168,373	(139,503)
Decrease (increase) in inventory and prepaids	20,737	5,119	3,263	29,119	2,543
Increase (decrease) to wages and benefits payable	(13,120)	7,858	34,848	29,586	5,144
Net cash provided (used) by operating activities	<u>\$ 1,001,905</u>	<u>\$ 583,045</u>	<u>\$ 2,513,471</u>	<u>\$ 4,098,421</u>	<u>\$ 260,306</u>
Schedule of noncash capital and related financing activities					
Contributions of capital assets	\$ -	\$ -	\$ 299,380	\$ 299,380	\$ -
Change in fair value of investments	\$ (67,477)	\$ (1,023)	\$ (18,094)	\$ (86,594)	\$ (8,365)

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

City of Issaquah
Statement of Net Position
Fiduciary Funds
December 31, 2016

	Ruth Kees Award - Sustainable Environment Fund	Agency Fund
ASSETS		
Restricted cash and investments	\$ 29,512	\$ 3,812,763
Current receivables (net)	-	2,060
Total assets	<u>29,512</u>	<u>\$ 3,814,823</u>
LIABILITIES		
Liabilities payable from restricted assets	-	\$ 3,814,823
Total liabilities	<u>\$ -</u>	<u>\$ 3,814,823</u>
NET POSITION		
Net position held in trust	<u>\$ 29,512</u>	

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

City of Issaquah
Statement of Changes in Net Position
Fiduciary Fund
For the Year Ended December 31, 2016

	Ruth Kees Award - Sustainable Environment Fund
ADDITIONS	
Contributions:	
Private contributions	\$ -
Total contributions	-
Investment earnings:	
Interest	289
Total investment earnings	289
Total additions	289
DEDUCTIONS	
Awards	-
Total deductions	-
Change in net position	289
Net position - beginning of the year	29,223
Net position - end of the year	\$ 29,512

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

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

B. DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the 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 government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

C. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

For the most part, the effect of the interfund and internal service fund activity has been removed from the government-wide financial 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.

D. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category-governmental, proprietary, and fiduciary-are presented. 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.

The *capital projects fund* accounts for the acquisition and construction of all the City's major capital facilities, other than those financed by proprietary funds.

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund type:

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

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

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

E. MEASUREMENT FOCUS & BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as

current financial resources or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

Property, sales, business & occupation, franchise, utility, gambling, admissions, and real estate excise taxes and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measureable 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*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net positions have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

BUDGET AND BUDGETARY ACCOUNTING

1. Scope of the Budget

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

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

Appropriations for general and special revenue funds lapse at year-end. The City of Issaquah’s budget procedures are in compliance with the Revised Code of Washington, Chapter 35.33. The City follows the procedure outlined below to establish its annual budget.

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

2. Amending the Budget

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

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

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

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

1. Cash and Cash Equivalents

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

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

2. Investments

It is the City's policy to invest all temporary cash surplus. At December 31, 2016, the treasurer was holding short-term deposits with the State Investment Pool. The interest on this deposit is prorated to the various funds. (*See Note 5*)

Investments 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). In accordance with state law, the LGIP operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the LGIP qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. 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 based on the accounting requirements for that statement. Receivables are as follows:

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

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

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

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

4. Amounts Due to and from Other Funds and Governments, Advances to/from other funds

Due From Other Funds and Other Governments. Amounts due from other funds reported in the financial statements represent outstanding billings to other funds for services provided in the current

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

Advances to/from other funds. The Finance Director may authorize loans between funds. Advances to/from other funds outstanding at December 31, 2016, are reported in *Note 12*.

5. Inventories and Prepaid Items

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

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

6. Restricted Assets and Liabilities

Restricted assets and liabilities are resources set aside in a separate fund, specifically used for debt service or construction. The flow assumption of the City is to use restricted assets before unrestricted assets.

Restricted liabilities include police seized deposits; a portion may be forfeited to the City but the amount is unknown as of December 31, 2016.

7. Capital Assets

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

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

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

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

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

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

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

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial element, *deferred outflows of resources*, 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.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, 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. Deferred inflows are used to offset outstanding special assessment receivables and customer receivables to be received in future periods.

Both deferred outflows of resources and deferred inflows of resources are used to reflect amounts related to future periods for pension asset and pension liability. Amounts have been recorded in accordance with GASB 67/68. Additional information on pension plans is provided in *Note 8*.

9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bonds 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 and current liabilities in the governmental fund financial statements. Fund balance classifications comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Fund balances are classified as follows:

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

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

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

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

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

10. 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 do not accumulate more than two-year's vacation.

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

The liability for vacation and compensatory time are 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.

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

11. Long-Term Debt

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

12. Unearned revenue

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

13. Revenues, Expenditures and Expenses

Program Revenues. Amounts reported as program revenues 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. All

taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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

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

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

14. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

G. ADOPTION OF NEW GASB PRONOUNCEMENTS

For the fiscal year ended December 31, 2016, the City has implemented the following GASB Pronouncements:

GASB Statement No. 72 *Fair Value Measurement and Application*

Issued in February 2015, this Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There is no material impact to the City for adoption of the Standard.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

Issued in June 2015, this Statement supersedes the GASB 55 identification of GAAP hierarchy in the current governmental financial reporting environment. There is no material impact to the City for the adoption of this standard.

GASB Statement No. 77, *Tax Abatement Disclosures*

Issued in August 2015, this Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. The city assessed the effects of both internal and external abatements on its financial position and determined the impact to be immaterial; therefore, financial statement disclosure is not required.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants

Issued in December 2015, this Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. There is no material impact to the City for the adoption of the standard.

NOTE 2: FUND BALANCES

The specific purposes for each fund balance classification on the balance sheet are detailed in the table below for the year ended December 31, 2016.

	General Fund	Debt Service Funds	Capital Project Funds	Total Governmental Funds
Nonspendable				
Inventory	\$ 538,357	\$ -	\$ -	\$ 538,357
Prepaid	72,049			72,049
Total	610,406	-	-	610,406
Restricted:				
Debt service	-	729,755	-	729,755
ICast Funds	977	-	-	977
Tourism	411,786	-	-	411,786
Public safety	11,435	-	-	11,435
Capital projects	-	-	8,856,279	8,856,279
Total	424,198	729,755	8,856,279	10,010,232
Committed:				
Emergency	300,267	-	-	300,267
Art programs	439,325	-	-	439,325
Total	739,592	-	-	739,592
Assigned:				
Capital projects	1,747,284	-	12,990,223	14,737,507
Cemetery maintenance	382,832	-	-	382,832
Communications	804,504	-	-	804,504
Sustainability	72,405	-	-	72,405
Reserves	3,548,768	-	-	3,548,768
Total	6,555,793	-	12,990,223	19,546,016
Unassigned:	12,322,783	-	-	12,322,783
Total fund balances	\$ 20,652,772	\$ 729,755	\$ 21,846,502	\$ 43,229,029

Fund balance flow assumptions - 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).

