



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Mercer Island

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

Published February 22, 2021

Report No. 1027809



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

February 22, 2021

Council
City of Mercer Island
Mercer Island, Washington

Report on Financial Statements

Please find attached our report on the City of Mercer Island's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on the Financial Statements	6
Financial Section.....	9
About the State Auditor's Office.....	105

INDEPENDENT AUDITOR'S REPORT

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 Mercer Island January 1, 2019 through December 31, 2019

Council
City of Mercer Island
Mercer Island, 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 Mercer Island, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 16, 2021.

As discussed in Note 21 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 21.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

February 16, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Mercer Island January 1, 2019 through December 31, 2019

Council
City of Mercer Island
Mercer Island, 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 Mercer Island, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

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 Mercer Island, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 21 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 21. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2021 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

February 16, 2021

FINANCIAL SECTION

City of Mercer Island January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Balance Sheet – Governmental Funds – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
– 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2019

Statement of Cash Flows – Proprietary Funds – 2019

Statement of Net Position – Fiduciary Funds – 2019

Statement of Changes in Net Position – Fiduciary Funds – 2019

Notes to the Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– General Fund – 2019

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– Street Fund – 2019

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, PSERS,
LEOFF 1, LEOFF 2 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS, LEOFF 1, LEOFF 2 –
2019

GASB 67 Schedule of Changes in Net Pension Liability and Related Ratios – Firefighters
Pension Fund – 2019

GASB 67 Money-Weighted Rate of Return – Firefighters Pension Fund – 2019

GASB 75 Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1
Retiree Medical and Long-Term Care Benefits – 2019

Notes to Required Supplementary Information – 2019

**City of Mercer Island
Management's Discussion and Analysis
For the Year Ended December 31, 2019**

The discussion and analysis of the City of Mercer Island's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2019. The intent of this discussion and analysis is to look at the City's financial performance as a whole. We encourage readers to consider the information presented here in conjunction with the basic financial statements to enhance their understanding of the City's financial performance. For comparison purposes, the 2018 fiscal year data is also included in the discussion.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2019 are as follows:

- The assets and deferred outflow of resources of the City of Mercer Island exceeded its liabilities and deferred inflows of resources at the close of the 2019 fiscal year by \$236,411,321 (*net position*). Of this amount, \$29,991,705 represents unrestricted net position, which may be used to meet the City's business type and governmental activities ongoing obligations.
- The City of Mercer Island's total net position increased \$6,737,077 in 2019 compared to the prior fiscal year. The overall increase in net position is primarily the result of the accumulation of funds for future utility infrastructure improvement projects and the underspending of planned capital outlays in the business type funds.
- At the close of 2019, the City's governmental funds reported combined fund balances of \$21,620,903, a decrease of \$222,138 relative to 2018. Approximately 35% of this amount (\$7,556,857) is available for spending at the City's discretion (*unassigned fund balance*). All of the unassigned fund balance is reported in the General Fund, and \$4,129,165 of this amount has been designated by the City Council as a contingency reserve.
- At the end of 2019, unrestricted fund balance (the total of *committed*, *assigned*, and *unassigned* components of *fund balance*) for the General Fund was \$10,623,529, or approximately 36% of total General Fund expenditures.
- The City of Mercer Island's total outstanding long-term debt at the end of 2019 was \$12,667,404, which represents a decrease of \$1,939,952 from the end of 2018. During 2019, the City redeemed \$1,365,721 in general obligation bonds, \$171,473 in capital lease obligations, and \$402,757 in loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the City of Mercer Island's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements.

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

The *statement of net position* presents financial 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 of Mercer Island is improving or deteriorating.

The *statement of activities* presents information showing how the City of Mercer Island's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from 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, streets and trails, youth and family services, development services, and culture and recreation. The business-type activities of the City include a water utility, a sewer utility, and a storm water utility.

The government-wide financial statements can be found in the basic financial statements section of this report.

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 Mercer Island, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Mercer Island currently maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Street Fund and the Capital Improvement Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The basic governmental fund financial statements can be found in the basic financial statement section of this report.

Proprietary Funds. The City of Mercer Island maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility, sewer utility, and storm water utility. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the maintenance and replacement of fleet vehicles and the maintenance and replacement of technology assets. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for all three utilities, which are considered to be major funds of the City. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found in the basic financial statement section of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements, because the resources of those funds are not available to support the City of Mercer Island's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Mercer Island maintains two different types of fiduciary funds. The *Pension Trust Fund* is used to report resources held in trust for retirees covered by the pre-LEOFF 1 Firemen's Pension Fund. The *Agency Fund* reports resources held by the City in a custodial capacity for individuals.

The fiduciary fund financial statements can be found in the basic financial statement section of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents *required supplementary information* concerning the City of Mercer Island's obligation to provide pension and OPEB benefits to its employees.

GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

The net position of the City as of December 31, 2019 and December 31, 2018 is summarized and analyzed below. As noted earlier, net position over time may serve as a useful indicator of a government's financial position.

City of Mercer Island's Net Position

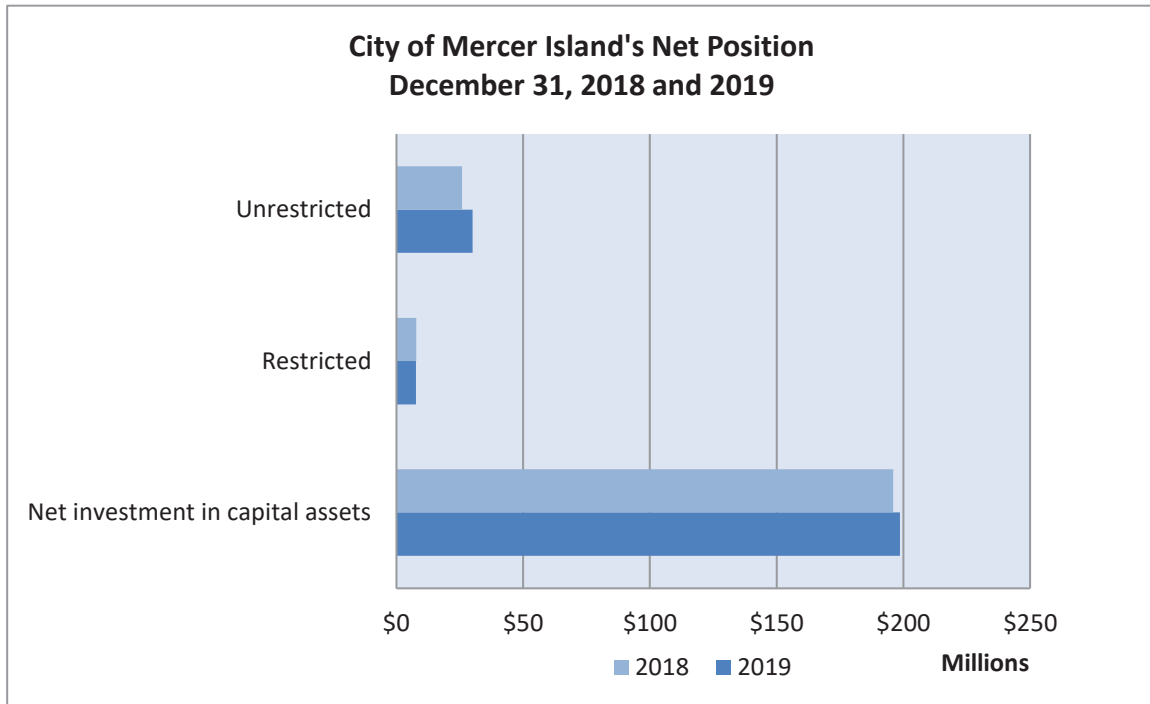
	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 28,741,667	\$ 28,764,499	\$ 26,823,076	\$ 23,855,690	\$ 55,564,743	\$ 52,620,189
Net Pension Asset	6,400,897	6,350,974	-	-	6,400,897	6,350,974
Land	108,789,823	106,789,823	203,992	203,992	108,993,815	106,993,815
Capital assets net of accumulated depreciation	52,238,647	48,340,064	49,283,713	49,568,582	101,522,360	97,908,646
Construction in progress	181,737	5,348,914	606,298	261,071	788,035	5,609,985
Total assets	\$ 196,352,771	\$ 195,594,274	\$ 76,917,078	\$ 73,889,335	\$ 273,269,849	\$ 269,483,609
Deferred Outflow of Resources						
Deferred amount on refunding Pensions	\$ 29,130	38,840	280,647	308,712	\$ 309,777	347,552
Total deferred outflow of resources	\$ 2,382,202	1,863,995	299,157	293,149	2,681,359	2,157,144
	\$ 2,411,332	\$ 1,902,835	\$ 579,804	\$ 601,861	\$ 2,991,136	\$ 2,504,696
Liabilities						
Current Liabilities	\$ 2,952,307	\$ 3,332,574	\$ 1,737,451	\$ 2,232,552	\$ 4,689,758	5,565,126
Non-Current Liabilities	20,439,277	20,939,743	9,641,586	10,987,262	30,080,863	31,927,005
Total liabilities	\$ 23,391,584	\$ 24,272,317	\$ 11,379,037	\$ 13,219,814	\$ 34,770,621	\$ 37,492,131
Deferred Inflow of Resources						
Unavailable revenue	\$ 189,597	196,375	-	-	\$ 189,597	196,375
Pensions	4,315,231	4,122,016	574,214	503,537	4,889,445	4,625,553
Total deferred inflow of resources	\$ 4,504,828	\$ 4,318,391	\$ 574,214	\$ 503,537	\$ 5,079,042	\$ 4,821,928
Net Position						
Net investment in capital assets	\$ 158,102,183	\$ 156,390,283	\$ 40,563,753	\$ 39,553,648	\$ 198,665,936	195,943,931
Restricted	7,753,681	7,855,835	-	-	7,753,681	7,855,835
Unrestricted	5,011,826	4,660,282	24,979,878	21,214,197	29,991,705	25,874,479
Total net position	\$ 170,867,690	\$ 168,906,400	\$ 65,543,631	\$ 60,767,845	\$ 236,411,321	\$ 229,674,245

For the City of Mercer Island, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$236,411,321 at the close of 2019. The largest component of the City's total net position at \$198,665,936 is net investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, and infrastructure), which subtracts out any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities.

Approximately 3.3%, or \$7,753,681, of the City's total net position represents resources that are subject to external restrictions on how they may be used. The decrease in restricted net position in 2019, as compared to 2018, is primarily the result of a decrease in real estate excise tax revenues, which are

restricted for capital projects related to streets, pedestrian/bicycle facilities, parks, and public buildings. The remaining 12.7%, or \$29,991,705, of the City's total net position is unrestricted and may be used to meet the government's ongoing obligations. Though it should be noted that \$24,979,878, or 83.3% of unrestricted net position is in the business type activities and can only be used to meet the ongoing obligations of the City's water, sewer and storm water utilities.

At the end of the 2019 fiscal year, the City of Mercer Island had 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 same situation was true for the prior fiscal year.



A more detailed look at the revenues and expenses underlying the changes in the City's net position is presented on the following page. Compared to the prior year, the City's total net position increased \$6.7 million in 2019. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

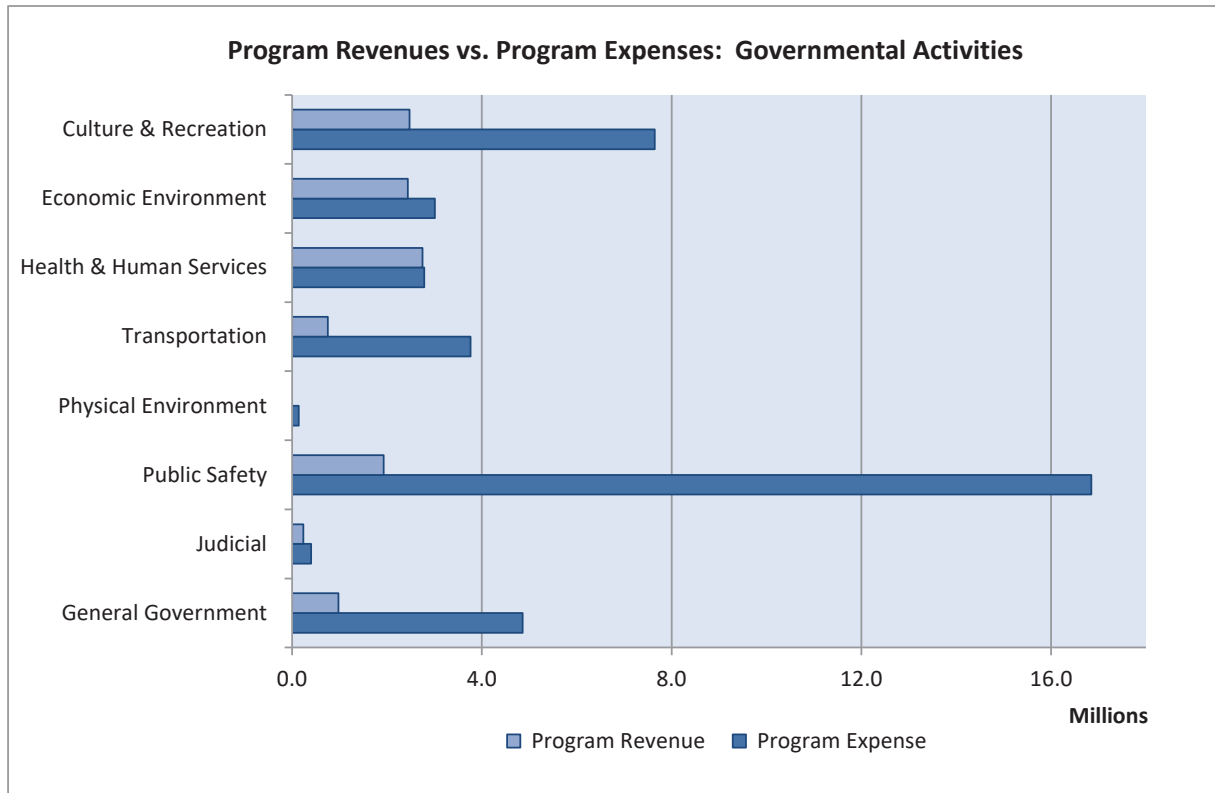
Governmental Activities. At the end of 2019, the City's total net position for governmental activities was \$170,867,690. Governmental activities increased \$1,961,290 in 2019 primarily due to the purchase of an additional land asset.

Comparing 2019 to 2018, total revenues increased slightly by \$33.8 thousand or 0.08% as compared to 2018.

Total expenses in 2019 increased \$3.5 million, or 9.76%, over 2019. Of particular note, public safety expenditures increased \$4.1 million or 32.4% as compared to 2018. The primary driver of this increase was the \$2.0 million increase to the total OPEB Liability for LEOFF 1 retirees.