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

NOTE 3: COMPLIANCE AND ACCOUNTABILITY

The City has complied with finance-related legal or contractual provisions, and expenditures are within legal appropriations for all City funds.

NOTE 4: SUPPLEMENTAL APPROPRIATIONS

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

Amounts presented here are for the year ended December 31, 2016.

	Original Budgeted Inflows	Supplemental Appropriations	Final Budget
General Fund	\$ 59,365,400	\$ 9,767,820	\$ 69,133,220
Debt Service Funds	6,063,710	1,801,343	7,865,053
Capital Project Funds	42,755,800	8,424,618	51,180,418
Utility Funds:			-
Water Utility	22,274,800	(457,898)	21,816,902
Sewer Utility	14,755,300	1,053,534	15,808,834
Stormwater Utility	9,706,900	474,967	10,181,867
Internal Service Funds	17,133,400	5,154,172	22,287,572
Ruth Kees Award Fund	29,400	-	29,400
Total	<u>\$ 172,084,710</u>	<u>\$ 26,218,556</u>	<u>\$ 198,303,266</u>

NOTE 5: DEPOSITS AND INVESTMENTS

DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash and investments as of December 31, 2016 consist of the following:

	Cash	Investments	Total Deposits with Financial Institutions
Cash	\$ 36,311,995	\$ -	\$ 36,311,995
Restricted cash with financial institutions	12,412	-	12,412
Investments		37,648,358	37,648,358
Total Government-wide Cash and Investments	36,324,407	37,648,358	73,972,765
Fiduciary - Restricted cash	1,842,275		1,842,275
Fiduciary - Restricted investment		2,000,000	2,000,000
Total Fiduciary Restricted Cash and Investments	1,842,275	2,000,000	3,842,275
TOTALS	\$ 38,166,682	\$ 39,648,358	\$ 77,815,040

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

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.

INVESTMENTS

Investment management responsibility is delegated to the Finance Director; primary objectives of the City investment activities are safety, liquidity, and return on investment. Allowable investments include; certificate deposits with qualified public depositories, United States government obligations, other government obligations, banker's acceptances, and the State of Washington Local Governmental Investment Pool (State of Washington LGIP).

Investments are stated at fair value, based on quoted market prices in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to the investment assets and investment income. Interest income on investments is recognized in the non-operating revenue as earned. Changes in the fair value of investments are recognized on the Statement of Revenues, Expenses, and Changes in Net Position.

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.

Investments Measured at Amortized Cost

The following investments are reported at amortized cost at December 31, 2016:

	Amortized Cost	Less Than 1 Year
Certificate of Deposit	\$ 2,016,356	\$ 2,016,356
Local Government Investment Pool	12,730,729	12,730,729
Total	\$ 14,747,085	\$ 14,747,085

The State of Washington State Local Government Investment Pool (LGIP) operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Act of 1940 and is similar to a money market fund recognized by the Securities and Exchange Commission. The LGIP manages a portfolio of securities that meet the maturity, quality, diversification, liquidity and market value calculation requirements set forth in the Governmental Accounting Standards Board (GASB) for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost.

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute or withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transactions is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. at the sole discretion of OST. All participants are required to file documentation with the State Treasurer containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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 our investment custodian, BNY Mellon. At December 31, 2016, the City had the following recurring fair value measurement of investments:

Investment Type	Valuation Input Hierarchy		
	Level 1	Level 2	Level 3
U.S. Government Agency Securities	\$ -	\$ 22,849,572	\$ -
Municipal Securities	-	2,051,700	-
Totals	\$ -	\$ 24,901,272	\$ -

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 as of December 31, 2016:

Issuer	Fair Value	Maturity			Percentage of Total Portfolio
		Less Than 1 Year	1 to 5 Years	Greater than 5 Years	
Federal National Mortgage Association	\$ 9,993,446	\$ 2,061,006	\$ 7,932,440	\$ -	25.2%
Federal Farm Credit Banks	7,913,020	3,000,000	4,913,020	-	20.0%
Federal Home Loan Mortgage Corp	999,990	999,990	-	-	2.5%
Fannie Mae Interest Strip	945,950	-	945,950	-	2.4%
State of Washington	2,051,700	-	2,051,700	-	5.2%
Financing Corp	2,997,166	-	2,997,166	-	7.6%
Subtotal	24,901,272	6,060,996	18,840,276	-	62.8%
Local Government Investment Pool	12,730,730	12,730,730	-	-	32.1%
Opus CD	2,016,356	2,016,356	-	-	5.1%
Subtotal	14,747,086	14,747,086	-	-	37.2%
Totals	\$ 39,648,358	\$ 20,808,082	\$ 18,840,276	\$ -	100%
Percentage of Total Portfolio		52.5%	47.5%	0.0%	100.0%

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 credit risk of the State of Washington LGIP is limited to obligations of the U.S. government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

The table below identifies the credit risk of the City's investment portfolio as of December 31, 2016:

Issuer	Fair Value	Ratings	
		S & P	Moody's
Federal National Mortgage Association	\$ 9,993,446	AA+	Aaa
Federal Farm Credit Banks	7,913,020	AA+	Aaa
Federal Home Loan Mortgage Corp	999,990	AA+	Aaa
Fannie Mae Interest Strip	945,950	Unrated	Unrated
State of Washington	2,051,700	AA+	Aaa
Financing Corp	2,997,166	Unrated	Unrated
Total	\$ 24,901,272		

NOTE 6: RECEIVABLES

The City had the following receivable balances at December 31, 2016:

	Government-type activities	Business-type activities	Total
Taxes	\$ 5,054,755	\$ -	\$ 5,054,755
Customer accounts	7,751,816	2,257,314	10,009,130
Grants	2,935,967	227,713	3,163,680
Interest	118,642	20,339	138,981
Special assessments:			-
Current	124,584		124,584
Delinquent			-
Interest	48,945		48,945
Totals	\$ 16,034,709	\$ 2,505,366	\$ 18,540,075

PROPERTY TAXES

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

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

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

Under State law, the City may levy up to \$3,375 per \$1,000 of assessed valuation for general governmental services, subject to two limitations.

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

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

The City's regular levy for 2016 was \$1.00487 per \$1,000 of assessed valuation of \$8,074,840,465 for a total regular levy of \$8,114,649. Additionally, special levies for voter-approved General Obligation Bonds were \$0.19892 per \$1,000 for an excess levy of \$1,599,745.

NOTE 7: CAPITAL ASSETS

Minor gains or losses occasionally occur on disposal of capital assets. When such minor gains or losses occur, the City reports them as miscellaneous revenues or expenditures.

Governmental activities capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 317,523,349	\$ 567,248	\$ -	\$ 318,090,597
Construction in progress	7,124,763	8,914,405	(2,951,583)	13,087,585
Art	227,944	20,000	-	247,944
Total capital assets, not being depreciated	<u>324,876,056</u>	<u>9,501,653</u>	<u>(2,951,583)</u>	<u>331,426,126</u>
Capital assets, being depreciated/amortized:				
Buildings	47,604,509	-	-	47,604,509
Improvements other than buildings	15,889,723	208,565	-	16,098,288
Infrastructure	251,532,243	3,677,556	-	255,209,799
Intangible property	845,791	-	-	845,791
Machinery and equipment	17,592,723	500,915	(56,285)	18,037,353
Total capital assets, being depreciated	<u>333,464,989</u>	<u>4,387,036</u>	<u>(56,285)</u>	<u>337,795,740</u>
Less accumulated depreciation/amortization for:				
Buildings	(14,601,755)	(960,915)	-	(15,562,670)
Improvements other than buildings	(1,710,641)	(485,736)	-	(2,196,377)
Infrastructure	(119,303,448)	(6,363,837)	-	(125,667,285)
Intangible property	(594,833)	(52,655)	-	(647,488)
Machinery and equipment	(10,162,517)	(1,060,270)	56,285	(11,166,502)
Total accumulated depreciation	<u>(146,373,194)</u>	<u>(8,923,413)</u>	<u>56,285</u>	<u>(155,240,322)</u>
Total capital assets, being depreciated, net	<u>187,091,795</u>	<u>(4,536,377)</u>	<u>-</u>	<u>182,555,418</u>
Governmental activities capital assets, net	<u>\$ 511,967,851</u>	<u>\$ 4,965,276</u>	<u>\$ (2,951,583)</u>	<u>\$ 513,981,544</u>

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

Governmental activities:	
General government	\$ 499,253
Public safety	698,623
Utilities	258,339
Transportation	6,375,454
Natural & economic environment	3,455
Culture & recreation	818,209
Total depreciation expense	<u>\$ 8,653,333</u>

Business-type activities capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 16,645,830	\$ -	\$ -	\$ 16,645,830
Construction in progress	1,802,238	3,571,184	(1,101,150)	4,272,272
Total capital assets, not being depreciated	18,448,068	3,571,184	(1,101,150)	20,918,102
Capital assets, being depreciated:				
Buildings	9,685,340	-	-	9,685,340
Plant in service	138,079,973	1,927,665	-	140,007,638
Intangible property	363,514	-	-	363,514
Machinery & equipment	535,078	77,688	-	612,766
Total capital assets, being depreciated	148,663,905	2,005,353	-	150,669,258
Less accumulated depreciation for:				
Buildings	(2,174,003)	(195,707)	-	(2,369,710)
Plant in service	(49,243,555)	(3,982,240)	-	(53,225,795)
Intangible property	(112,693)	(36,351)	-	(149,044)
Machinery & equipment	(266,071)	(28,772)	-	(294,843)
Total accumulated depreciation	(51,796,322)	(4,243,070)	-	(56,039,392)
Total capital assets, being depreciated, net	96,867,583	(2,237,717)	-	94,629,866
Business-type capital assets, net	\$ 115,315,651	\$ 1,333,467	\$ (1,101,150)	\$ 115,547,968

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

Business-type activities:

Water	\$ 1,825,137
Sewer	734,571
Stormwater	1,683,365
Total depreciation expense	<u>\$ 4,243,073</u>

NOTE 8: PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (15,811,095)
Pension assets	\$ 824,045
Deferred outflows of resources	\$ 2,981,674
Deferred inflows of resources	\$ (514,026)
Pension expense/expenditures	\$ 1,465,115

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** 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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	-

* For employees participating in JBM, the contribution rate was 12.26%

The City of Issaquah's actual contributions to the plan were \$8,530 for the year ended December 31, 2016.

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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	Varies
Total	11.18%	6.12%

* For employees participating in JBM, the contribution rate was 15.30%

The City of Issaquah's actual PERS plan contributions were \$773,636.58 to PERS Plan 1 and \$1,031,170.17 to PERS Plan 2/3 for the year ended December 31, 2016.

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 Control 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

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 2016 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-

The City of Issaquah's actual plan contributions were \$47,423 to PSERS Plan 2 and \$33,413.01 to PERS Plan 1 for the year ended December 31, 2016.

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, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016. 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. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	-
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%

The Issaquah's actual contributions to the plan were \$186,501 for the year ended December 31, 2016. 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, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the City of Issaquah as its proportionate share of this amount is \$115,698.71.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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 minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 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 7.5 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 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

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, 2016, 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%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the City of Issaquah's proportionate share* of the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 8,843,317	\$ 7,333,378	\$ 6,033,983
PERS 2/3	15,451,283	8,392,055	(4,368,549)
PSERS 2	371,958	85,662	(118,267)
LEOFF 1	(88,702)	(149,319)	(201,134)
LEOFF 2	1,892,117	(674,726)	(2,609,380)

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

At June 30, 2016, the City of Issaquah reported a total pension liability of \$15,811,095 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ (7,333,378)
PERS 2/3	(8,392,055)
PSERS 2	(85,662)
Total Pension Liability	\$ (15,811,095)
	Asset
LEOFF 1	\$ 149,319
LEOFF 2	674,726
Total Pension Asset	\$ 824,045

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 liability/(asset) that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (149,319)	\$ (674,726)
State's proportionate share of the net pension liability/(asset) associated with the employer	(1,009,992)	(439,872)
Total	\$ (1,159,311)	\$ (1,114,598)

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	\$ (7,652,432)	\$ (7,333,378)	\$ 319,054
PERS 2/3	(6,394,879)	(8,392,055)	(1,997,176)
PSERS 2	(40,896)	(85,662)	(44,766)
Total	\$ (14,088,207)	\$ (15,811,095)	\$ (1,722,888)

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 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, 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 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 1,796
PERS 2/3	1,094,542
PSERS 2	54,718
LEOFF 1	(19,263)
LEOFF 2	333,323
TOTAL	\$ 1,465,116

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Plan Name 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	\$ 184,643	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	313,006	-
TOTAL	\$ 497,649	\$ -

Plan Name PERS 2-3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 446,871	\$ (277,036)
Net difference between projected and actual investment earnings on pension plan investments	1,026,945	-
Changes of assumptions	86,739	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(236,152)
Contributions subsequent to the measurement date	399,492	-
TOTAL	\$ 1,960,047	\$ (513,188)

Plan Name PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,179	\$ -
Net difference between projected and actual investment earnings on pension plan investments	17,667	-
Changes of assumptions	333	-
Changes in proportion and differences between contributions and proportionate share of contributions	12,698	-
Contributions subsequent to the measurement date	18,718	-
TOTAL	\$ 78,595	\$ -

Plan Name 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	15,178	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
TOTAL	\$ 15,178	\$ -