City of Mercer Island's Changes in Net Position

	Governmental Activities		Business type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Charges for services	\$ 10,407,468	\$ 9,519,914	\$ 20,513,576	\$ 20,183,364	\$ 30,921,044	\$ 29,703,278
Operating grants and contributions	1,162,915	934,477	106,845	30,202	1,269,760	964,679
Capital grants and contributions	186,873	840,902	-	-	186,873	840,902
Property tax	13,725,516	13,387,659			13,725,516	13,387,659
Sales tax	5,257,123	5,251,610			5,257,123	5,251,610
B&O tax	4,864,885	5,414,598			4,864,885	5,414,598
Real estate excise tax	3,558,523	3,825,548			3,558,523	3,825,548
Other taxes	1,265,504	1,417,079			1,265,504	1,417,079
Investment earnings	632,758	418,845	619,465	346,437	1,252,223	765,282
Total revenues	\$ 41,061,565	\$ 41,010,632	\$ 21,239,886	\$ 20,560,003	\$ 62,301,451	\$ 61,570,635
Expenses:						
General government	\$ 4,857,520	\$ 5,036,841			\$ 4,857,520	\$ 5,036,841
Judicial	399,479	411,825			399,479	411,825
Public safety	16,851,248	12,723,888			16,851,248	12,723,888
Physical environment	136,441	53,594			136,441	53,594
Transportation	3,761,140	3,780,504			3,761,140	3,780,504
Health & human services	2,786,372	2,682,312			2,786,372	2,682,312
Economic environment	3,008,051	3,186,381			3,008,051	3,186,381
Culture and recreation	7,643,554	8,041,495			7,643,554	8,041,495
Interest on long term debt	66,603	80,756	231,976	250,124	298,579	330,880
Water			5,810,521	5,753,369	5,810,521	5,753,369
Sewer			8,364,513	8,171,950	8,364,513	8,171,950
Stormwater			1,669,650	1,895,418	1,669,650	1,895,418
Total expenses	\$ 39,510,408	\$ 35,997,597	\$ 16,076,660	\$ 16,070,861	\$ 55,587,068	\$ 52,068,457
Increase (decrease) in net position before transfers, special and extraordinary items	\$ 1,551,157	\$ 5,013,035	\$ 5,163,226	\$ 4,489,142	\$ 6,714,383	\$ 9,502,178
Disposition of capital assets	22,692	30,584	-	-	22,692	30,584
Transfers	387,440	67,775	(387,440)	(65,775)	-	2,000
Increase (decrease) in net position	1,961,290	5,111,394	4,775,787	4,423,367	6,737,077	9,534,762
Net position beginning of year	168,906,400	171,247,406	60,767,845	56,344,479	229,674,245	227,591,885
Prior period adjustment	-	(7,452,400)	-	-	-	(7,452,400)
Net position, end of year	\$ 170,867,690	\$ 168,906,400	\$ 65,543,631	\$ 60,767,845	\$ 236,411,321	\$ 229,674,246



Business-type Activities. At the end of 2019, the City's total net position for business-type activities, encompassing the water, sewer, and storm water utilities, was \$65,543,631. The total net position for business-type activities increased \$4,775,787 in 2019 primarily due to increased rate revenues and lower than expected capital reinvestment expenditures.

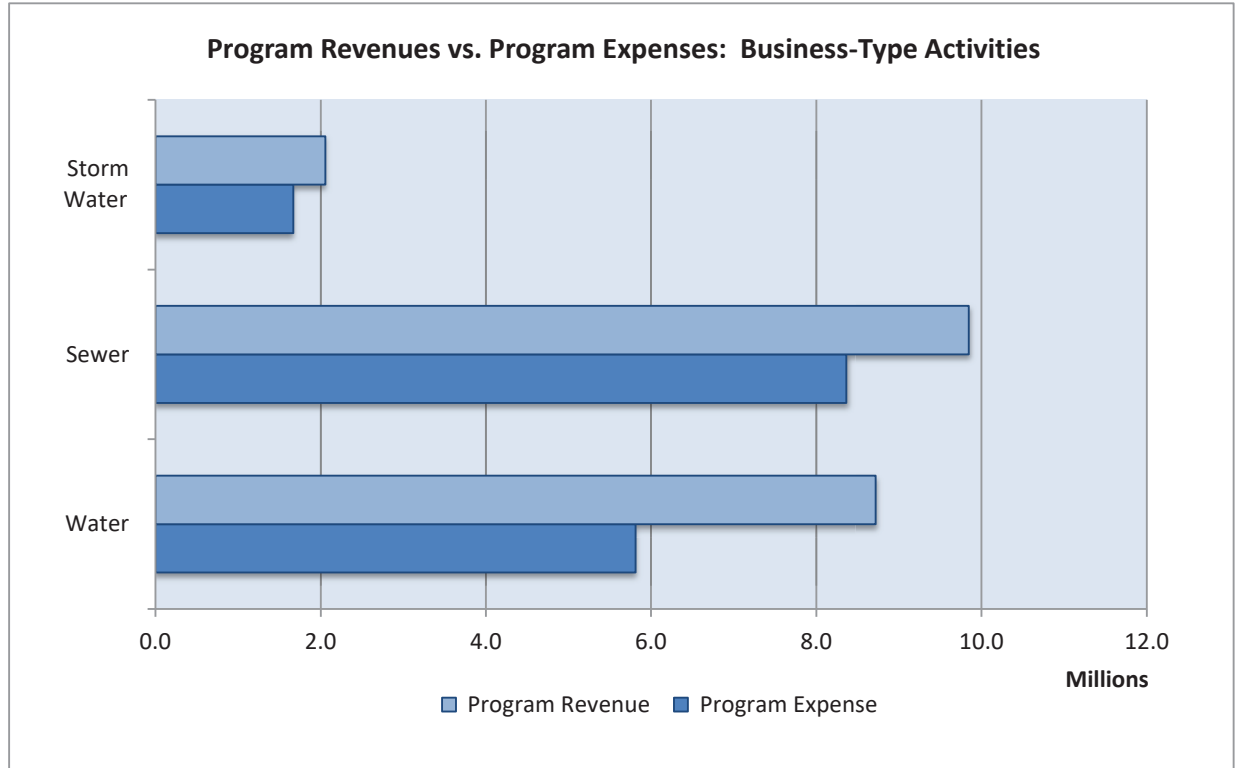
Comparing 2019 to 2018, total operating revenues, which excludes investment earnings and capital grants and contributions, increased \$330,212, or 1.6%, which is primarily attributable to charges for services. Total expenses in 2019 increased \$5,799 compared to 2018.

Additional information about each City utility is provided below:

- **Water Utility** revenue is derived from three sources: 1) bi-monthly service charges, 2) system connection fees, and 3) miscellaneous work orders. The majority of the revenue comes from bi-monthly service charges. The City uses consumption based rates for water. Ratepayers pay a base fee plus a consumption charge according to the number of cubic feet of water used. A ramped rate for usage was built into the rate structure to encourage conservation.
- **Sewer Utility** revenue is derived from two sources: 1) bi-monthly service charges, and 2) system connection fees. The majority of the revenue comes from bi-monthly service charges. Residential sewer rates are charged on a water consumption basis. The utility uses the four most recent winter months to determine the average water consumption for each residence. Commercial accounts are charged based on the actual consumption of water. The bi-monthly service charges have two components: 1) a City charge for sewer maintenance and operations, including transmission of the sewage to the treatment plant; and 2) a King County "pass through" charge for treatment costs. The City collects the latter charge from all sewer customers, remitting the full amount to King County, which provides sewer treatment services

to the City.

- **Storm Water Utility** revenue is derived from bi-monthly service charges, which are based on the amount of impervious surface on the customer's property. A sample of residences was taken when the utility was formed, and the average impervious surface for a residence was determined to be 3,419 sq ft. That is considered one (1) equivalent residential unit (ERU). All residences are charged one ERU on a bi-monthly basis. All other properties are charged based on the actual impervious surface.



FINANCIAL ANALYSIS OF GOVERNMENTAL & PROPRIETARY FUNDS

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use, because it represents that portion of fund balance that is not restricted, committed, or assigned for a specific purpose by an external party, the City itself, or a group or individual that has been delegated authority to assign resources to be used for particular purposes by the Mercer Island City Council.

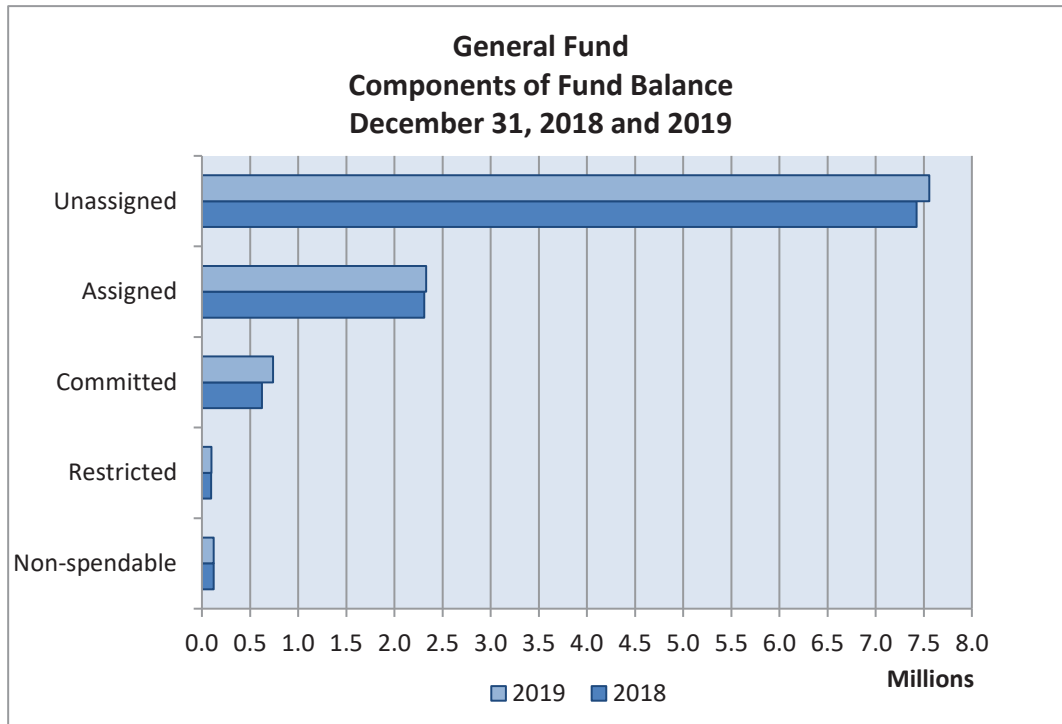
The following analysis is based on the Balance Sheet for Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balance for Governmental Funds.

At the end of 2019 the City's combined ending fund balances for governmental funds amounted to \$21,620,903, which represents a decrease of \$222,138 from the prior year. Of this combined total, \$7,556,857, or 35%, constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of the combined ending fund balances consists of the following: 1) \$406,713 that is *non-spendable* (i.e. not in a spendable form); 2) \$7,145,301 that is *restricted* for particular purposes; 3) \$1,645,753 that is *committed* for particular purposes; and 4) \$4,866,280 that is *assigned* for particular purposes.

Drilling down further, a brief analysis of each of the City's major governmental funds follows for the General Fund and Capital Improvement Fund.

The **General Fund** is the largest operating fund of the City. It accounts for all financial resources and transactions of the City except those required to be accounted for in another fund. Taxes are the primary revenue source for the General Fund. The 2019 ending fund balance was \$10,841,483, which represents an increase of \$268,342. Comparing 2019 to 2018, total revenues increased \$1,254,820, or 4.1%, and total expenditures, excluding transfers out, increased \$1,501,146, or 5.3%.

As a measure of the General Fund's liquidity, unassigned fund balance equals 25.4% of total General Fund expenditures, and total fund balance equals 36.5% of total General Fund expenditures.



The **Street Fund** is a special revenue fund that accounts for the financial resources dedicated to street maintenance and construction. The fund balance at the end of 2019 was \$3,749,933, a 6.7% decrease from the prior year. The primary driver of the decrease in fund balance was a reduction in REET revenue.

The **Capital Improvement Fund** is a capital projects fund that accounts for those financial resources that are used for the acquisition, construction, and preservation of the City's "general government" (i.e. not utility) capital assets and facilities, which include parks, open space, and public buildings. The 2019 ending fund balance was \$4,485,965, which represents an increase of \$866,922, or 24.0%, relative to 2018. This increase in fund balance is mainly due to an increase in the proportionate share of REET revenues and lower than expected capital project spending. Interfund transfers out of the Capital Improvement Fund relate to paying the debt service on non-voted bonds for the Mercer Island Community & Event Center (MICEC). The original bonds that financed the construction of the MICEC were advance refunded in 2013. As a result, the Capital Improvement Fund will continue to realize debt service cost savings.

Other Governmental Funds
Components of Fund Balance
December 31, 2018 and 2019

Fund Balance Component	Street Fund			Capital Improvement Fund			Other Governmental Funds		
	2018	2019	% Change	2018	2019	% Change	2018	2019	% Change
Non-spendable	-	-	N/A	-	-	N/A	285,856	285,856	0.0%
Restricted	3,733,114	3,399,501	-8.9%	3,173,898	3,177,113	0.1%	2,417,275	471,589	-80.5%
Committed	187,052	250,748	N/A	116,604	150,306	N/A	381,274	506,478	32.8%
Assigned	99,684	99,684	0.0%	328,542	1,158,546	252.6%	546,602	1,279,599	134.1%
Unassigned	-	-	N/A	-	-	N/A	-	-	N/A
Total fund balance	4,019,850	3,749,933	-6.7%	3,619,044	4,485,965	24.0%	3,631,008	2,543,523	-29.9%

Proprietary Funds. The City's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail. The total net position of the City's proprietary funds, as well as the change in total net position over the prior year, was addressed above under Business-Type Activities in the Government-Wide Overall Financial Analysis section.

Drilling down further, a brief analysis of each of the City's major proprietary funds follows for the Water Fund, Sewer Fund, and Storm Water Fund. The analysis is based on the Statement of Net Position for Proprietary Funds and the Statement of Revenues, Expenses, and Changes in Net Position for Proprietary Funds.

The **Water Fund** is an enterprise fund that accounts for all operating, maintenance, and capital activities associated with the City's water utility. The 2019 ending net position was \$30,208,792, which represents an increase of \$3,138,498, or 11.6%, relative to 2018. Operating income was \$2,836,607 in 2019, representing an accumulation of funding for capital projects in coming years.

The **Sewer Fund** is an enterprise fund that accounts for all operating, maintenance, and capital activities associated with the City's sewer utility. The 2019 ending net position was \$22,955,935, which represents an increase of \$1,183,838, or 5.4%, relative to 2018. Operating income was \$1,492,221 in 2019, representing an accumulation of funding for capital projects in coming years.

The **Storm Water Fund** is an enterprise fund that accounts for all operating, maintenance, and capital activities associated with the City's storm water utility. The 2019 ending net position was \$12,416,927, which represents an increase of \$432,609, or 3.6%, relative to 2018. Operating income was \$319,221 in 2019, representing an accumulation of funding for capital projects in coming years.

Proprietary Funds
Components of Net Position
December 31, 2018 and 2019

Net Position Component	Water Fund			Sewer Fund			Storm Water Fund		
	2018	2019	% Change	2018	2019	% Change	2018	2019	% Change
Net investment in capital assets	14,957,790	15,576,454	4.1%	16,707,120	17,053,154	2.1%	7,888,738	7,934,145	0.6%
Unrestricted	12,112,505	14,632,337	20.8%	5,064,977	5,902,781	16.5%	4,095,580	4,482,782	9.5%
Total net position	27,070,294	30,208,792	11.6%	21,772,097	22,955,935	5.4%	11,984,318	12,416,927	3.6%

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. The City of Mercer Island budgets on a biennial basis with each biennial budget beginning in an odd numbered year by state law. Comparing the final amended 2019-2020 General Fund budget to the originally adopted budget, total budgeted expenditures and other financing uses decreased by \$2,607,136. Following are the *major* budgetary changes to the originally adopted 2019-2020 **General Fund** budget:

- \$1,255,814 decrease in the first quarter of 2019 to reduce deficit spending;
- \$1,689,600 reduction, primarily in Parks and Recreation, in response to revenue reductions as a result of the impacts of COVID 19;

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital assets. The City of Mercer Island's investment in capital assets for its governmental and business-type activities as of December 31, 2019 amounts to \$211,304,201 (net of accumulated depreciation). It includes land, buildings, improvements, machinery and equipment, infrastructure, construction in progress, and intangibles.