Plan Name LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92,456	\$ -
Net difference between projected and actual investment earnings on pension plan investments	242,456	-
Changes of assumptions	2,544	-
Changes in proportion and differences between contributions and proportionate share of contributions	21,300	-
Contributions subsequent to the measurement date	70,611	-
TOTAL	\$ 429,367	\$ -

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, 2016. 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
2017	\$ (45,463)
2018	(45,463)
2019	169,575
2020	105,994
2021	-
Thereafter	-
Total	\$ 184,643

Year ended December 31:	PERS 2/3
2017	\$ (68,521)
2018	(68,521)
2019	712,147
2020	472,263
2021	-
Thereafter	-
Total	\$ 1,047,368

Year ended December 31:	PSERS
2017	\$ 7,927
2018	7,927
2019	18,811
2020	15,209
2021	8,053
Thereafter	1,950
Total	\$ 59,877

Year ended December 31:	LEOFF 1
2017	\$ (3,137)
2018	(3,137)
2019	13,145
2020	8,306
2021	-
Thereafter	-
Total	\$ 15,177

Year ended December 31:	LEOFF 2
2017	\$ 1,073
2018	1,073
2019	204,705
2020	142,297
2021	9,607
Thereafter	-
Total	\$ 358,755

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:

Plan Description

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides lifetime medical care for law enforcement officers employed prior to October 1, 1977. Under this requirement the City provides medical prescription drug, dental, Medicare Part B premiums, long-term care, and vision expenses for LEOFF 1 retirees. Dependent spouses and children are not covered. The retiree does not contribute towards the cost of his/her medical care.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the City's annual OPEB cost, the estimated amount contributed, and changes in the City's net OPEB obligation:

	Fiscal Year Ending		
	12/31/2014	12/31/2015	12/31/2016
Determination of Annual Required Contribution			
Normal Cost	\$ -	\$ -	\$ -
Amortization of Unfunded Actuarial Accrued Liability	193,889	258,462	236,278
Annual Required Contribution	193,889	258,462	236,278
Determination of Net OPEB Obligation			
Annual Required Contribution	193,889	258,462	236,278
Adjustment to Annual Required Contribution	(18,746)	(23,852)	(31,786)
Annual OPEB Cost	175,143	234,610	204,492
Contributions Made	72,915	75,750	113,430
Increase in Net OPEB Obligation	102,228	158,860	91,062
Net OPEB Obligation - beginning	375,379	477,607	636,467
Net OPEB Obligation - ending	\$ 477,607	\$ 636,467	\$ 727,529

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

Valuation Date	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
December 31, 2016	\$ 204,492	\$ 113,430	55.47%	\$ 727,529
December 31, 2015	\$ 234,610	\$ 75,750	32.29%	\$ 636,467
December 31, 2014	\$ 175,143	\$ 72,915	41.63%	\$ 477,607

The City's net OPEB obligation increased by \$91,062 in the year ending December 31, 2016. The entire net OPEB obligation of \$727,529 is included as a noncurrent liability in the governmental activities column on the government-wide statement of net position. The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Valuation Date	Actuarial value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
December 31, 2016	\$ -	\$ 2,627,025	\$ 2,627,025	0.00%	\$ -	0.00%
December 31, 2015	\$ -	\$ 2,873,680	\$ 2,873,680	0.00%	\$ -	0.00%
December 31, 2014	\$ -	\$ 2,155,738	\$ 2,155,738	0.00%	\$ -	0.00%

Funding Status and Funding Progress

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

Actuarial Methods and Assumptions

The City used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and six inactive members who have left service. At the end of 2014 average ages were as follows: two members average age of 67.3, one member with an average age of 74.6 and three member's average age of 80.2 years. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 2013 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF 1 medical study performed in 2014. The results were based on grouped data with three inactive groupings. The actuarial cost method used to determine the actuarial accrued liability (AAL) was Projected Unit Credit. The AAL and Net OPEB Obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purpose of this valuation.

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

NOTE 10: RISK MANAGEMENT

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

- a. The City of Issaquah is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2016:

	2015	2016
IBNR claims at beginning of year	\$ -	\$ -
Current year claims	34,146	63,088
Claim payments	(34,146)	(63,088)
IBNR claims at end of year	\$ -	\$ -

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above the amount by the purchase of insurance.

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

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

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

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects and Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA. Settlements did not exceed insurance coverage for the periods ended December 31, 2011 through December 31, 2016.

- c. As of January 01, 2013 the City began offering self-insured medical programs to employees. The City is self-insured for three medical plans administered by Premier 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.

- d. 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 fiscal year 2016 and 2015 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. The fiscal year 2016 rates were determined by a study completed as of August 17, 2016. A new study will be completed in September 2017 for fiscal year 2017 rates.

Claims exceeding \$100,000 per occurrence are covered by a stop loss policy. In order to mitigate its risk exposure the City holds individual and aggregate stop loss insurance. There were three claims in excess of the \$100,000 per person stop loss maximum in 2016 and there were three claims in excess of the \$100,000 per person stop loss maximum in 2015. In accordance with GASB Statement 10, estimated liabilities are accrued for current outstanding claims and claims incurred but not reported (IBNR).

	2015	2016
Claim liability at beginning of year	\$ 338,600	\$ 396,355
Incurred claims, including IBNR	2,837,108	2,559,900
Claim payments	(2,779,353)	(2,640,955)
Claim liability at end of year	<u>\$ 396,355</u>	<u>\$ 315,300</u>

NOTE II: HEALTH & WELFARE

The City of Issaquah participates in the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP) to provide medical insurance through Group Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan.

Therefore, the City of Issaquah is a member of the 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, 2016, 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 insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation,

intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating members forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or town, 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 and 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 Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 12: INTERFUND ACTIVITY

INTERFUND TRANSFERS

Interfund transfers represent a funding resource to another fund of the same government without the requirement of repayment. The interfund transfer activity for the year ended December 31, 2016 is as follows:

Transfer To	Transfer From					
	General Fund	Capital Projects	Water	Sewer	Storm	Total
General Fund	\$ -	\$ -	\$ 106,300	\$ 47,900	\$ 102,100	\$ 256,300
Debt Service	-	2,268,100				2,268,100
Capital Projects	265,000	-				265,000
Internal Service Funds	55,000	130,000				185,000
Total	\$ 320,000	\$ 2,398,100	\$ 106,300	\$ 47,900	\$ 102,100	\$ 2,974,400

There were no significant transfers made during 2016 that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

ADVANCES TO/FROM OTHER FUNDS

The beginning balance of Advances To/From Other Funds has been restated for the reclassification of an internal installment note. The installment note was a funding source Local Improvement District (LID) 24 improvements; which will be paid wholly from the collection of special assessments from the benefitted.