City of Mercer Island's Capital Assets (net of depreciation)

Capital Asset	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2017
Land	\$108,789,823	\$106,789,823	\$203,992	\$203,992	\$108,993,815	\$106,993,815
Buildings	18,937,872	19,735,594	430,048	430,048	19,367,920	20,165,642
Improvements	9,083,748	6,658,742	90,412,420	88,806,118	99,496,168	95,464,860
Machinery & equipment	4,963,471	4,475,361	1,616,455	1,582,705	6,579,926	6,058,066
Infrastructure	17,957,158	16,039,834	-	-	17,957,158	16,039,834
Construction in progress	181,737	5,348,914	606,299	261,071	788,035	5,609,985
Intangibles	1,296,398	1,430,534	18,129	18,129	1,314,527	1,448,663
Accumulated depreciation			(43,193,339)	(41,268,418)	(43,193,339)	(41,268,418)
	\$161,210,207	\$160,478,801	\$50,094,003	\$50,033,645	\$211,304,210	\$210,512,447

Major capital asset events during the 2019-2020 biennium include the following:

- Multiple projects to improve parks and playfields, including Island Crest Park sports field improvements;
- The purchase of a land asset in the Town Center for future site of long term parking;
- The purchase of a CCTV Truck and related software; and
- Continued investment in Utility infrastructure that included mains, hydrants and watercourse improvements.

Those capital assets that are subject to depreciation are depreciated over their useful lives based on the straight-line method.

Additional information on the City of Mercer Island's capital assets can be found in Note 11 (Capital Assets) in the notes to the financial statements.

Long-term debt. At the end of 2019, the City of Mercer Island had total debt outstanding of

\$12,667,404. Of this amount, \$8,785,147 is backed by the full faith and credit of the government. The remainder of the City's long-term obligations comprises capital leases and a Public Works Trust Fund loan. The City of Mercer Island maintains bond ratings with Moody's Investors Service. Moody's upgraded the City's non-voted (i.e. limited tax) general obligation (LTGO) bond rating in February 2017 from Aa1 to Aaa. The City does not have any voted (i.e. unlimited tax) general obligation (UTGO) debt.

City of Mercer Island's Outstanding Long-term Debt

Type of Debt	Governmental		Business-Type		Total	
	2019	2018	2019	2018	2019	2017
General obligation bonds	\$ 2,074,198	\$ 2,892,929	\$ 6,710,948	\$ 7,257,939	\$ 8,785,147	\$ 10,150,868
Capital leases	1,062,956	1,234,429	-	-	1,062,956	1,234,429
Public works loans	-	-	2,819,301	3,222,059	2,819,301	3,222,059
TOTAL	\$ 3,137,154	\$ 4,127,358	\$ 9,530,249	\$ 10,479,998	\$ 12,667,404	\$ 14,607,356

The City has one Public Works Trust Fund loan from the State of Washington. This loan was for sewer capital improvements to the Sewer Lake Line. Debt service on the loan is paid for by sewer utility rates. The City currently has no revenue bonds.

Washington State law limits the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% is for open space/park facilities, and 2.5% is for utilities. Non-voted (i.e. limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of all debt cannot exceed 7.5% of assessed valuation. The City of Mercer Island's debt obligations are substantially below the statutory limits for debt capacity.

Additional information on the City's long term debt can be found in Note 8 (Long-term Debt), Note 9 (Leases), and Note 10 (Changes in Long-term Liabilities) in the notes to the financial statements.

NEXT YEAR'S BUDGET, RATES AND ECONOMIC FACTORS

Mercer Island is an affluent, single-family residential community that is essentially built out. Its real property assessed valuation per square mile is the highest of any city in King County. Also, the per capita income level is more than two times the state average. However, the City has significant financial challenges with annual revenue growth not keeping pace with annual expenditure growth.

For 2019-2020, the General Fund's total revenues were projected to lag total expenditures by \$1.8 million for the biennium. Accordingly, the City had to use \$1.8 million in one-time revenues to balance the 2019-2020 original budget. At the root of the revenue growth problem is property tax, which makes up 39% of the General Fund's total revenues in 2019-2020 and is limited by state law to 1% growth per year plus an allowance for "new construction" (which generates an additional 1% per year on average). Taken together, the effective cap on property tax growth is 2% per year, which puts an unrealistic burden for growth on the City's other major revenues.

In April 2019, staff identified, and the Council approved, \$1.34 million in mostly expenditure reductions to the 2019-2020 General Fund budget.

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow

the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

Consistent with the Governors instructions the City of Mercer Island made the following changes to its operations:

- Suspended all operations at the Mercer Island Community and Events Center including recreation programming and facility rentals.
- Closed all public buildings to the public and limited operations to essential services only.
- Closed the Mercer Island Thrift Shop, suspending all retail operations.

The City incurred immediate revenue reductions with the closure of the Thrift Shop and Parks and Recreation operations impacting both the General Fund and the Youth and Family Services Fund. The City anticipates a decline in sales tax revenues further impacting the General Fund revenues. Immediate actions are being taken to reduce expenditures in both the General Fund and the Youth and Family Services Fund. Phased decisions on expenditure reductions are ongoing as the pandemic response continues throughout 2020.

The City of Mercer Island has a history of excellent financial management practices and prudent fiscal policies that have served the City well over the years. The City has various operating and capital reserves, which have been established to address unanticipated, significant revenue shortfalls or to provide funding for unplanned, significant expenditures. In addition, the City has very little debt, relying on a “pay as you go” approach for most of its capital projects.

REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Mercer Island, Washington, 9611 SE 36th Street, Mercer Island, Washington 98040.

**City of Mercer Island
Statement of Net Position
December 31, 2019**

	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current assets:</i>			
Cash & cash equivalents	\$ 24,948,144	\$ 25,714,567	\$ 50,662,711
Receivables (net)	3,634,644	915,713	4,550,356
Internal balances	38,022	(38,022)	-
Inventories	120,857	230,818	351,674
<i>Noncurrent Assets:</i>			
Net pension asset	6,400,897	-	6,400,897
Capital assets not being depreciated:			
Land	108,789,823	203,992	108,993,815
Construction in progress	181,737	606,298	788,035
Capital assets net of depreciation:			
Buildings, improvements, machinery and equipment.	34,281,489	49,283,713	83,565,202
Infrastructure	17,957,158	-	17,957,158
Total assets	<u>\$ 196,352,771</u>	<u>\$ 76,917,078</u>	<u>\$ 273,269,849</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	\$ 29,130	\$ 280,647	\$ 309,777
Pensions	2,382,202	299,157	2,681,359
Total deferred outflows of resources	<u>\$ 2,411,332</u>	<u>\$ 579,804</u>	<u>\$ 2,991,136</u>
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued exp.	\$ 1,354,750	\$ 764,954	\$ 2,119,704
Accrued interest payable	27,239	24,347	51,586
Bonds, notes, loans payable	971,498	927,757	1,899,255
Other current liabilities	113,147	20,393	133,540
Unearned revenue - other	485,673	-	485,673
<i>Noncurrent liabilities:</i>			
Net pension liability	4,759,901	881,292	5,641,194
OPEB Liability	12,097,772	-	12,097,772
Due in more than one year	3,581,604	8,760,294	12,341,898
Total liabilities	<u>\$ 23,391,584</u>	<u>\$ 11,379,037</u>	<u>\$ 34,770,621</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 189,597	\$ -	\$ 189,597
Pensions	4,315,231	574,214	4,889,445
Total deferred inflows of resources	<u>\$ 4,504,828</u>	<u>\$ 574,214</u>	<u>\$ 5,079,042</u>
NET POSITION			
Net investment in capital assets	\$ 158,102,183	\$ 40,563,753	\$ 198,665,936
Restricted for:			
Debt service	23,981	-	23,981
Investment in parks, open space and buildings	3,427,420	-	3,427,420
Streets, paths and trails	3,749,934	-	3,749,934
Criminal Justice	64,680	-	64,680
Court trust and jails	97,097	-	97,097
Emergency Assistance	100,044	-	100,044
Expendable permanent fund	4,669	-	4,669
Non expendable permanent fund	285,856	-	285,856
Unrestricted	5,011,826	24,979,878	29,991,705
Total net position	<u>\$ 170,867,690</u>	<u>\$ 65,543,631</u>	<u>\$ 236,411,321</u>

City of Mercer Island
Statement of Activities
For the Year Ending December 31, 2019

	Program Revenues				Net (Expense) Revenue & Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS							
Primary Government							
Governmental activities:							
Judicial	\$ 399,479	\$ 234,253	\$ 2,130	\$ -	\$ (163,096)		\$ (163,096)
General government	4,857,520	802,487	171,648	-	(3,883,385)		(3,883,385)
Public safety	16,851,248	1,612,037	333,416	-	(14,905,795)		(14,905,795)
Physical environment	136,441	-	-	-	(136,441)		(136,441)
Transportation	3,761,140	708,743	40,546	-	(3,011,851)		(3,011,851)
Human services	2,786,372	2,235,671	513,485	-	(37,216)		(37,216)
Economic environment	3,008,051	2,424,941	15,000	-	(568,110)		(568,110)
Culture & recreation	7,643,554	2,389,336	86,690	186,873	(4,980,655)		(4,980,655)
Interest on long-term debt	66,603	-	-	-	(66,603)	(231,976)	(298,579)
Total governmental activities	\$ 39,510,408	\$ 10,407,468	\$ 1,162,915	\$ 186,873	\$ (27,753,152)	\$ (231,976)	\$ (27,985,128)
Business-type Activities:							
Water	\$ 5,810,521	\$ 8,689,642	\$ 29,195	\$ -		\$ 2,908,316	\$ 2,908,316
Sewer	8,364,513	9,845,534	-	-		1,481,021	1,481,021
Other utilities	1,669,650	1,978,400	77,650	-		386,400	386,400
Total business type activities	15,844,684	20,513,576	106,845	-		4,775,737	4,775,737
Total primary government	\$ 55,355,092	\$ 30,921,044	\$ 1,269,760	\$ 186,873	\$ (27,753,152)	\$ 4,543,761	\$ (23,209,390)
GENERAL REVENUES:							
Property taxes					\$ 13,725,516	\$ -	\$ 13,725,516
Sales taxes					5,257,123		5,257,123
B&O taxes					4,864,885		4,864,885
Real estate excise taxes					3,558,523		3,558,523
Other taxes					1,265,504		1,265,504
Investment earnings					632,758	619,465	1,252,223
Gain (loss) on disposal of capital assets					22,692	-	22,692
TRANSFERS					387,440	(387,440)	(0)
Total general revenues & transfers					\$ 29,714,441	\$ 232,025	\$ 29,946,467
Change in net position					\$ 1,961,290	\$ 4,775,787	\$ 6,737,077
Net position - beginning					168,906,400	60,767,845	229,674,245
Net position - ending					\$ 170,867,690	\$ 65,543,631	\$ 236,411,321

**City of Mercer Island
Balance Sheet
Governmental Funds
December 31, 2019**

	General Fund	Street	Capital Improve	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash & cash equivalents	\$ 9,836,278	\$ 3,628,547	\$ 4,477,854	\$ 2,179,096	\$ 20,121,775
Receivables (net)	2,348,743	371,972	180,572	484,518	3,385,804
Inventories	120,857	-	-	-	120,857
Total assets	12,305,877	4,000,518	4,658,426	2,663,614	23,628,436
LIABILITIES					
<i>Current Liabilities:</i>					
Accounts payable and accrued exp.	740,925	188,972	172,460	116,757	1,219,114
Unearned revenue-other	420,725	61,613	-	3,335	485,673
Deposits payable	113,147	-	-	-	113,147
Total liabilities	1,274,798	250,585	172,460	120,091	1,817,935
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	189,597	-	-	-	189,597
Total deferred inflows of resources	189,597	-	-	-	189,597
FUND BALANCE					
Non-Spendable	120,857	-	-	285,856	406,713
Restricted	97,097	3,399,501	3,177,113	471,589	7,145,301
Committed	738,221	250,748	150,306	506,478	1,645,753
Assigned	2,328,450	99,684	1,158,546	1,279,599	4,866,280
Unassigned	7,556,857	-	-	-	7,556,857
Total fund balance	10,841,483	3,749,933	4,485,965	2,543,523	21,620,903
Total liabilities, deferred inflows of resources, and fund balances	\$ 12,305,877	\$ 4,000,518	\$ 4,658,426	\$ 2,663,614	\$ 23,628,436

Total Fund Balance for Governmental Funds	\$ 21,620,903
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	156,708,055
Other long-term assets are not available to pay for current period expenditures are deferred in the funds	9,007,597
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(24,385,243)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	
These assets and liabilities are included in governmental activities in the statement of net position.	7,916,376
Net position of governmental activities	\$ 170,867,690
See also NOTE 2 for detailed reconciliation.	

City of Mercer Island
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2019

	General	Street	Capital Imp	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 12,522,800	-	\$ 359,912	\$ 615,500	13,498,212
Sales	5,257,123	-	-	-	5,257,123
B&O	4,864,885	-	-	-	4,864,885
REET	-	1,601,198	1,957,325	-	3,558,523
Licenses & permits	2,684,589	-	-	-	2,684,589
Intergovernmental	573,967	1,055,865	181,073	570,191	2,381,097
Charges for services	4,230,869	63,696	133,702	2,235,671	6,663,938
Fines & forfeitures	300,893	-	-	-	300,893
Investment earnings	614,433	-	-	7,373	621,806
Other revenues	452,096	546	5,800	438,071	896,513
Total revenues	31,501,654	2,721,305	2,637,813	3,866,807	40,727,579
EXPENDITURES					
Current:					
Judicial	437,031	-	-	-	437,031
General government	4,844,020	-	88,590	43,643	4,976,253
Public safety	14,555,206	-	182,318	48,027	14,785,552
Physical environment	67,938	-	-	-	67,938
Transportation	920,390	1,180,209	-	454,262	2,554,860
Health & human services	12,522	-	7,911	2,972,661	2,993,094
Economic environment	3,344,713	-	-	-	3,344,713
Culture & recreation	5,515,408	-	1,290,443	44,186	6,850,038
Debt service:					
Principal	-	-	-	780,000	780,000
Interest	-	-	-	61,800	61,800
Capital outlay:					
General government	-	-	-	16,565	16,565
Public safety	-	-	-	60,627	60,627
Transportation	18,497	1,766,534	-	2,044,478	3,829,510
Economic environment	-	-	-	71,237	71,237
Culture & recreation	-	-	113,613	-	113,613
Total expenditures	29,715,725	2,946,743	1,682,876	6,597,488	40,942,831
Excess (deficiency) of revenues over (under) expenditures	1,785,929	(225,437)	954,937	(2,730,681)	(215,252)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	50,085	1,643,195	1,693,280
Transfers out	(1,517,587)	(44,479)	(138,100)	-	(1,700,166)
Total other financing sources (uses)	(1,517,587)	(44,479)	(88,015)	1,643,195	(6,886)
Net change in fund balances	268,342	(269,916)	866,922	(1,087,486)	(222,138)
Fund balances - Beginning	10,573,141	4,019,850	3,619,044	3,631,008	21,843,041
Fund balances - Ending	\$ 10,841,483	3,749,933	\$ 4,485,965	\$ 2,543,523	21,620,903

The Notes to the Financial Statements are an integral part of this statement.

City of Mercer Island
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2019

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

Net changes in fund balances for governmental funds	(222,138)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	253,668
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Current year depreciation is:	
Capital Outlays	4,091,552
Depreciation Expense	(3,035,101)
	<u>1,056,451</u>
	1,056,451
The issuance of long term debt is a resource and the repayment of bond principal is an expenditure in governmental funds. These transactions effect liabilities in the Statement of net position.	
Debt Principal repayments and related costs.	810,445
Expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditure in governmental funds. Total:	(534,730)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net income/(loss) of most of these activities is reported with governmental activities.	597,594
Change in net position of governmental activities	<u>\$ 1,961,290</u>
See also NOTE 2 for detailed reconciliation.	

The Notes to the Financial Statements are an integral part of this statement.

City of Mercer Island
Statement of Net Position
Proprietary Funds
December 31, 2019

	Business-type Activities--Enterprise Funds				Governmental Activities-Internal Service Funds
	Water Fund	Sewer Fund	Storm Drain Fund	Total Enterprise Funds	
ASSETS					
Current assets:					
Cash & cash equivalents	\$ 15,114,714	\$ 5,807,607	\$ 4,792,245	\$ 25,714,567	\$ 4,826,369
Receivables (net)	270,997	528,320	116,395	915,713	556
Inventories	219,894	10,924	-	230,818	-
Noncurrent assets:					
Capital assets:					
Land	106,125	97,866	-	203,992	-
Construction in progress	92,846	433,898	79,554	606,298	-
Depreciable assets (net of accumulated depreciation)	16,343,929	25,085,193	7,854,591	49,283,713	4,502,152
Total assets	32,148,506	31,963,809	12,842,786	76,955,100	9,329,077
DEFERRED OUTFLOW of RESOURCES					
Deferred amount on refunding	\$ -	280,647	-	280,647	-
Pensions	127,935	95,928	75,294	299,157	52,916
Total Deferred Outflow of Resources	127,935	376,575	75,294	579,804	52,916
LIABILITIES					
Current liabilities:					
Accounts payable and accrued exp.	\$ 402,964	\$ 280,062	\$ 81,927	\$ 764,954	\$ 135,636
Accrued interest payable	3,096	21,251	-	24,347	23,514
Bonds, notes, loans payable	70,000	857,757	-	927,757	176,498
Deposits payable	8,700	-	11,693	20,393	-
Noncurrent liabilities:					
Compensated absences	63,995	52,608	41,199	157,802	24,079
Bonds, notes, loans payable	896,446	7,706,046	-	8,602,492	886,459
Net pension liability	376,885	282,596	221,811	881,292	155,885
Total liabilities	1,822,086	9,200,321	356,630	11,379,037	1,402,071
DEFERRED INFLOW of RESOURCES					
Pensions	\$ 245,563	184,128	144,523	574,214	101,568
Total Deferred Inflow of Resources	245,563	184,128	144,523	574,214	101,568
NET POSITION					
Net investment in capital assets	\$ 15,576,454	\$ 17,053,154	\$ 7,934,145	\$ 40,563,753	\$ 3,439,195
Unrestricted	14,632,337	5,902,781	4,482,782	25,017,900	4,439,159
Total net position	\$ 30,208,792	\$ 22,955,935	\$ 12,416,927	\$ 65,581,654	\$ 7,878,354
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				(38,022)	
Net position of business-type activities				<u>\$ 65,543,631</u>	

The Notes to the Financial Statements are an integral part of this statement

City of Mercer Island
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year ended December 31, 2019

	Water Fund	Sewer Fund	Storm Drain Fund	Total Enterprise Funds	Governmental Activities-Internal Service Funds
OPERATING REVENUES					
Charges for Services:					
Charge for services	\$ 8,630,778	\$ 9,845,534	\$ 1,978,400	\$ 20,454,712	\$ 2,085,285
Total operating revenues	8,630,778	9,845,534	1,978,400	20,454,712	2,085,285
OPERATING EXPENSES					
Maintenance & operations	2,260,373	1,992,401	1,396,251	5,649,026	1,435,502
Water purchased for resale	1,922,076	-	-	1,922,076	-
Metro sewer charges	-	4,797,727	-	4,797,727	-
Administrative and general	337,729	286,018	-	623,747	-
Insurance	124,077	63,993	13,635	201,705	34,505
State utility taxes	444,569	211,641	31,250	687,460	-
Depreciation	705,347	1,001,531	218,043	1,924,922	800,635
Total operating expenses	5,794,171	8,353,313	1,659,179	15,806,663	2,270,642
Operating income (loss)	2,836,607	1,492,221	319,221	4,648,049	(185,358)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	348,755	150,611	120,098	619,465	10,952
Interest expense	(38,195)	(193,781)	-	(231,976)	(35,249)
Other non-operating revenue	29,195	-	77,650	106,845	411,072
Gain (loss) on disposition of assets	-	-	-	-	22,692
Total non-operating income (expense)	339,755	(43,170)	197,749	494,334	409,468
Income before contributions & transfers	3,176,363	1,449,051	516,970	5,142,384	224,110
Transfers in	-	-	-	-	394,326
(Transfers out)	(37,865)	(265,213)	(84,361)	(387,440)	-
Change in net position	3,138,498	1,183,838	432,609	4,754,944	618,436
Net position--beginning	27,070,294	21,772,097	11,984,318	60,826,709	7,259,919
Net position --ending	\$ 30,208,792	\$ 22,955,935	\$ 12,416,927	\$ 65,581,654	\$ 7,878,354
Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds.				20,842	
Change in net position of business-type activities				<u>\$ 4,775,787</u>	

The Notes to the Financial Statements are an integral part of this statement.

City of Mercer Island
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

	Water	Sewer	Storm Drain	Totals	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 8,629,900	\$ 9,825,482	\$ 1,975,752	\$ 20,431,134	\$ 2,085,285
Payments to employees	(1,564,666)	(1,201,898)	(902,171)	(3,668,735)	(655,979)
Payments to suppliers	(1,423,522)	(1,624,058)	(623,308)	(3,670,887)	(905,562)
Payments to other governments	(2,366,645)	(5,009,368)	(31,250)	(7,407,263)	0
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,275,068	1,990,158	419,023	5,684,249	523,744
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Other non-operating revenues	70,435	0	497,945	568,380	142,847
Interfund transfers received/(paid)	(37,865)	(265,213)	(84,361)	(387,439)	394,326
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	32,570	(265,213)	413,584	180,941	537,173
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Cash contributions in aid of capital purchases	0	0	34,307	34,307	251,145
Purchase of capital assets	(1,252,971)	(468,858)	(263,451)	(1,985,279)	(475,590)
Principal paid on capital debt	(71,041)	(850,643)	0	(921,683)	(171,472)
Interest paid on capital debt	(38,384)	(196,255)	0	(234,639)	(38,598)
Proceeds from sales of capital assets	0	0	0	0	39,772
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	(1,362,396)	(1,515,755)	(229,144)	(3,107,295)	(394,743)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on Investments	359,766	155,754	124,280	639,799	11,340
NET CASH PROVIDED BY INVESTING ACTIVITIES	359,766	155,754	124,280	639,799	11,340
Net increase(decrease)in cash	2,305,008	364,944	727,743	3,397,695	677,514
Cash January 1, 2019	12,809,706	5,442,664	4,064,502	22,316,872	4,148,856
Cash December 31, 2019	15,114,714	5,807,607	4,792,245	25,714,567	4,826,370
Cash at the end of the year consists of:					
Operating fund cash	15,114,714	5,807,607	4,792,245	25,714,567	4,826,370
Total cash at the end of the year	15,114,714	5,807,607	4,792,245	25,714,567	4,826,370
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 2,836,607	\$ 1,492,221	\$ 319,221	\$ 4,648,049	\$ (185,358)
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	705,347	1,001,531	218,043	1,924,922	800,635
(Increase)decrease in accounts receivable	(878)	(20,052)	(2,648)	(23,578)	0
Increase(decrease) in accounts payable	(91,302)	(397,640)	(59,944)	(548,886)	25,508
Increase (decrease) in salary and benefit payable	(174,707)	(85,902)	(55,649)	(316,258)	(117,041)
Total adjustments	438,461	497,937	99,802	1,036,200	709,101
Net cash provided by operating activities	\$ 3,275,068	\$ 1,990,158	\$ 419,023	\$ 5,684,249	\$ 523,744

The Notes to the Financial Statements are an integral part of this statement.

City of Mercer Island
Statement of Net Position
Fiduciary Funds
December 31, 2019

	Firemens Pension Trust Fund	Agency Funds
ASSETS		
Cash & cash equivalents	\$ 879,482	\$ 39,025
Receivables	1,141	-
Total assets	<u>880,623</u>	<u>39,025</u>
LIABILITIES		
Benefits payable	\$ 4,186	\$ 39,025
Total liabilities	<u>\$ 4,186</u>	<u>39,025</u>
NET POSITION		
Held in trust for pension and other benefits	<u>876,437</u>	-
Total net position restricted for pensions	<u><u>\$ 876,437</u></u>	<u><u>-</u></u>

The Notes to the Financial Statements are an integral part of this statement,

City of Mercer Island
Statement of Changes in Net Position
Fiduciary Funds
For the year ended December 31, 2019

	Firemens Pension Trust Fund
ADDITIONS:	
Contributions:	
Taxes	\$ 26,410
Other	33,226
Total other contributions	<u>59,636</u>
Investment earnings:	
Interest & dividends	22,489
Total net investment income (loss)	<u>22,489</u>
Total additions	<u>82,125</u>
DEDUCTIONS:	
Benefit payments	84,671
Total deductions	<u>84,671</u>
Change in net position	(2,546)
Net position - Beginning	878,983
Net position - Ending	<u><u>\$ 876,437</u></u>

The Notes to the Financial Statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization

The City of Mercer Island was incorporated on July 18, 1960. It remained separate from the Town of Mercer Island (which occupied the area now in the central business district) until July of 1970. The City has a council-manager form of government and operates under Title 35A of the Revised Code of Washington (RCW). The City Council is composed of seven non-partisan members elected at large for 4 year terms. From among the council members a mayor is elected for a term of two years. Day-to-day City operations are under the direction of a city manager, who is appointed by the council. The City provides general government services including police, fire service, streets and trails, parks and recreation, planning and zoning, permits and inspection, general administrative and water, sewer, and storm water services.

Reporting Entity

The City of Mercer Island operates under the laws of the State of Washington applicable to the council-manager form of government. As required by generally accepted accounting principles the financial statements present the City of Mercer Island as the primary government.

Blended Component Unit – The Mercer Island Transportation Benefit District was formed by the City Council on October 20, 2014. The purpose of the District is to fund the maintenance, improvement and preservation of existing transportation facilities. The City of Mercer Island Council appointed itself to act as the seven-member governance board of the District. At its December 7, 2015 meeting, the City Council adopted ordinance 15C-24 authorizing the City to assume the rights, powers, functions, immunities and obligations of the Mercer Island Transportation Benefit District. The Mercer Island Transportation Benefit District is reported as a part of the primary government because of its governance structure and because its sole purpose is to finance and construct Mercer Island streets. The District is funded by a \$20 excise tax on all vehicles registered within the City of Mercer Island. Under contract with the Washington State Department of Licensing, the vehicle excise taxes began collection in May 2015. Voters approved Initiative 976 with the November 5, 2019 Election, which repealed certain vehicle registration fees, including the Mercer Island TBD. The Department of Licensing continues to collect the fees pending the outcome of litigation regarding I-976. The City of Mercer Island will defer earning fee revenue collected after the passage of I-976 until the Washington State Supreme Court rules on the appeals regarding I-976.

Government-Wide and Fund Financial Statements

The city's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are paid for by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included as program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales tax, State shared revenues, utility taxes, franchise fees, grants, and reimbursements under inter-local agreements associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

As a general rule the effect of interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are charges between the government's utility functions and various other functions of the government.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

The proprietary fund statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the funds 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 computer replacements. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

Financial Statement Presentation

The City of Mercer Island reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. It accounts for all financial resources and transactions of the City except those required to be accounted for in another fund.

The **Street Fund** is a special revenue fund that accounts for revenues and expenditures for street maintenance, preservation and construction.

The **Capital Improvement Fund** accounts for financial resources to be used for the acquisition, construction and preservation of the City's general government capital assets and facilities.

The City reports the following major Proprietary Funds:

The **Water Fund** accounts for all activities necessary for the operation, maintenance, and capital reinvestment required to provide water services to Mercer Island residents.

The **Sewer Fund** accounts for all activities necessary for the operation, maintenance, and capital reinvestment required to provide waste water services to Mercer Island residents.

The **Storm and Surface Water Fund** accounts for all activities necessary for the operation, maintenance, and capital reinvestment required to provide storm water services to Mercer Island residents

Additionally the City reports the following fund types:

Permanent Funds account for principle restricted donation earnings. The City has one permanent fund, the Youth Service Endowment, which was created as long-term funding mechanism to support ongoing YFS programs.

Special Revenue Funds account for revenues derived from restricted or committed taxes, grants, contributions, and other resources for specific purposes. The City has one non-major special revenue funds: the Youth and Family Services fund.

Capital Funds account for the financial resources to be used for the acquisition or construction of capital facilities other than those financed by enterprise or internal service funds. The City has three non-major capital funds: Technology and Equipment Fund, Long Term Parking Construction, and the Capital Reserve fund.

Internal service funds account for fleet maintenance and information technology services provided to other departments of the city.

Agency funds account for assets held by the city as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

The **Pension Trust Fund** accounts for the activities of the Firemen's Pension Fund, which accumulates resources for excess pension benefit payments to qualified firefighters.

Budget Policy

The City of Mercer Island budgets its funds in accordance with the Revised Code of Washington (RCW) Chapter 35A.34. The City of Mercer Island biennial budget is adopted by appropriation ordinance of the Mercer Island City Council and may be amended by subsequent ordinances. Budgets are legally adopted for all general and special revenue fund types on the modified accrual basis, in accordance with GAAP (Generally Accepted Accounting Principles). The City also establishes budgets for the following other fund types: debt service, capital projects, internal service, proprietary, and fiduciary funds. Biennial budgets for debt service and capital project funds are determined by debt issue ordinances and capital spending plans, respectively, therefore, budgetary comparisons, are not reported in the basic financial statements. Nor are budgetary comparisons presented for proprietary fund types, as they are "management budgets", determined on the working capital basis. Washington State law requires that a mid-biennial review and modification be conducted between September 1st and December 31st of the first year of the biennium.

The budget, as adopted, constitutes the legal authority for expenditures. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. Transfers or revisions within funds are allowed, however, any revisions that alter the total expenditures must be approved by the City Council. When the City Council determines that it is in the best interest of the City to amend the budget appropriations it may do so by ordinance approved by one more than the majority after holding a public meeting. To date the City's 2019-2020 biennial budget has been amended seven (7) times during the 2019-2020 biennium. The financial statements present the original and final budgetary information as approved. The original budget is the first complete adopted budget. The final budget is the original budget adjusted by all revisions, transfers and supplemental appropriations legally authorized. All appropriations, except for budgeted capital projects and appropriations for federal and state grant projects, lapse at the end of the biennium. Unexpended resources must be re-appropriated in the subsequent biennial period. The City does not use encumbrances.