Advances to/from other funds for the year ended December 31, 2016, were as follows:

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Advances from:					
Fleet Services Fund	\$ 300,000	\$ 3,000,000	\$ -	\$ 3,300,000	\$ 3,300,000
Sewer Fund	2,268,840	-	(20,000)	2,248,840	156,333
Total Advances from	<u>\$ 2,568,840</u>	<u>\$ 3,000,000</u>	<u>\$ (20,000)</u>	<u>\$ 5,548,840</u>	<u>\$ 3,456,333</u>
Advances to:					
Capital Projects Fund	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 3,000,000
Stormwater Fund	300,000	-	-	300,000	300,000
LID 24 Debt Service Fund	2,268,840	-	(20,000)	2,248,840	156,333
Total Advances to	<u>\$ 2,568,840</u>	<u>\$ 3,000,000</u>	<u>\$ (20,000)</u>	<u>\$ 5,548,840</u>	<u>\$ 3,456,333</u>

The following further describes the advances to/from other funds outstanding as of December 31, 2016.

Amount of Loan	Purpose	From Fund	To Fund	Term
\$ 3,000,000	Capital Project cash flow	Fleet Services	Capital Project Fund	12/31/2017
300,000	Debt Called -in	Fleet Services	Stormwater	6/30/2017
2,248,840	LID 24 funding	Sewer	LID 24 Debt Service	12/1/2028

NOTE 13: LONG-TERM DEBT

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

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

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

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

On December 31, 2015, the City's LID Guaranty Fund purchased foreclosed property from King County known as Mallard Bay, pursuant to RCW 35.49.150 and RCW 35.54.080. This property is held for resale and is subject to a local improvement district assessment lien in favor of the City of Issaquah, Local improvement District (LID) No. 24. At the time of purchase, the principal amount of the delinquent assessment installments for LID No. 24 amounted to \$369,733. The total principal amount on the LID No. 24 assessment is \$1,386,500. The property is also subject to a local improvement district assessment lien in favor of the Sammamish Plateau Water & Sewer District, Utility Local Improvement District (ULID) S-21, and, on the purchase date, the principal amount of the delinquent assessment installments for ULID S-21 amounted to \$265,488. The total principal amount of ULID S-21 assessment is \$417,195. Accordingly, the total principal assessment amount of \$1,386,500.00 relating to LID No. 24 has been reclassified in the City's financial statements from Special Assessment Bonds to Advances to other funds (*see Note 12*).

Other long-term debt incurred by the government includes an installment contract with Spillman Technologies, Inc. for public safety software. For the enterprise, other long-term debt incurred includes State Department of Community Development Public Works Trust Fund loans, which have been made to finance designated capital project construction costs.

Other postemployment benefits result from the standards of GASB 45; *see Note 9*.

GENERAL OBLIGATION BONDS

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

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

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

Debt service for City Council-authorized issues is funded from other City taxes. Bonds carried a Moody's A 1 rating until November of 2006 when the City changed to Standard and Poor's and received 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 Debt	Debt Outstanding
2005 ITS & Police Refunding Bond (Voted)	12/01/2005	12/01/2025	4.34%	\$ 4,745,000	\$ 960,000
2006 Parks Bond (Voted)	12/01/2006	12/01/2026	3.91%	6,250,000	3,710,000
2006 Police/Barn Refunding	12/01/2006	01/01/2021	4.05%	3,485,000	1,160,000
2007 Police Station Refunding	01/01/2007	01/01/2019	3.98%	5,100,000	1,730,000
2009 Bolliger Property	02/17/2009	12/01/2028	3.80%	2,780,000	1,900,000
2009A Fire Station #72 (Voted)	12/01/2009	12/01/2019	3.64%	1,840,000	620,000
2009B Fire Station Property	12/01/2009	12/01/2021	3.80%	6,355,000	3,405,000
2009T BABs Fire Station #72 (Voted)	12/01/2009	12/01/2029	5.74%	2,660,000	2,660,000
2014 Park Bond (Voted)	06/05/2014	12/01/2033	3.23%	7,745,000	7,420,000
2014 Senior Center Refunding (Voted)	06/05/2014	12/01/2021	3.00%	635,000	465,000
2014 Highland Park Facilities	11/05/2014	12/01/2024	4.15%	2,310,000	1,875,000
Total General Obligation Bonds				<u>\$ 43,905,000</u>	<u>\$ 25,905,000</u>

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2017	\$ 2,940,000	\$ 960,991
2018	2,830,000	858,741
2019	2,930,000	757,450
2020	2,410,000	663,570
2021	2,505,000	574,013
2022-2026	7,465,000	1,800,513
2027-2031	3,730,000	549,569
2032-2036	1,095,000	54,450
Total	<u>\$ 25,905,000</u>	<u>\$ 6,219,297</u>

REVENUE BONDS

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

December 31, 2016 are as follows:

Issue Name/Purpose	Issue Date	Maturity Date	Average Interest Rate %	Issuance Amount	Ending Balance
2011 Water Revenue Bonds	09/15/2011	12/01/2021	3.18%	\$ 5,350,000	\$ 2,845,000
Total Revenue Bonds				<u>5,350,000</u>	<u>2,845,000</u>

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

Year Ending December 31,	Business - Type Activities	
	Principal	Interest
2017	\$ 525,000	\$ 113,800
2018	550,000	92,800
2019	570,000	70,800
2020	590,000	48,000
2021	610,000	24,400
Total	<u>\$ 2,845,000</u>	<u>\$ 349,800</u>

SPECIAL ASSESSMENT BONDS

Special Assessment Bonds are not a direct responsibility of the City, but paid through the collection of assessments levied against property owners. The assessments are liens against the property and are subject to foreclosure. The City is obligated in some manner due to its responsibility to make principal and interest payments regardless of collections.

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

Issue Name/Purpose	Issue Date	Maturity Date	Average Coupon	Original Debt	Debt Outstanding
LID #23 - Governmental	12/31/2009	12/01/2024	4.70%	\$ 977,390	\$ 455,000
Total Special Assessments				<u>\$ 977,390</u>	<u>\$ 455,000</u>

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2017	\$ 65,000	\$ 25,984
2018	65,000	23,059
2019	65,000	19,971
2020	65,000	16,803
2021	65,000	13,553
2022-2026	130,000	17,095
Total	<u>\$ 455,000</u>	<u>\$ 116,465</u>

INTERLOCAL AGREEMENTS

During 2002 the City entered into an Interlocal Agreement with King County for funds for the North Spar. No interest accrues. The City pays King County \$350,000 per year from the capital projects fund. The agreement information along with original and outstanding debt is as follows:

Issue Name/Purpose	Issue Date	Maturity Date	Average Coupon	Original Debt	Debt Outstanding
KC North SPAR Interlocal Agreement	01/01/2003	12/31/2023	0.00%	\$ 7,000,000	\$ 2,100,000
Total Interlocal Agreements				<u>\$ 7,000,000</u>	<u>\$ 2,100,000</u>

INSTALLMENT CONTRACTS

The City also has received loans to provide for capital construction projects and technology in both governmental and business-type activities.