The steps taken in the budget process are as follows: City departments begin budget preparation in late spring, incorporating policies, goals, and priorities set by City Council in their Management and Budget Policies, during their annual retreat, and during regular Council meetings throughout the year. By November 1st of even years, in compliance with the law, the City Manager submits a balanced proposed budget to the City Council for the two fiscal years commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public budget hearings are conducted by the City Council in November and December, in accordance with State Law, to obtain taxpayer comments. Should the Council decide to make changes in the preliminary budget; the changes are made after the public hearings and before the adoption of the budget ordinance in December. Washington State law requires that the City Council adopt a balanced budget, which is legally enacted through passage of an ordinance, on or before December 31st.

Cash and Investments

It is the City's policy to invest all temporary (residual) cash surpluses. These investments are reported on the Statement of Net Position as cash and cash equivalents. Included in cash and cash equivalents are currency on hand, investments with the State Investment Pool and other investments. Residual cash from all funds is pooled and the interest earned on the investments is allocated back to various funds on a pro-rata basis. See Note 5.

The City, by State law, is authorized to purchase Certificates of Deposit issued by Washington State depositories that participate in a State Insurance Pool, U.S. Treasury and Agency Securities and banker's acceptances. All security transactions, entered into by the City of Mercer Island, are conducted on a delivery versus payment

(DVP) basis. Securities are held by a third party custodian designated by the Finance Director. Investments are reported at Fair market value in accordance with GASB Statement 31.

Receivables

The City of Mercer Island recognizes receivables in its financial statements based on the accounting requirements for each statement. Receivables are as follows:

Taxes: The City's property tax collection records show that approximately 98% of the property taxes due are collected in the year of the levy and delinquent taxes are collected in the next few years. Historically, all taxes have been collected; therefore no allowance for uncollectible taxes is recorded.

Sales Tax: Sales Tax collected and remitted by the State within 45 days of the fiscal year end is reported as receivables at year end.

Other Taxes: Utility taxes and franchise fees remitted within 45 days of the fiscal year end are reported as receivables at year end.

Interest: Interest receivable consists of interest earned on investments, notes or contracts at the end of the year.

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

Inter-fund Transactions

During the course of normal operations, the City has numerous transactions between City funds. Quasi-external transactions such as buying goods and services are recorded as revenues and expenses. Reimbursements to a fund for expenditures previously paid that are more properly applicable to another fund are recorded as expenditures in the reimbursing fund and a reduction of expenditure in the fund receiving reimbursement.

All other inter-fund transactions are reported as transfers. As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal service funds for fleet maintenance and information technology. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions. Exceptions to this general rule are charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as *interfund loans receivable/payable*. All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government wide financial statements as *internal balances*.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed. The reserve for inventory is equal to the

ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures.

Inventories in proprietary funds are valued by the first in, first out (FIFO) valuation method which approximates market. A periodic inventory is maintained for operating consumables, where the cost is capitalized when the inventory is purchased and expensed when the item is consumed.

Long Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

Capital Assets

Capital assets, which include property, plant, equipment, improvements, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. All vehicles, computers, production printers and projection equipment are capitalized regardless of the initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at acquisition price. See also Note 11.

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.

Land, construction in progress, intangible assets with indefinite useful lives, and works of art are not depreciated. Infrastructure acquired subsequent to fiscal years ended after June 30, 1980 is reported. Property, plant, infrastructure, and equipment of the city are depreciated using the straight line method over the following estimated useful lives:

ASSET	YEARS
Buildings\Bldg Improvements	30-50
Infrastructure	10-50
Other Improvements	10-50
Equipment	5-10
Intangibles - Software	4-10

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption

of net position that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then. The City reports deferred outflow of resources related to pensions and for the difference between the reacquisition price and the net carrying amount of debt that resulted from the advance refunding of general obligation debt.

In addition to liabilities, the statement of financial position may 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 and so will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred inflow of resources related to pensions and for property taxes levied for the current or prior years that are unavailable at year end.

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 position 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.

Compensated Absences - Vacation and Sick Leave

The City records a liability for accumulated unused vacation leave and salary related payments associated with the payment of vacation leave. All vacation leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation leave for permanent full-time employees accumulates monthly at annual rates ranging from 12 to 21 days unless otherwise provided for in a collective bargaining agreement. Permanent part-time employees who work at least 8 hours per week earn vacation leave on a pro-rata basis. Employees with at least 5 years and 10 years of service may convert respectively 3 and 5 days of accrued vacation leave to cash, paid through the regular payroll. At termination of employment, employees with the required length of service may receive cash payment for accumulated vacation leave up to a maximum of 30 days. The payment is based on current wages at termination. In accordance with GASB Statement 16, the City accrues a liability for vacation pay.

Sick leave for permanent full-time employees accumulates monthly at the rate of one day for each full month of service unless otherwise provided in a collective bargaining agreement. Permanent part-time employees who work at least 8 hours per week earn sick leave on a pro-rata basis. Sick leave can be accrued to a maximum of 90 days; however; no compensation for accrued sick leave is paid on termination. Accordingly, no liability is recorded for accrued sick leave.

Unearned Revenue

Unearned revenues are those which are measurable but not yet available under the modified accrual basis of accounting. Accordingly, they are not recorded as revenue in the fund financial statements. The City has recognized three unearned revenue items in 2019:

- Rental charges for future scheduled use of City Community Center and Park facilities.
- Unearned permit and development fee revenues.
- Transportation Benefit District and Multimodal collections subsequent to the passage of I-976.

Net Position

The difference between fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is “net position” on the government-wide, proprietary, and fiduciary fund statements, and is “fund balance” on the governmental statements.

Fund Balance Components

In accordance with GASB Statement 54 the fund balance amounts for governmental funds have been classified as either non-spendable, restricted, committed, assigned, or unassigned.

- **Non-spendable** fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as the principal balance in a permanent fund.
- **Restricted** fund balance represents fund balance which has constraints placed on the use of the funds by creditors, grantors, contributors, or laws and regulations of outside governments, or through constitutional provisions or enabling legislation.
- **Committed** fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Mercer Island City Council, the City’s highest level of decision making authority. This formal action is the adoption of an ordinance.
- **Assigned** fund balance includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. Assignments of fund balance result from resolution, policy, and budget appropriation and are directed by the City Council, the City Manager, and the Finance Director. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.
- **Unassigned** fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

As allowed by the Revised Code of Washington (RCW 35.34.250) the City of Mercer Island maintains a contingency reserve. According to Washington State law, the balance of the Contingency reserve is limited to 37.5 cents per \$1,000 of assessed valuation. The funding goal is to maintain a target balance of twelve percent (12%) of budgeted expenditures in the General Fund. The Contingency reserve is intended to address significant revenue shortfalls, and unanticipated, non-recurring, or emergency expenditures. These funds may not be used to establish or support costs that are recurring in nature. Any usage of Contingency Fund reserves must be appropriated by ordinance by the City Council. In the event the Contingency Fund reserves are used, the city shall strive to restore the fund to the twelve percent (12%) level within three years. Replenishment of the reserve will be a high priority of the City Council. The balance of the contingency reserve at December 31, 2019 is \$4,129,165 and is included in the un-assigned fund balance of the General Fund.

NOTE 2 – RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**Explanation of aggregated differences between the governmental fund balance sheet and the government-wide statement of net position.**

The governmental fund balance sheet includes reconciliation between total fund balance and total net position as reported in the government-wide statement of net position. The details of the aggregated differences are presented below:

Other long-term assets, and deferred outflows of resources, are not available to pay for current period expenditures and therefore are not reported in the funds:

Net Pension Asset (NPA)	\$ 6,400,897
Deferred Outflow of Resources - pensions	2,329,286
Municipal Court receivable	248,284
Deferred Outflow of Resources -refunding	11,983
Deferred Outflow of Resources -refunding	17,147
Net adjustment	<u>\$ 9,007,597</u>

Capital Assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value:

Capital assets not subject to depreciation	
Land	\$ 92,407,073
Land infrastructure ROW	16,382,750
Construction in progress	181,737
Depreciable infrastructure (net)	17,957,158
Other depreciable assets (net)	29,779,337
Net adjustment	<u>\$ 156,708,055</u>

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Net Pension Liability (NPL)	\$ (4,604,016)
G.O. bonds payable	(1,980,000)
Total OPEB liability	(12,097,772)
Deferred Inflow of Resources - Pension	(4,213,663)
Compensated absences	(1,391,869)
Un-amortized premium/discount (net)	(94,198)
Interest payable on long term debt	(3,725)
Net adjustment	<u>\$ (24,385,243)</u>

Explanation of aggregated differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances for total governmental funds and changes in net position of governmental activities as reported in the government wide statement of activities. The details of the aggregated differences are presented below:

Governmental funds report capital outlays as expenditures. The Statement of Activities allocates the cost of capital outlay over the asset useful life as depreciation.

Capital outlays	\$ 4,091,552
Depreciation Expense	<u>(3,035,101)</u>
Net adjustment	<u>\$ 1,056,451</u>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Municipal Court receivable	\$ (29,174)
Special Funding for LEOFF	<u>282,842</u>
Net adjustment	<u>\$ 253,668</u>

The proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenues. Repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. Neither the receipt of debt proceeds nor the payment of debt principal effect the Statement of Activities, but are reported as increases and decreases in non-current liabilities in the Statement of Net Position:

Principal payment G.O. bonds	\$ 780,000
Net change in interest payable on long term debt	1,425
Amortization of premium/discounts (net)	38,731
Amortization of deferred inflow of resources (net)	<u>(9,710)</u>
Net adjustment	<u>\$ 810,445</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in total OPEB liability	\$ (2,029,385)
Change in compensated absence payable	9,539
Adjustment to Pension Expense	<u>1,485,116</u>
Net adjustment	<u>\$ (534,730)</u>

NOTE 3 – BUDGETARY INFORMATION**Final Budget**

The City Council biennially adopts a budget by ordinance establishing appropriations for City funds and may during the year authorize supplemental appropriations. Amounts shown in the accompanying financial statements represent the original budgeted amounts plus all supplemental appropriations. Revisions made to the original budget are shown below:

Fund	Original Biennial Budget	Biennium Adjustments	Final Biennial Budget
<i>General Government</i>			
General	\$ 65,266,223	\$ (2,607,136)	\$ 62,659,087
Contingency	1,035,704	1,683,416	2,719,120
1% Arts Fund	30,000	13,521	43,521
YFS Endowment	7,000	-	7,000
Total General Government	\$ 66,338,927	\$ (910,199)	\$ 65,428,728
<i>Special Revenue Funds</i>			
Street	\$ 6,777,685	\$ 406,315	\$ 7,184,000
YFS Fund	5,714,419	829,708	6,544,127
Total Special Revenue	\$ 12,492,104	\$ 1,236,023	\$ 13,728,127
Total General & Special Revenue	\$ 78,831,031	\$ 325,824	\$ 79,156,855

NOTE 4 – GOVERNMENTAL FUND BALANCES

Composition of Fund Balance

It is the policy of the City that expenditures for which more than one category of fund balance could be used, that the order of use is: Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance.

The following shows the composition of the fund balance of the governmental funds, by major fund, for the fiscal year ended December 31, 2019:

	General	Street	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Nonspendable					
Permanent fund principle	\$ -	\$ -	\$ -	\$ 285,856	\$ 285,856
Supplies inventory	120,857			-	120,857
Total Nonspendable	120,857	-	-	285,856	406,713
Restricted					
Capital investment in parks, buildings and open space			2,774,691	302,196	3,076,887
Criminal justice				23,336	23,336
Drug enforcement & education				41,345	41,345
Human services				104,713	104,713
Jails	79,437			-	79,437
Municipal Court Trust	17,660			-	17,660
KC parks expansion levy funds			72,531	-	72,531
Streets, paths and trails		3,399,501	329,891	-	3,729,392
Total Restricted	97,097	3,399,501	3,177,113	471,590	7,145,301
Committed					
Art in public places	177,581			-	177,581
Parks, streets, paths and trails		250,748	150,306	-	401,054
Human services				506,478	506,478
LEOFF 1 long term care	520,640			-	520,640
Self insurance	40,000			-	40,000
Total Committed	738,221	250,748	150,306	506,478	1,645,753
Assigned					
Appropriated fund balance					-
Athletic turf field replacement			1,158,546	-	1,158,546
Capital improvements				718,415	718,415
Compensated absence	1,051,055			-	1,051,055
Debt service				23,981	23,981
LEOFF 1 long term care	1,114,763			-	1,114,763
Petty cash	2,550			-	2,550
Self insurance	69,750			-	69,750
Streets, paths and trails		99,684		-	99,684
Technology and equipment	90,333			537,203	627,536
Total Assigned	2,328,451	99,684	1,158,546	1,279,599	4,866,280
Unassigned					
	7,556,857	-	-	-	7,556,857
Total Fund Balance	\$ 10,841,483	\$ 3,749,933	\$ 4,485,965	\$ 2,543,523	\$ 21,620,903

NOTE 5 - DEPOSITS AND INVESTMENTS**Deposits**

The City of Mercer Island's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

Cash and Deposits	
Cash on hand	2,550
FDIC or PDPC Insured Bank Deposits	\$ 1,171,738
Total	\$ 1,174,288

Investments

All surplus cash is invested in accordance with an investment policy approved by the Mercer Island City Council (January 2012). State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080). Eligible investments which the City held at year end include Government Sponsored Enterprises, Washington State Local Government Investment Pool, obligations of state and local government agencies, and FDIC and PDPC Insured Bank Deposits. Investments are carried at fair market value in accordance with GASB 31.

Investments Measured at Amortized Cost

Cash held in the Washington State Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). This pool represents an interest in a group of securities and has no specific security subject to custodial risk. The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP. The LGIP is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP has no limitations or restrictions on withdrawals.

Investments Measured at Amortized Cost	
Washington State Local Government Investment Pool	\$ 36,374,489
Total	\$ 36,374,489

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City of Mercer Island would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's Investment Policy requires that all security transactions entered into by the City of Mercer Island will be conducted on a delivery-versus-payment (DVP) basis and will be held in safekeeping by a third-party custodian. All of the City's securities at year end were held in safekeeping by a third-party custodian and are not exposed to custodial credit risk.

Credit Risk

Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The

City's investment policy applies the prudent person standard; investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated. The credit ratings on securities held by the City of Mercer Island on December 31, 2019, are listed below:

Investment Type	Ratings		Fair Value
	Moody's	S&P	
Government Sponsored Enterprises			
Federal Farm Credit Bank	AAA	AA+	\$ 2,997,407
Federal Home Loan Bank	AAA	AA+	5,024,137
Federal Home Loan Mortgage Corporation	AAA	AA+	1,999,460
Federal National Mortgage Assn	AAA	AA+	1,993,781
U.S. Treasury Notes	AAA	AA+	2,017,656
Total			\$ 14,032,441

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. It is the City's policy to diversify its investments by security type and institution. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 30% of the entity's total investment portfolio will be invested in a single security type, issuer or financial institution, and no more than 5% invested with State or political subdivision securities. Detail information on concentration risk is covered in the City of Mercer Island's Investment Policy.

Investment Type	Fair Value	Cost Based Measure	Percent of Total
Government Sponsored Enterprises			
Federal Farm Credit Bank	\$ 2,997,407		5.8%
Federal Home Loan Bank	5,024,137		9.7%
Federal Home Loan Mortgage Corporation	1,999,460		3.9%
Federal National Mortgage Assn	1,993,781		3.9%
U.S. Treasury Notes	2,017,656		3.9%
Municipal Security			
Port of Seattle	-		0.0%
Cash on hand		2,550	0.0%
FDIC or PDPC Insured Bank Deposits		1,171,738	2.3%
Washington State LGIP		\$ 36,374,489	70.5%
Total	\$ 14,032,441	\$ 37,548,777	
Total Cash, Deposits and Investments		\$ 51,581,218	

* Of the total, \$918,506.50 is cash and investments of Fiduciary Funds.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policy limits investments in securities to those maturing no more than five years from the date of purchase.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2019, was 37 days.

The following schedule presents the investments and related maturities as of December 31, 2019.

Investment Type	Fair Value	Maturity (in Years)	
		Less Than 1	1-5
Government Sponsored Enterprises	\$ 14,032,441	\$ 7,998,603	\$ 6,033,838
Municipal Security	-	-	-
Total	\$ 14,032,441	\$ 7,998,603	\$ 6,033,838

Fair Value Hierarchy

Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities, Level 2 securities are valued using observable, and Level 3 securities are valued using unobservable inputs. U.S. Government Sponsored Enterprise securities classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 1 or Level 3 security classifications to report. Cash on hand, bank deposits, cash held by other entities and the Local Government Investment Pool (LGIP) are valued using a cost based measure. The following schedule presents the investments and method of fair value measurement as of December 31, 2019:

Investment Type	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Government Sponsored Enterprises	\$ 14,032,441		\$ 14,032,441	
Municipal Security	-		-	
Total	\$ 14,032,441	\$ -	\$ 14,032,441	\$ -

NOTE 6 – PROPERTY TAXES

The King County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property value listed as of the prior May 31. Assessed values are established by the County Assessor at 100 percent of fair market value. A reevaluation of all property is required every two years. Taxes are due in two equal installments on April 30 and October 31. Collections are distributed on a daily basis. The amount of taxes receivable at year end are recorded as receivables and offset by deferred revenue. No allowance for uncollectable taxes is established because delinquent taxes are considered fully collectable.

The City is permitted by law to levy up to \$3.10000 per \$1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following three reasons:

1. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts (except for ports and utility districts) exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.
2. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lesser of inflation (as measured by the Implicit Price Deflator) or 101%, after adjustments. Inflation can be expected to exceed one percent; consequently, the levy lid will normally be 101%.
3. The City is allowed by law in RCW 84.55.050 to ask the voters to approve increases in excess of the 101% limit. A simple majority of voters can approve a “levy lid lift” that would increase the base for the following year. That base can be increased either forever, for a limited period of time, or for a particular purpose

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

For 2019 the City's tax levy was \$0.93340 per \$1,000 on a total assessed valuation of \$15,137,121,033 for a total levy of \$13,677,689. The total property tax levy includes the regular statutory levy and special levies as detailed below:

General Levy

Regular Statutory Levy	\$ 12,040,551
------------------------	---------------

LID Lifts

Lid Lift - 2008	955,079
-----------------	---------

Lid Lift - 2012	682,059
-----------------	---------

Total Property Tax Levy 2019	<u>\$ 13,677,689</u>
-------------------------------------	-----------------------------

NOTE 7 - INTERFUND TRANSFERS**Transfers In and Transfers Out**

During the course of normal operations, the City has numerous transactions between City funds. Reimbursements to a fund for expenditures previously paid that are more properly applicable to another fund are recorded as expenditures in the reimbursing fund and a reduction of expenditure in the fund receiving reimbursement. As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund	Transfer In	Transfer Out
Major Governmental Funds		
General Fund		\$ 1,517,587
Street Fund		44,479
Capital Improvement Fund	50,085	138,100
Non-Major Governmental Funds		
Transportation Benefit District		
Criminal Justice Fund		
Beautification Fund		
Youth & Family Services Fund	354,000	
Non-Voted Bond Fund	226,300	
Technology and Equipment Fund	414,479	
Town Center Parking	648,416	
Internal Service Fund		
Equipment Rental (Fleet) Fund	388,282	
Computer Replacement Fund	6,043	
Proprietary Funds		
Water Fund		37,865
Sewer Fund		265,213
Stormwater Fund		84,361
Total Transfers In/Out	\$ 2,087,606	\$ 2,087,606

Transfers out of the General fund include the ongoing support of Youth and Family Services programs at \$354,000 and funding for future technology and equipment purchases of \$250,000. Transfers out of the business type funds were to cover the utility portion of capital reinvestment costs.

NOTE 8 - LONG-TERM DEBT

The City of Mercer Island issues general obligation bonds (G.O.) to finance large capital improvement projects. General obligation bonds are a direct obligation of the City, which pledges its full faith and credit for repayment. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. There are two kinds of G.O. bonds: (1) non-voted or councilmanic, which the City can issue up to a specified limit without a vote of the people; and (2) voter-approved bonds, which require a vote of the people because a special (excess) property tax levy is needed for bond repayment.

At the close of 2019 the City has five Councilmanic bond issues outstanding. The City periodically reviews existing debt outstanding to determine if more favorable long term financing terms exist that would indicate savings to be gained by refunding.

General Obligation Bonds, Issuances, Redemptions, and Balances Outstanding

	Date of Issue	Date of Final Maturity	Interest Rates	Amount Originally Issued	Beginning Unmatured Debt 1/1/19	Amount Issued	Current Period Reductions	Ending Unmatured Debt 12/31/19
2011 LTGO	3/23/11	12/1/30	2.5/4.25	1,500,000	1,025,000		70,000	955,000
2013 LTGO	2/6/13	12/1/21	1.0/2.0%	4,940,000	1,775,000		580,000	1,195,000
2013 LTGO	2/6/13	12/1/23	1.0/2.0%	1,140,000	655,000		125,000	530,000
2017 LTGO	8/17/17	12/1/22	2.0 / 4.0%	335,000	330,000		75,000	255,000
2017 LTGO	8/17/17	12/1/29	1.95 / 4.0%	5,870,000	5,825,000		440,000	5,385,000
Total GO Bonds				\$ 13,785,000	\$ 9,610,000	\$ -	\$ 1,290,000	\$ 8,320,000

*Councilmanic Bonds

The 2013 LTGO Bond issuance for financing the constructing and equipping of Fire Station 92 and additional Fire apparatus is presented in the Statement of Net Position net of the related premium. The total bonds payable plus premiums net of amortization are as follows:

Bonds outstanding	\$ 1,195,000
Plus un-amortized bond premium	54,147
Bonds outstanding net	<u>\$ 1,249,147</u>

Proceeds from the 2013 LTGO Refunding Bonds were used to advance refund the 2004 CCMV construction bonds. The Refunding bonds are presented in the Statement of Net Position net of the related premium. The total bonds payable plus premiums net of amortization are as follows:

	\$ 530,000
Plus un-amortized bond premium	20,318
Bonds outstanding net	<u>\$ 550,318</u>

The 2011 LTGO bond issuance for capital improvements to the First Hill neighborhood water system is presented in the business type Statement of Net Position net of the related premium. The total bonds payable plus the unamortized bond premium is as follows:

Bonds outstanding	\$ 955,000
Plus un-amortized bond premium	<u>11,446</u>
Bonds outstanding net	<u><u>\$ 966,446</u></u>

Proceeds from the 2017 LTGO Refunding Bonds were used to advance refund a portion of the 2013 South Mercer Playfields bonds. The refunding bonds are presented in the Statement of Net Position net of the related premium. The total bonds payable plus premiums net of amortization are as follows:

Bonds outstanding	\$ 255,000
Plus un-amortized bond premium	<u>19,734</u>
Bonds outstanding net	<u><u>\$ 274,734</u></u>

Proceeds from the 2017 LTGO Refunding Bonds were used to advance refund a portion of the 2013 Sewer Lake Line bonds. The refunding bonds are presented in the business type Statement of Net Position net of the related premium. The total bonds payable plus premiums net of amortization are as:

Bonds outstanding	\$ 5,385,000
Plus un-amortized bond premium	<u>359,502</u>
Bonds outstanding net	<u><u>\$ 5,744,502</u></u>

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

Year	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2020	795,000	44,700	525,000	207,580
2021	820,000	27,200	555,000	187,105
2022	225,000	9,100	565,000	165,280
2023	140,000	2,800	590,000	142,961
2024-2028	-	-	3,290,000	379,564
2029-2030	-	-	815,000	26,900
TOTAL	<u>\$ 1,980,000</u>	<u>\$ 83,800</u>	<u>\$ 6,340,000</u>	<u>\$ 1,109,390</u>

Advance Refunding

In 2013 the City advance refunded a portion (\$1.135 million) of the 2004 LTGO Bonds to reduce its total combined debt service payments over the next ten years by \$180 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$170.3 thousand. The advance refunding also resulted in a difference between the net reacquisition price (funds deposited in escrow to refund old bonds) and the net carrying amount of the old debt of \$51,441. This amount, reported in the statement of net position as a deferred outflow of resources, will be charged to operations through the year 2023 using the effective interest method.

In 2017 the City advance refunded a portion (\$6.28 million) of the 2009 LTGO Bonds to reduce its total combined debt service payments over the next twelve years by \$659.4 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$585.5 thousand. The advance refunding also resulted in a difference between the net reacquisition price (funds deposited in escrow to

refund old bonds) and the net carrying amount of the old debt of \$356,748. This amount, reported in the statement of net position as a deferred outflow of resources, will be charged to operations through the year 2029 using the effective interest method.

Public Works Trust Fund Debt, Issuances, Redemptions and Balances Outstanding

	Date of Issue	Date of Final Maturity	Interest Rate	Amount Originally Issued	Beginning Unmatured Debt 1/1/2019	Amount Issued	Current Period Reductions	Ending Unmatured 12/31/2019
Sewer Lake Line	1/31/05	7/1/26	1.5%	7,000,000	3,222,058		402,757	2,819,302
Total PWTF Debt				\$ 7,000,000	\$ 3,222,058	\$ -	\$ 402,757	\$ 2,819,302

The annual debt service requirements to maturity for public works trust fund loans are as follows:

PWTF - Business Type Activities			
Year	Principal	Interest	Total
2020	402,757	14,097	416,854
2021	402,757	12,083	414,840
2022	402,757	10,069	412,826
2023	402,757	8,055	410,812
2024	402,757	6,041	408,799
2025-2026	805,515	6,041	811,556
Total	\$ 2,819,302	\$ 56,386	\$ 2,875,687

There are a number of other limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

NOTE 9 - LEASES**Capital Leases**

In 2012 the Mercer Island City Council authorized a contract with Pierce Manufacturing to purchase one Velocity Pumper Truck through a Lease Purchase financing agreement with Municipal Asset Management Inc. in the amount of \$619,546.50. The lease agreement qualifies as capital lease for accounting purposes.

In 2015 the Mercer Island City Council authorized a contract with Pierce Manufacturing to purchase one Midi Pumper Truck through a Lease Purchase financing agreement with Municipal Asset Management Inc. in the amount of \$341,295. The lease agreement qualifies as capital lease for accounting purposes.

In 2019 the Mercer Island City Council authorized a contract with Pierce Manufacturing to purchase one Velocity Pumper Truck through a Lease Purchase financing agreement with Municipal Asset Management Inc. in the amount of \$732,778. The lease agreement qualifies as capital lease for accounting purposes.

The assets acquired through capital leases are as follows:

Asset	Governmental Activities
Pierce Velocity Fire Pumper	\$ 517,513
Pierce Velocity Fire Pumper	517,513
Pierce Midi Fire Pumper	251,982
Pierce Velocity Fire Pumper	619,547
Pierce Midi Fire Pumper	333,286
Pierce Velocity Fire Pumper	732,778
Less Accumulated Depreciation	(1,493,498)
Total	\$ 1,479,120

The future minimum lease obligation payments as of December 31, 2019 are as follows:

Year	Principal	Interest	Total
2020	176,497	33,574	210,071
2021	181,674	28,397	210,071
2022	187,008	23,063	210,071
2023	121,788	17,567	139,355
2024	125,696	13,659	139,355
2025-2027	270,293	19,468	289,761
Total	\$ 1,062,957	\$ 135,727	\$ 1,198,684

NOTE 10 - CHANGES IN LONG TERM LIABILITIES

Long term liability activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	\$ 2,760,000	\$ -	\$ (780,000)	\$ 1,980,000	\$ 795,000
Capital lease	1,234,429	-	(171,472)	1,062,957	176,497
Deferred amounts:					
Issuance discounts	-	-	-	-	
For issuance premiums	132,928	-	(38,731)	94,197	
Total Bonds Payable	4,127,357	-	(990,203)	3,137,154	971,497
Net Pension Liability	6,270,151	-	(1,510,250)	4,759,901	
Total OPEB liability	10,068,387	2,029,385	-	12,097,772	
Compensated absences	1,425,321	-	(9,373)	1,415,948	
Total governmental activity long term liabilities	<u>\$ 21,891,215</u>	<u>\$ 2,029,385</u>	<u>\$ (2,509,826)</u>	<u>\$ 21,410,774</u>	<u>\$ 971,497</u>
Business Type Activities					
Bonds payable	\$ 6,850,000	\$ -	\$ (510,000)	\$ 6,339,999	\$ 525,000
Issuance discounts	-	-	-	-	
For issuance premiums	407,941	-	(36,990)	370,951	
PWTF Loans	3,222,059	-	(402,757)	2,819,301	402,757
Net Pension Liability	1,269,168	-	(387,876)	881,292	
Compensated absences	150,853	6,949	-	157,802	
Total business type activity long term liabilities	<u>\$ 11,900,019</u>	<u>\$ 6,949</u>	<u>\$ (1,337,624)</u>	<u>\$ 10,569,343</u>	<u>\$ 927,757</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$24,079 of internal service funds compensated absences Liability are included in the above amounts. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid.