Governmental Activities

In 2014, the City entered into a contract with Spillman Technologies, Inc. for the purchase of public safety software in the amount of \$131,295. The City pays annual payments of \$26,259 per year from the capital projects fund. No interest is charged on this contract.

On December 31, 2015, the City's LID Guaranty Fund purchased foreclosed property from King County known as Mallard Bay, pursuant to RCW 35.49.150 and RCW 35.54.080. This property is held for resale and is subject to a local improvement district assessment lien in favor of the Sammamish Plateau Water & Sewer District, Utility Local Improvement District (ULID) S-21. The City anticipates paying off the ULID in full with proceeds from the sale. On this date, the principal amount of the delinquent assessment installments for ULID S-21 equals \$303,414.

Business-Type Activities

In 1998, the City was awarded a Public Works Trust Fund Loan not to exceed \$1,143,103. The City received \$171,465 in 1998, \$857,327 in 1999, and the balance of \$114,311 in 2002. The City pays annual payments of \$61,292 per year from the Stormwater fund.

The installment contracts outstanding at December 31, 2016 are as follows:

Issue Name/Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate	Original Debt	Debt Outstanding
Governmental Activities					
Spillman Technologies, Inc	02/01/2013	02/01/2017	0.00%	\$ 131,295	\$ 26,259
Sammamish Plateau Water & Sewer District ULID	12/31/2015	03/02/2020	5.00%	417,195	417,195
				548,490	443,454
Business-Type Activities					
PW Trust Fund - Newport Way Bridge	11/01/1998	07/01/2019	1.00%	1,143,103	122,583
Total Installment Contracts				\$ 1,691,593	\$ 566,037

CHANGES IN LONG-TERM LIABILITIES

The following is a summary of all long-term debt transactions for the year ended December 31, 2016:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 28,745,000	\$ -	\$ 2,840,000	\$ 25,905,000	\$ 2,940,000
Special assessment bonds	645,000		190,000	455,000	65,000
Interlocal agreements	2,450,000		350,000	2,100,000	350,000
Installment contract	52,518		26,259	26,259	26,259
Sammamish Plateau W & S District ULID	417,195		-	417,195	303,414
Compensated absences	3,837,623	2,915,140	2,776,828	3,975,935	2,091,342
Pension obligation	11,074,930	1,362,916		12,437,846	
Other postemployment benefits	636,467	91,062		727,529	
Total governmental activity - long-term liabilities	47,858,733	4,369,118	6,183,087	46,044,764	5,776,015
Business-type activities:					
Revenue bonds	3,355,000	-	510,000	2,845,000	525,000
Installment contracts	183,874	-	61,291	122,583	61,291
Compensated absences	579,570	470,798	459,442	590,926	319,100
Pension obligation	3,013,276	359,973		3,373,249	
Total business-type activities long- term liabilities	7,131,721	830,771	1,030,733	6,931,758	905,391
Total long-term liabilities	\$ 54,990,454	\$ 5,199,889	\$ 7,213,820	\$ 52,976,522	\$ 6,681,406

The beginning balance of Governmental Special Assessment bonds has been restated for the reclassification of an internal installment note. The Special Assessment Bonds have been decreased by \$862,340. For additional information, refer to Note 17.

NOTE 14: CONTINGENCIES AND LITIGATION

As of December 31, 2016, there were several damage claims and lawsuits pending against the City. It is the opinion of management and the City Attorney that the disposition of these claims is not presently expected to have a material adverse effect on the City's financial statements.

NOTE 15: JOINT VENTURES

EASTSIDE PUBLIC SAFETY COMMUNICATIONS AGENCY

In May 1992, the cities of Bellevue, Redmond, Kirkland, and Mercer Island (Principals) joined to establish the Eastside Public Safety Communications Agency (EPSCA). The agreement was amended in 1993 to include the City of Issaquah.

The purpose of EPSCA is to develop, own, operate, and manage an Eastside radio communications system to be integrated with a regional radio communications network. Its capital budget is funded by a voter-approved county-wide property tax levy.

EPSCA is governed by an Executive Board composed of the Chief executive officer of each Principal. The Executive Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters.

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

The agreement provides for a weighted vote proportionate to each Principal's system radios in relation to the total number of system radios used by all Principals. As of December 31, 2016, the weighted vote was as follows:

Redmond	23.81%
Bellevue	46.34%
Kirkland	18.40%
Mercer Island	6.10%
Issaquah	5.36%
Total	<u>100.00%</u>

These percentages are reviewed and adjusted annually on January 1 based on the number of radios on the system in use by current Principals as of December 31 of the preceding year.

In 2016, the City paid service and radio maintenance fees in the amounts of \$21,665 and \$8,817, respectively.

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

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

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

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

EASTSIDE FIRE AND RESCUE

In 1999, through an interlocal agreement as provided by RCW Title 39.34, the consolidation of several agencies created a new Fire and Emergency Medical Services agency called Eastside Fire and Rescue (EF&R). The agencies (principals) joining in this consolidation included King County Washington Fire Districts 10 and 38, and the Cities of Issaquah and North Bend, with the City of Sammamish joining in January 2000. The current interlocal agreement is in effect through December 31, 2021. Any party may terminate this agreement at the end of the first term or 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, 2016, the equity percentage was as follows:

Fire District 10	39.21%
City of Sammamish	27.10%
City of Issaquah	22.75%
Fire District 38	6.53%
City of North Bend	4.41%
Total	<u>100.00%</u>

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

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

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

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

The City's service fee contributions for the recent five year period are as follows:

<u>Year</u>	<u>Service Fees</u>
2016	\$ 6,401,458
2015	6,160,356
2014	5,643,172
2013	5,406,969
2012	5,013,752

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

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

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

A REGIONAL COALITION FOR HOUSING

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

The purpose of ARCH is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by combining 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. In 2016, the city contributed \$41,766 for operations or 6.397% of the total contributions for operations by all members. The City has accumulated \$188,491 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 purpose of the Alliance is to provide water supply to meet current and future needs of the Alliance's Members in a cost-effective and environmentally responsible manner.

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

Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction. The Alliance collected 2016 membership dues totaling \$3,103,512 of which Issaquah's share was \$229,060. The City of Issaquah also paid the Alliance \$831,693 in 2016 for Regional Capital Facilities Charges for new residential hookups to the water distribution system.

A Member may withdraw from the Alliance with a resolution of its legislative authority expressing such intent. The Board will then determine the withdrawing Member's obligations to the Alliance, as well as the withdrawing Member's allocable share of the Alliance's then-existing obligations. The Member's withdrawal shall be effective upon payment of obligations. Members do not hold legal ownership rights in any assets owned by the Alliance.