NOTE 11 – CAPITAL ASSETS**Changes in Capital Assets – Governmental Activities**

Asset Class	Balance 12/31/2018	Reclass	Additions	Deletions	Balance 12/31/2019
Capital assets not being depreciated					
Land	\$ 90,407,073		\$ 2,000,000		\$ 92,407,073
Land infrastructure	16,382,750				16,382,750
Construction in progress	3,984,985		150,777	(3,954,026)	181,737
Construction in progress - infrastructure	1,363,929		-	(1,363,929)	0
Total capital assets not being depreciated	\$ 112,138,738	\$ -	2,150,777	(5,317,955)	\$ 108,971,560
Capital assets being depreciated					
Buildings	\$ 30,141,306				\$ 30,141,306
Infrastructure	36,506,254		3,130,464		39,636,718
Improvements	14,082,633		3,201,881		17,284,514
Machinery & Equipment	2,345,748		193,608		2,539,355
Machinery & Equipment - IS	10,267,843		1,208,368	(349,172)	11,127,038
Intangibles	3,101,427				3,101,427
Total capital assets being depreciated	\$ 96,445,210	\$ -	7,734,320	(349,172)	\$ 103,830,358
Less accum depreciation For:					
Buildings	\$ (10,405,712)		\$ (797,721)		\$ (11,203,433)
Infrastructure	(20,466,420)		(1,213,140)		(21,679,560)
Improvements	(7,423,891)		(776,875)		(8,200,765)
Machinery & Equipment	(1,964,807)		(113,229)		(2,078,037)
Machinery & Equipment - IS	(6,173,423)		(800,635)	349,172	(6,624,887)
Intangibles	(1,670,893)		(134,136)		(1,805,030)
Total accum depreciation	\$ (48,105,147)	\$ -	\$ (3,835,737)	\$ 349,172	\$ (51,591,711)
Total net depreciable capital assets	\$ 48,340,064	\$ -	\$ 3,898,584	\$ -	\$ 52,238,647
Total governmental capital assets (net)	\$ 160,478,801	\$ -	\$ 6,049,361	\$ (5,317,955)	\$ 161,210,207

Asset Useful Lives

	Estimated Service Life
Buildings	30-50 years
Infrastructure	10-50 years
Improvements Other Than Buildings	10-50 years
Equipment	5-10 years

Changes in Capital Assets - Business Type Activities

Asset Class	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019
Capital asset not being depreciated				
Land	\$ 203,992	\$ -	\$ -	\$ 203,992
Construction in progress	261,071	345,228	-	606,299
Total capital asset not being depreciated	465,063	345,228	-	810,290
Capital assets being depreciated				
Intangibles	\$ 18,129	\$ -	\$ -	\$ 18,129
Buildings	430,048	-	-	430,048
Improvements (other than buildings)	88,806,118	1,606,302	-	90,412,420
Machinery & Equipment	1,582,705	33,750	-	1,616,455
Accumulated depreciation	(41,268,418)	(1,924,922)	-	(43,193,339)
Total net depreciable capital assets	\$ 49,568,582	\$ (284,870)	\$ -	49,283,713
Total business type capital assets - net	\$ 50,033,645	\$ 60,358	\$ -	\$ 50,094,003

Depreciation Expense

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

Governmental Activities

General government	\$ 181,205
Public safety	341,159
Physical environment	87,212
Transportation	1,213,140
Economic environment	19,390
Mental health	31,536
Culture and recreation	1,161,459
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	800,635
Total depreciation expense - governmental activities	<u>\$ 3,835,737</u>

Business Type Activities

Water	\$ 705,347
Sewer	1,001,531
Stormwater	218,043
Total depreciation expense - business type activities	<u>\$ 1,924,922</u>

Construction Obligations

The City has active capital improvement projects as of December 31, 2019. There are no material commitments associated with these projects.

NOTE 12 - RISK MANAGEMENT

The City of Mercer Island 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 163 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

NOTE 13 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans which are subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$(5,641,194)
Pension assets	6,400,897
Deferred outflows of resources	2,681,359
Deferred inflows of resources	(4,889,445)
Pension expense/expenditures	161,260

State Sponsored Pension Plans

Substantially all of the City of Mercer Island'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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.0%

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

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

Contributions

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

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

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The City of Mercer Islands' actual contributions to the plan were \$1,648,492 for the year ended December 31, 2019.

Public Safety Employees' Retirement System (PSERS)

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

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

PSERS membership includes:

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

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor 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

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

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

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

The City of Mercer Islands' actual contributions to the plan were \$9,576 for the year ended December 31, 2019.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. 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 includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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

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

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

The City of Mercer Islands' actual contributions to the plan were \$446,852 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2019, the state contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City of Mercer Island as its proportionate share of this amount is \$3,275,773.

Actuarial Assumptions

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

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

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation

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

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

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

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

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.2%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$4,264,896	\$3,405,600	\$2,660,048
PERS 2/3	8,464,752	1,103,675	(4,936,574)
PSERS 2	21,260	(2,059)	(20,379)
LEOFF 1	(1,142,521)	(1,396,634)	(1,616,036)
LEOFF 2	(930,121)	(5,002,204)	(8,325,955)

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, 2019, the City of Mercer Island reported a total pension liability of \$4,509,275 and a total pension asset of \$6,400,897 for its proportionate share of the net pension asset and liabilities of State sponsored plans as follows:

	Liability (or Asset)
PERS 1	\$3,405,600
PERS 2/3	1,103,675
PSERS 2	(2,059)
LEOFF 1	(1,396,634)
LEOFF 2	(5,002,204)

The amount of the liability/ (asset) reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City of Mercer Island. The amount recognized by the City as its proportionate share of

the net pension liability/(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	(1,396,634)	(5,002,204)
State's proportionate share of the net pension (asset) associated with the employer	(9,446,796)	(3,275,773)
TOTAL	(10,843,430)	(8,277,977)

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

	Proportionate Share 6/30/2018	Proportionate Share 6/30/2019	Change in Proportion
PERS 1	0.000000%	0.000000%	0.000000%
PERS 1 UAAL	0.099970%	0.088564%	-0.011406%
PERS 2/3	0.127078%	0.113624%	-0.013454%
PSERS 2	0.019719%	0.015836%	-0.003883%
LEOFF 1	0.070688%	0.070658%	-0.000030%
LEOFF 2	0.249477%	0.215920%	-0.033557%

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

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

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.43 percent of employer contributions. The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

	Pension Expense
PERS 1	(\$380,274)
PERS 2/3	185,601
PSERS 2	3,289
LEOFF 1	(70,206)
LEOFF 2	164,853
Firefighter Pension Fund	\$257,997
TOTAL	\$161,260

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS1	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		\$227,523
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	326,252	
TOTAL	\$326,252	\$227,523

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$316,206	\$237,284
Net difference between projected and actual investment earnings on pension plan investments		1,606,502
Changes of assumptions	28,262	463,065
Changes in proportion and differences between contributions and proportionate share of contributions	330,847	403,681
Contributions subsequent to the measurement date	529,120	
TOTAL	\$1,204,434	\$2,710,532

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$1,739	\$182
Net difference between projected and actual investment earnings on pension plan investments		3,576
Changes of assumptions	17	1,107
Changes in proportion and differences between contributions and proportionate share of contributions	86	742
Contributions subsequent to the measurement date	3,099	
TOTAL	\$4,941	\$5,607

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		\$144,789
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL		\$144,789

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$359,953	\$89,953
Net difference between projected and actual investment earnings on pension plan investments		1,025,608
Changes of assumptions	8,241	562,908
Changes in proportion and differences between contributions and proportionate share of contributions	511,889	122,525
Contributions subsequent to the measurement date	237,328	
TOTAL	\$1,117,410	\$1,800,994

State Sponsored Plans & Firefighters Pension	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$677,898	\$327,419
Net difference between projected and actual investment earnings on pension plan investments	28,322	3,007,998
Changes of assumptions	36,519	1,027,080
Changes in proportion and differences between contributions and proportionate share of contributions	842,822	526,948
Contributions subsequent to the measurement date	1,095,798	
TOTAL	\$2,681,359	\$4,889,445

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ended December 31, 2019

Changes in proportion and difference between contributions and proportionate share of contributions								
	PERS 1	PERS 2/3		PSERS 2		LEOFF 1	LEOFF 2	
Recognition Period (Years)	N/A	Inflows	Outflows	Inflows	Outflows	N/A	Inflows	Outflows
Year								
2020	-	(83,725)	68,820	(104)	19	-	(30,267)	83,278
2021	-	(62,736)	68,820	(104)	19	-	(16,439)	83,278
2022	-	(62,736)	68,820	(94)	6	-	(12,982)	46,667
2023	-	(62,736)	68,820	(54)	6	-	(12,982)	46,667
2024	-	(62,736)	47,807	(54)	6	-	(12,982)	46,667
Thereafter	-	(69,010)	7,760	(333)	31	-	(36,872)	205,333
Total Deferred (Inflows)/Outflows	\$ -	\$ (403,681)	\$ 330,847	\$ (742)	\$ 86	\$ -	\$ (122,525)	\$ 511,889

The recognition period for each plan is equal to the average of the expected remaining service lives of all employees provided with pensions through the pension plan, which was determined at the beginning of the measurement period.

For the fiscal year ended June 30, 2019

Differences between expected and actual experience								
	PERS 1	PERS 2/3		PSERS 2		LEOFF 1	LEOFF 2	
Recognition Period (Years)		Inflows	Outflows	Inflows	Outflows		Inflows	Outflows
Year								
2020	-	(55,165)	62,250	(19)	532	-	(11,836)	74,722
2021	-	(43,362)	62,250	(19)	532	-	(11,836)	44,825
2022	-	(43,362)	62,250	(19)	79	-	(11,836)	34,325
2023	-	(43,362)	62,250	(19)	74	-	(11,836)	34,325
2024	-	(43,362)	37,548	(19)	74	-	(11,836)	34,325
Thereafter	-	(8,672)	29,658	(86)	448	-	(30,773)	137,432
Total Deferred (Inflows)/Outflows	\$ -	\$ (237,284)	\$ 316,206	\$ (182)	\$ 1,739	\$ -	\$ (89,953)	\$ 359,953

The recognition period for each plan is equal to the average of the expected remaining service lives of all employees provided with pensions through the pension plan, which was determined at the beginning of the measurement period.

For the fiscal year ended June 30, 2019

Net differences between projected and actual earnings on plan investments						
	PERS 1	PERS 2/3	PSERS	LEOFF 1	LEOFF 2	
Year						
2020	(50,227)	(418,401)	(1,005)	(33,630)	(268,638)	
2021	(118,973)	(758,588)	(1,567)	(74,125)	(483,847)	
2022	(42,457)	(299,737)	(674)	(26,898)	(190,945)	
2023	(15,866)	(129,775)	(330)	(10,136)	(82,178)	
2024	-	-	-	-	-	
2025	-	-	-	-	-	
Total Deferred (Inflows)/Outflows	\$ (227,523)	\$ (1,606,502)	\$ (3,576)	\$ (144,789)	\$ (1,025,608)	

The recognition period is a closed, five-year period for all plans.

For the fiscal year ended June 30, 2019

Changes in assumptions								
	PERS 1	PERS 2/3		PSERS 2		LEOFF 1	LEOFF 2	
Recognition Period (Years)		Inflows	Outflows	Inflows	Outflows		Inflows	Outflows
Year								
2020	-	(89,051)	7,564	(107)	5	-	(66,224)	1,860
2021	-	(89,051)	4,157	(107)	5	-	(66,224)	959
2022	-	(89,051)	4,157	(107)	2	-	(66,224)	733
2023	-	(89,051)	4,157	(107)	1	-	(66,224)	733
2024	-	(89,051)	3,961	(107)	1	-	(66,224)	733
Thereafter	-	(17,810)	4,265	(569)	3	-	(231,786)	3,224
Total Deferred (Inflows)/Outflows	\$ -	\$ (463,065)	\$ 28,262	\$ (1,107)	\$ 17	\$ -	\$ (562,908)	\$ 8,241

The recognition period for each plan is equal to the average of the expected remaining service lives of all employees provided with pensions through the pension plan, which was determined at the beginning of the measurement period.

Local Government Pension Trust Funds - Firefighters Pension Fund

Plan Description

In addition to the two statewide retirement systems, the City is the administrator of a Firemen's Pension Plan, which is shown as a pension trust fund in the financial reports of the City. The Firemen's Pension Plan (FPP) is a

closed, single-employer defined benefit pension plan established in conformance with Revised Code of Washington (RCW) 41.18. The Plan provided retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Membership is limited to firefighters employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF1 and those provided by the FPP for covered firefighters who retire after March 1, 1970. At December 31, 2017, there were a total of six individuals covered by this system, six of whom are retired and all of whom qualified to receive benefits during 2017.

Under State law, the FPP is provided an allocation of 25% of all moneys received by the State from taxes on fire insurance premiums. Other funding sources include interest earnings, member contributions made prior to the inception of LEOFF, property taxes committed by action of the City Council, and City contributions required to meet projected future pensions obligations.

Actuarial Assumptions

The total pension liability (TPL) for the plan was determined using the most recent actuarial valuation completed in 2018 with a valuation date of January 1, 2018.

- **Inflation:** 2.25% total economic inflation; 3.25% salary inflation
- **Investment rate of return (Discount Rate):** 2.75%

Mortality assumptions are based on the 2007-2012 Experience Study for the LEOFF Retirement System prepared by the Office of the State Actuary. Mortality rates are expected to continue to decrease in the future, and the resulting longevity should be anticipated in a valuation.

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

- The Discount Rate changed from 4.0% to 2.75%.
- The excise tax for high cost, or "Cadillac", health plans was repealed in 2019 and its impacts have been removed from the measurement.

Plan Investments

All surplus cash is invested in accordance with an investment policy approved by the Mercer Island City Council (January 2012). State law defines eligible investments as only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080). Eligible investments which the City held at year end include Government owned and Government-sponsored agencies, Washington State Local Government Investment Pool, and FDIC and PDPC Insured Bank Deposits. Investments are carried at fair market value in accordance with GASB 31.

Investment in the Washington State Local Government Investment Pool is not evidenced by securities that exist in physical or book entry form in the name of the City. Therefore, this investment is treated as a type of investment with a market value equal to net realizable value of the City's share of the pool based on the pool's valuation method. Year-end investments in the pool are included in Cash and Investments on the Statement of Net Position and the Statement of Fiduciary Net Position.

The money weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the

beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.¹

Discount Rate Sensitivity Analysis

The following table presents the net pension liability calculated using the discount rate of 2.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.75%) or 1 percentage point higher (3.75%) than the current rate

	1% Decrease 1.75%	Current Discount Rate 2.75%	1% Increase 3.75%
Total pension liability	\$ 2,237,861	\$ 2,008,356	\$ 1,812,899
Fiduciary net position	876,437	876,437	876,437
Net Pension liability	<u>\$ 1,361,424</u>	<u>\$ 1,131,919</u>	<u>\$ 936,462</u>

Calculation of Money-Weighted Rate of Return

Firefighters' Pension Fund	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows with Interest
Beginning Value - January 1, 2019	\$878,983	12.00	1.00	\$ 901,553
Monthly net external cash flows:				
January	(6,730)	12.00	1.00	(6,903)
February	(6,730)	11.00	0.92	(6,889)
March	(6,730)	10.00	0.83	(6,874)
April	39,701	9.00	0.75	40,466
May	(5,280)	8.00	0.67	(5,370)
June	(5,280)	7.00	0.58	(5,359)
July	(5,280)	6.00	0.50	(5,348)
August	-	5.00	0.42	-
September	(5,280)	4.00	0.33	(5,325)
October	2,644	3.00	0.25	2,661
November	(23,248)	2.00	0.17	(23,348)
December	(2,822)	1.00	0.08	(2,828)
Ending Value - December 31, 2019				\$ 876,437

Money Weighted Rate of Return **2.57%**

Net Pension Liability

The Net Pension Liability (NPL) is defined by the Total Pension Liability minus the plans' Fiduciary Net Position. Where the total pension liability is the portion of actuarial present value of projected benefit payments that is

¹ Milliman Financial Reporting Valuation

attributable to past periods of member services using the Entry Age Normal cost method based on the requirements of GASB 67.

The total pension liability was determined by using the most recent actuarial valuation completed in 2018 with a valuation date of January 1, 2018. Total pension liability was calculated as of the measurement date of December 31, 2019. The reporting date is December 31, 2019 which is the same as the Plans fiscal year ending date.

The City believes an assumed discount rate of 2.75% is an appropriate long-term rate of return on investments for its Firefighters' pension fund. The Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years is 2.74% as of December 26, 2019. Rounding this rate to the nearest quarter percent gives a discount rate of 2.75%. Using 2.75% for both the long term expected rate of return and the bond index means that 2.75% can be used as the single discount rate.