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 of Issaquah chose the one-time redemption option. The payment was finalized and the total of \$ 3,241,250 was sent to the City of Issaquah in December 2012. Such receipt was reported as capital contributions in the city's Water Capital fund on the proprietary funds' Statement of Revenues, Expenses, and Changes in Fund Net Position. These monies are held to be used for future construction projects.

Audited financial information can be obtained from Cascade Water Alliance, 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 between the City of Bellevue and the cities of Bothell, Burien, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish, and Woodinville. Since 2002, additional cities have joined the Alliance. The Alliance establishes on-line services through a jointly operated internet portal. Additionally, the Alliance has established a partnership with Microsoft to help define the E-City Gov architecture, provide consulting services, offer training, and donated software.

The interlocal agreement may be terminated if Principals holding at least sixty (60%) of the weighted vote of all of the Principals are in 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.

Expenditures consist of capital and operations costs, per the budget adopted by the E-City Gov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. For the year ending December 31, 2016 expenditures were \$1.5 million and revenues were \$1.6 million.

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>.

Partner fees and voting are based on relative population, equity balances are as follows, with dollars in thousands:

	Population	Percentage	Equity
Bellevue	135,000	33.59%	\$ 240
Kirkland	83,460	20.77%	148
Sammamish	49,980	12.44%	89
Bothell	42,640	10.60%	76
Issaquah	33,330	8.29%	59
Mercer Island	23,480	5.84%	42
Kenmore	21,170	5.27%	38
Snoqualmie	12,850	3.20%	23
	401,910	100.00%	\$ 715

NOTE 16: SUBSEQUENT EVENTS

The City has evaluated events subsequent to the fiscal year-end December 31, 2016, and has identified the following events to report:

In 2017, the City issued the remaining \$2 Million of Unlimited Tax General Obligation Bonds from the total amount of \$10 Million approved by Issaquah voters in 2013. At the same time, the City completed a refunding of the 2005 Unlimited Tax General Obligation and Refunding Bonds (\$972,500), and the 2006 Unlimited Tax General Obligation Bonds (\$3,752,500).

Under an Assumption Agreement between the City of Bellevue and the City of Issaquah dated October 22, 2016, the City of Issaquah assumed the responsibility of providing water and sanitary sewer service to the South Cove/Greenwood Point area, effective January 1, 2017. These services were previously provided by the City of Bellevue. As part of the assumption, the City of Issaquah hired Ferguson Waterworks to upgrade all the meters from manual to smart point meters. Ferguson began the replacement process in April 2017 with completion expected in August 2017.

On April 3, 2017, the City sold the Mallard Bay property. With this sale, the LID #24 assessment, which was reclassified in 2015 as a General Obligation of the City, and the ULID with Sammamish Plateau Water and Sewer District were paid in full from the sale proceeds.

On February 8, 2017, the City of Issaquah awarded a construction contract for the construction of the SE 62nd Street Extension project. The contract was awarded to Quigg Bros, Inc. in the amount of \$23,078,983. This project will provide a new roadway connecting East Lake Sammamish Parkway to Lake Drive including improvements along Lake Drive and a grade separated trail crossing for the East Lake Sammamish trail at SE 62nd Street. The estimated total cost of the project is \$44,042,700. The 62nd St. Extension is a multi-year project that began in 2010 with preliminary design studies concluding in 2014. On October 13, 2014, the City Council approved a development agreement with Costco Wholesale Corporation, which solidified the funding package for the SE 62nd Street Extension. Design and permitting was completed between January 2015 and November 2016. Project construction is expected to take 2 - 3 years to complete, with an anticipated roadway opening for use at the end of 2018.

NOTE 17: PRIOR PERIOD ADJUSTMENTS

The financial statements reflect prior period adjustments made to governmental funds. In 2015, the City overstated property tax revenue and real estate excise tax by \$177,660 and \$99,976; respectively. This impacted General Fund, Debt Service and Capital Project Funds. An additional month of King County tax receipts were recorded in 2015, but were actually 2016 revenue. In addition, accounts receivable and intergovernmental revenue were overstated in 2016 by \$132,733 due to an accrual oversight; which decreased the beginning net position in the Capital Project Funds. A decrease of \$867,135 was made to deferred inflows of resources for the Debt Service Fund for an entry made in a prior year which should not have been reported on the Governmental Funds Balance Sheet. Overall, the impact to the Governmental Funds was an increase of \$1,012,038.

The reclassification of an internal installment note as an interfund loan was recorded in the Debt Service Fund - LID 24 in the amount of \$2,248,840. This decreases the beginning fund balance. The reclassification also impacts the Sewer Fund as the previously reported investment is now reclassified as Advances to other funds on the Proprietary Funds Statement of Net Position. In addition, long-term liabilities and Advance to/from other funds have restated beginning balances.

On May 10, 2017, the City of Issaquah billed Costco Wholesale Corporation for their 48% share of project costs for the North Issaquah Roadway Improvement projects for the period of January 1, 2010 through March 31, 2017. A prior period adjustment of \$3,908,505 was recorded to reflect the amount of the costs incurred and billed from January 1, 2010 through December 31, 2015 for project expenditures on E. Lake Sammamish Parkway and SE 62nd Street projects.

In the Proprietary funds, a prior period adjustment was made to correct a 2015 transaction between the Sewer Fund and Stormwater Fund. The adjustment of \$426,240 reduces the net position for Sewer Fund and increases the net position for Stormwater Fund. These prior period adjustments appear on the Statement of Revenues, Expenses, and Changes in Position.

Required Supplementary Information
December 31, 2016

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

	Fiscal Year Ending		
	12/31/2014	12/31/2015	12/31/2016
Determination of Annual Required Contribution			
Normal Cost	\$ -	\$ -	\$ -
Amortization of Unfunded Actuarial Accrued Liability	193,889	258,462	236,278
Annual Required Contribution	193,889	258,462	236,278
Determination of Net OPEB Obligation			
Annual Required Contribution	193,889	258,462	236,278
Adjustment to Annual Required Contribution	(18,746)	(23,852)	(31,786)
Annual OPEB Cost	175,143	234,610	204,492
Contributions Made	72,915	75,750	113,430
Increase in Net OPEB Obligation	102,228	158,860	91,062
Net OPEB Obligation - beginning	375,379	477,607	636,467
Net OPEB Obligation - ending	\$ 477,607	\$ 636,467	\$ 727,529

**Required Supplementary Information
December 31, 2016**

Retiree Medical & Long-term Care Benefits
for LEOFF 1 Employees
December 31, 2016

GASB Statements No. 43 and No. 45
Schedule of Funding Progress

Valuation Date	Actuarial value of assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2014	\$ -	\$ 2,155,738	\$ 2,155,738	0.00%	N/A	N/A
December 31, 2015	\$ -	\$ 2,873,680	\$ 2,873,680	0.00%	N/A	N/A
December 31, 2016	\$ -	\$ 2,627,025	\$ 2,627,025	0.00%	N/A	N/A

GASB Statements No. 45
Schedule of Employer Contributions

Year Ended 12/31	Employer Contribution	Annual Required Contribution (ARC)	% of ARC Contributed
2014	\$ 72,915	\$ 193,889	37.61%
2015	\$ 75,750	\$ 258,462	29.31%
2016	\$ 113,430	\$ 236,278	48.01%

Required Supplementary Information
December 31, 2016

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2016

Last Ten Years*

	2015	2016
Employer's proportion of the net pension liability (asset)	0.146292%	0.136550%
Employer's proportionate share of the net pension liability	\$ 7,652,432	\$ 7,333,378
Employer's covered employee payroll	\$ 118,697	\$ 71,832
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	6447.03%	10209.07%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

* Information available for 2015 and 2016 only

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2016

Last Ten Years*

	2015	2016
Employer's proportion of the net pension liability (asset)	0.178975%	0.166677%
Employer's proportionate share of the net pension liability	\$ 6,394,879	\$ 8,392,055
Employer's covered employee payroll	\$ 15,890,631	\$ 17,787,071
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.24%	47.18%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

* Information available for 2015 and 2016 only

Required Supplementary Information
December 31, 2016

Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2016
Last Ten Years*

	2015	2016
Employer's proportion of the net pension liability (asset)	0.014498%	0.014493%
Employer's proportionate share of the net pension liability	\$ (174,733)	\$ (149,319)
Employer's covered employee payroll	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	127.36%	123.74%

* Information available for 2015 and 2016 only

Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2016
Last Ten Years*

	2015	2016
Employer's proportion of the net pension liability (asset)	0.127854%	0.116006%
Employer's proportionate share of the net pension liability	\$ (1,314,083)	\$ (674,726)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (868,873)	\$ (439,872)
Total	\$ (1,485,531)	\$ (1,114,598)
Employer's covered employee payroll	\$ 3,710,330	\$ 3,982,566
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	111.67%	106.04%

* Information available for 2015 and 2016 only

Required Supplementary Information
December 31, 2016

Schedule of Proportionate Share of the Net Pension Liability
PSERS
As of June 30, 2016
Last Ten Years*

	2015	2016
Employer's proportion of the net pension liability (asset)	0.224063%	0.201567%
Employer's proportionate share of the net pension liability	\$ 40,896	\$ 85,662
Employer's covered employee payroll	\$ 665,628	\$ 753,428
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	6.14%	11.37%
Plan fiduciary net position as a percentage of the total pension liability	95.08%	90.41%

* Information available for 2015 and 2016 only

Required Supplementary Information
December 31, 2016

Schedule of Employer Contributions
PERS 1
As of December 31, 2016
Last Ten Years *

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 8,530	\$ 7,390
Contributions in relation to the statutorily or contractually required contributions	<u>(8,530)</u>	<u>(7,390)</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 85,853	\$ 66,102
Contributions as a percentage of covered employee payroll	9.94%	11.18%

* Information available for 2015 and 2016 only

Schedule of Employer Contributions
PERS 2/3
As of December 31, 2015
Last Ten Years *

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 1,643,717	\$ 1,797,417
Contributions in relation to the statutorily or contractually required contributions	<u>(1,643,717)</u>	<u>(1,797,417)</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 16,273,654	\$ 16,130,270
Contributions as a percentage of covered employee payroll	10.10%	11.14%

* Information available for 2015 and 2016 only

Required Supplementary Information
December 31, 2016

Schedule of Employer Contributions
LEOFF 2
As of December 31, 2016
Last Ten Years *

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 188,820	\$ 186,501
Contributions in relation to the statutorily or contractually required contributions	<u>(188,820)</u>	<u>(186,501)</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 3,579,583	\$ 3,565,815
Contributions as a percentage of covered employee payroll	5.27%	5.23%

* Information available for 2015 and 2016 only

Schedule of Employer Contributions
PSERS
As of December 31, 2016
Last Ten Years *

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 78,714	\$ 80,836
Contributions in relation to the statutorily or contractually required contributions	<u>(78,714)</u>	<u>(80,836)</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 790,135	\$ 700,480
Contributions as a percentage of covered employee payroll	9.96%	11.54%

* Information available for 2015 and 2016 only

City of Issaquah
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note	
				From Pass- Through Awards	From Direct Awards	Total			
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	COPS Grant	-	25,740	25,740	-	1, 2, and 3	
				-	25,740	25,740	-		
				Total Public Safety Partnership and Community Policing Grants:					
Criminal Division, Department Of Treasury	Equitable Sharing Program	16.922	WA017600	4,565	-	4,565	-	1, 2, and 3	
				4,565	-	4,565	-		
				Total Equitable Sharing Program:					
Highway Planning and Construction Cluster									
Federal Highway Administration (FHWA), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8153 STPUL- 1915(009)	1,102,199	-	1,102,199	-	1, 2, and 3	
Federal Highway Administration (FHWA), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA 7984 BRM- 1408(002)	90,712	-	90,712	-	1, 2, and 3	
				1,192,911	-	1,192,911	-		
				Total Highway Planning and Construction Cluster:					
Highway Safety Cluster									
Washington Traffic Safety Commission	State & Community Highway Safety	20.600	Target Zero-It Takes Five To Stay Alive	269	-	269	-	1, 2, and 3	
Washington Traffic Safety Commission	State & Community Highway Safety	20.600	Seatbelt Emphasis	969	-	969	-	1, 2, and 3	
				1,238	-	1,238	-		
				Total Highway Safety Cluster:					
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services	Drug-Free Communities Support Program Grants	93.276	5H79SP019727- 03	-	131,539	131,539	-	1, 2, and 3	
				-	131,539	131,539	-		
				Total Drug-Free Communities Support Program Grants:					
				Total Federal Awards Expended: \$ 1,198,714 \$ 157,279 \$ 1,355,993					

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, 2016

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

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

Note 3 - The City of Issaquah did not charge any indirect costs and 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

King County

January 1, 2016 through December 31, 2016

This schedule presents the corrective action planned by the auditee 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). The information in this schedule is the representation of the City of Issaquah.

Finding ref number: 2016-001	Finding caption: The City's controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.
Name, address, and telephone of auditee contact person: Beth Anne Wroe, Deputy Finance Director P.O. Box 1307 Issaquah, WA 98027 (425) 837-3056	
Corrective action the auditee plans to take in response to the finding: <i>The City continues to improve processes and procedures over the preparation and review of the financial statements to ensure their accuracy. The Finance Director has updated the City's financial management policy and is currently working on updating the related financial procedures to ensure adequate internal controls are in place over financial statement preparation and review. As well as, requiring staff training on GASB standards, pronouncements and financial statement preparation, revising audit work paper tools and fully implementing the ERP CAFR Builder feature.</i>	
Anticipated date to complete the corrective action: September 30, 2018	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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