Net Pension Liability Schedule

	December 31, 2018	December 31, 2019
Total pension liability	\$ 1,783,620	\$ 2,008,356
Fiduciary net position	878,983	876,437
Net pension liability	\$ 904,637	\$ 1,131,919
Plan Fiduciary net position as a % of total pension liability	49.28%	43.64%
Covered Payroll	0	0
Net pension liability as a % of covered payroll	N/A	N/A
<i>Key Actuarial Assumptions</i>	<i>December 31, 2018</i>	<i>December 31, 2019</i>
Discount Rate	4.00%	2.75%
Long-term rate of return, net	4.00%	2.75%
Municipal bond rate	4.00%	2.75%
Valuation Date	January 1, 2018	January 1, 2018
Measurement Date	December 31, 2018	December 31, 2019
Inflation	2.25%	2.25%
Salary increases-including inflation	3.25%	3.25%
Actuarial cost method	Entry Age Normal	Entry Age Normal
Mortality	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of December 31, 2018	\$ 1,783,620	\$ 878,983	\$ 904,637
Changes for the Year:			
Service Cost	-	-	-
Interest on total pension liability	69,669	-	69,669
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	-	-	-
Effect of assumptions changes or inputs	239,738	-	239,738
Benefit payments	(84,671)	(84,671)	-
Medical payments from fund	-	-	-
Employer contributions		26,410	(26,410)
Contributions from state fire insurance premium tax		33,226	(33,226)
Net investment income		22,489	(22,489)
Administrative expenses	-	-	-
Balances as of December 31, 2019	\$ 2,008,356	\$ 876,437	\$ 1,131,919

Investment gains/losses are recognized in pension expense over a period of five years. Economic and demographic gains/losses, assumption changes or inputs are recognized over the average remaining service life for all active and inactive members. For the firefighters pension fund immediate recognition is used as the average remaining services life is less than one.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the Firefighter pension fund from the following sources:

Firefighter Pension Fund	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	\$28,322	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL	\$28,322	\$0

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to the pension fund will be recognized in pension expense as follows:

Year ended December 31:	Amount
2020	\$10,158
2021	10,159
2022	5,570
Thereafter	2,435
Total	\$28,322

Schedules of required supplementary information that include a 10 year schedule of changes in the net pension liability and related ratios and a 10 year schedule of the money-weighted rate of return, immediately following the Notes, are provided to present multi-year trend information.

The information presented in the preceding required schedules was determined as part of the actuarial valuations at the dates indicated.

Actuarial cost method:	Entry Age Normal Cost Method
Amortization Period:	UAAL Amortized over a closed 30 year period
Asset Valuation Method:	Market Value

Actuarial economic assumptions:	
Investment Rate of Return	2.75%
Projected salary increases	3.25%

NOTE 14- OTHER POST EMPLOYMENT BENEFITS

The following represents the total Defined Benefit Other Post Employment Benefit (OPEB) Liability for the City of Mercer Island subject to the requirements of GASB Statement 75 for the year ending December 31, 2019:

Total OPEB Liability Schedule

	<u>December 31, 2018</u> <u>December 31, 2019</u>	
Total OPEB liability	\$ 10,068,387	\$ 12,097,772
Covered Payroll	0	0
Total OPEB liability as a % of covered employee payroll	N/A	N/A

Plan Description

In accordance with RCW 41.26, which establishes the Washington Law Enforcement Officers' and Firefighters Retirement System, the city provides lifetime medical care for law enforcement officers and fire fighters employed prior to October 1, 1977. Under this requirement, most coverage for eligible retirees is provided in one of the city's medical insurance programs. However, under authorization of the Disability Board, direct payment is also made for some retiree medical expenses not covered by standard benefit plan provisions. The retiree does not contribute towards the cost of medical care.

The City of Mercer Island's LEOFF Plan 1 (the Health Plan) is a single employer defined benefit healthcare plan administered by the city. The Health Plan provides medical, prescription drug, Medicare premiums, long-term care, and other eligible medical expenses for LEOFF Plan 1 retirees. The Health Plan is closed to new entrants, and dependent spouses and children are not covered. The Plan does not issue a separate standalone financial report.

The Health Plan is funded on a pay-as-you go basis and there are no assets accumulated in a qualifying trust. For the year ending December 31, 2019 the City's cost for providing these benefits was \$339,737.

At December 31, 2019 the following plan participants were covered by the benefit terms:

Description	Number of Participants
Inactive Employees or beneficiaries currently receiving benefits	29
Inactive Employees entitled to but not yet receiving benefits	0
Active Employees	0
Total	29

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rates stated below, and then projected to the measurement date. There have been no significant changes between the valuation date and the fiscal year end.

- **Valuation Date:** January 1, 2018
- **Measurement Date:** December 31, 2019
- **Discount Rate:** 2.75%; **Long Term Care Inflation Rate:** 4.5%

Medical Trends. Actuarial modeling based on a report published by the Society of Actuaries on long term medical trends. The trend rates assume that deductibles and out of pocket maximums will increase over time as medical trends increase. Medical trends were adjusted to capture the projected impact of the Excise Tax on high cost or “Cadillac” health plans beginning in 2022. The following is a summary of medical trend assumptions:

Medical Trend			Adjusted for Excise Tax Medical Trend		Medicare Part B Trend	
Year	Pre-65	Post-65	Year	Post-65	Year	Pre-65
2018-2019	3.4%	0.9%	2018-2019	0.9%	2018-2019	16.3%
2019-2020	8.0%	7.2%	2019-2020	7.2%	2019-2020	3.8%
2020-2022	4.9%	4.9%	2020-2022	4.9%	2020-2021	4.8%
2022-2025		4.8%	2022-2025	4.8%	2021-2022	4.0%
2025-2032		4.7%	2025-2032	4.7%	2022-2023	5.8%
2032-2040		4.8%	2032-2040	4.8%	2023-2024	5.6%
<i>grading down to 3.8% by 2074</i>			2040-2056	4.8%	2024-2025	4.8%
			2056-2057	5.1%	2025-2026	7.3%
			2057-2058	5.5%	2026-2030	5.3%
			2058-2059	5.6%	<i>grading down to 3.85% by 203.</i>	
			2059-2060	5.5%		
			2060-2063	5.4%		
			<i>grading down to 4.1% by 2091</i>			

Long Term Care. Assumptions include probability of benefits commencing, length of stay, inflation and type of covered care (institutional or custodial). Annual increase in Long term care costs assumed at 4.5% per year.

Actuarial Cost Method. The liabilities are calculated according to the Individual Entry Age Normal Cost (level percentage of pay) funding Method.

Mortality. For *service-retired members* assumptions are based on the RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and set forward one year for females. For *disabled members* assumptions are based on RP-2000 Mortality table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set forward two years.

Discount Rate Sensitivity Analysis

The following table presents the total OPEB liability calculated using the discount rate of 2.75%. as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.75%) or 1 percentage point higher (3.75%) than the current rate:

	1% Decrease 1.75%	Current Discount Rate 2.75%	1% Increase 3.75%
Total OPEB Liability 12/31/2019	\$ 14,001,383	\$ 12,097,772	\$ 10,535,786

Healthcare Cost Trend Rate Sensitivity Analysis

The following table presents the total OPEB liability calculated using the current healthcare cost trend rates as well as what the total OPEB liability would be if it were calculated trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rate:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB Liability 12/31/2019	\$ 10,565,506	\$ 12,097,772	\$ 13,910,507

Changes in the Total OPEB Liability

	(Decrease) Total OPEB Liability
Balances as of December 31, 2018	\$ 10,068,387
Changes for the Year:	
Service Cost	-
Interest on total OPEB liability	397,275
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	1,907,799
Expected benefit payments	(275,689)
Balances as of December 31, 2019	<u>\$ 12,097,772</u>

The City believes an assumed discount rate of 2.75% is an appropriate long-term rate of return on investments for its Health plan. The Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years is 2.74% as of December 27, 2019. Rounding this rate to the nearest quarter percent gives a discount rate of 2.75%. as of the December 31, 2019 measurement date.

Economic and demographic gains/losses, assumption changes or inputs are recognized over the average remaining service life for all active and inactive members. For the health plan immediate recognition is used as the average remaining services life is less than one.

GASB 75 OPEB Expense

Measurement Period	January 1, 2018 to December 31 ,2018	January 1, 2019 to December 31 ,2019
Service Cost	\$ -	\$ -
Interest on total OPEB liability	369,113	397,275
Effect of plan changes	-	-
Recognition of Deferred Inflows/Outflows of Resources		
Recognition of economic/demographic gains or losses	-	-
Recognition of assumptions changes or inputs	(732,499)	1,907,799
OPBE Expense	\$ (363,386)	\$ 2,305,074

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the health plan from the following sources:

Firefighter Pension Fund	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		
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL	\$0	\$0

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to the health plan will be recognized in pension expense as follows:

Year ended December 31:	Amount
2020	\$0
2021	0
2022	0
2023	0
Thereafter	0

A schedule of required supplementary information that includes a 10-year schedule of changes in the total OPEB liability and related ratios is available immediately following the Notes and is provided to present multi-year trend information.

NOTE 15 – FUND EQUITIES

Governmental Fund Types

The City recognizes that some of the assets occasionally carried in governmental funds are not available resources and thus are not legally available for appropriation. Accordingly, the City has reclassified ending fund balance amounts in accordance with GASB Statement No. 54. Amounts previously reported as reserved and unreserved are now reported as non-spendable, restricted, committed, assigned, or unassigned.

Proprietary Fund Type

Contributed capital in proprietary funds (Water Revenue, Sewer Revenue, Storm Water Management, Computer Replacement and Equipment Rental) represents contributed capital assets, or contributions for capital asset acquisition, from other funds, governments, customers and developers. Operating reserves are maintained in each of the utility funds in accordance with the City's Management and Budget Policies

NOTE 16 – BUDGET TO GAAP RECONCILIATION

The City budgets separate managerial funds to account for the resources and expenditures related to 1% for Art in Public Places programming and the contingency reserve. In implementing the new requirements of GASB Statement No. 54 the 1% Arts Fund and the Contingency fund no longer qualify as special revenue funds. The funds have been combined with the General Fund for financial reporting purposes resulting in a perspective difference. The following schedule reconciles revenues and expenditures on the budgetary basis to revenues and expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances.

	General Fund	Biennium
Revenues on the budgetary basis	\$ 31,134,847	\$ 31,134,847
Increase (decrease) due to perspective difference	366,807	366,807
Revenues on the GAAP basis	31,501,654	31,501,654
Expenditure on the budgetary basis	29,701,669	29,701,669
Increase (decrease) due to perspective difference	14,056	14,056
Expenditure on the GAAP basis	29,715,725	29,715,725
Other financing sources (uses) on the budgetary basis	(272,251)	(272,251)
Increase (decrease) due to perspective difference	(1,245,336)	(1,245,336)
Other financing sources (uses) on the GAAP basis	(1,517,587)	(1,517,587)
Fund Balance beginning of year on the budgetary basis	5,373,810	5,373,810
Increase (decrease) due to perspective difference	5,199,330	5,199,330
Fund Balance beginning of year on the GAAP basis	10,573,140	10,573,140
Fund Balance end of year on the budgetary basis	6,534,738	6,534,738
Increase (decrease) due to perspective difference	4,306,745	4,306,745
Fund Balance end of year on the GAAP basis	\$ 10,841,483	\$ 10,841,483

NOTE 17 – ACCOUNTING AND REPORTING CHANGES

GASB Postponement of Effective Dates

On May 8, 2020 the GASB issued GASB Statement 95 *Postponement of the Effective Dates of Certain Authoritative Guidance* with the intent to provide relief to governments in light of COVID-19 pandemic. The City of Mercer Island has elected to postpone implementation of new GASB statements accordingly.

NOTE 18 - CONTINGENT LIABILITIES AND LITIGATION

There are various contingent liabilities and pending legal actions which City officials consider routine and part of the ordinary course of business. In the opinion of City officials, adequate provision has been made for any losses which may reasonably be foreseen. In the opinion of the City's legal advisor, there are no claims or actions pending against the City whose adverse outcome would pose a threat to continued City operations, or materially alter the financial condition of the City.

NOTE 19 - JOINT VENTURES

Eastside Public Safety Communications Agency

The Eastside Public Safety Communications Agency (EPSCA), an emergency regional radio access service, was established on May 26, 1992, by an Interlocal Agreement (Agreement 1), pursuant to the Interlocal Cooperation Act, Chapter 39.34 RCW, among the Cities of Bellevue, Redmond, Kirkland and Mercer Island (Principals), municipal corporations organized under the laws of the State of Washington. Agreement 1 was amended June 10, 1993, to include the City of Issaquah as an additional principal in EPSCA's governance. The duration of this agreement was for ten years, and under the terms set forth in Resolution R-18 as approved by majority vote of the Executive Board in regular open meeting on April 11, 2002 it was extended for a subsequent five year period until May 18, 2007. EPSCA began principal operations in December 1995.

EPSCA is governed by an Executive Board (Board), which is composed of the Chief Executive officers of the Principals. The Executive Board is responsible for review and approval of all budgetary, financial and contractual matters.

An Operations Committee (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.

EPSCA has developed an Eastside radio communications system which is integrated with a regional radio communications network. Its capital funding derives from a September 15, 1992, voter-approved King County excess property tax levy of \$57,016,764. EPSCA's portion of the levy was \$10,004,469.

Operating revenues derive from fees charged to the Principals for communications services and from subscriber fees for communications services.

Agreement 1 provides for a weighted vote according to the proportion of each Principal's system radios in relation to the total number of system radios used by all Principals. These percentages are reviewed and adjusted annually at January 1 based on the number of radios on the system in use by current principals as of December 31 of the preceding year.

Upon dissolution, Agreement 1 provides for distribution of retained earnings among the Principals based on the weighted voting percentages in force at the time of dissolution. Any property contributed without charge would revert to the contributing Principal.

In August of 1993, EPSCA entered into an Interlocal Cooperation Agreement (Agreement 2), pursuant to Chapter 39.34 RCW, with King County, Seattle, and Valley Communications (Sub regions), municipal corporations organized under the laws of the State of Washington. Agreement 2 governs the development, acquisition and installation of the emergency radio communication system (System).

Agreement 2 provides that upon voluntarily termination of any Sub region'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 Sub region or a consortium of Sub regions.

Thus, in accordance with Agreement 2, the Principals of EPSCA have no equity interest in EPSCA's contributed capital (\$10,502,938 from King County levy proceeds) as of December 31, 2004. Capital contributed to Mercer Island as of December 31, 2004 amounted to \$344,692.

The City of Mercer Island's share of retained earnings and capital is deemed immaterial and thus is not reflected in the financial statements. Compiled financial statements for EPSCA can be obtained from EPSCA c/o Jessie Morgan, 16100 N.E. 8th Street, Bellevue, Washington 98004.

ARCH – Housing Coalition

In November 1992, the cities of Bellevue, Kirkland, Redmond, and King County joined to establish A Regional Coalition for Housing (ARCH). The agreement was amended in January 1993 to add clarifying language regarding responsibility and disillusionment. Subsequently, the cities of Bothell, Issaquah, and Woodinville joined ARCH. Mercer Island joined ARCH in March, 1994.

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

ARCH is governed by an Executive Board composed of the chief executive officer from each member agency. 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.

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 position 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 statement.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16625 NE 87th Street, Redmond, WA 98052.

E-Gov Alliance

In March 2002 the City of Mercer Island joined the Cities of Bellevue, Bothell, Burien, Issaquah, Kenmore, Kirkland, Sammamish and Woodinville in forming the E-Gov Alliance. The Alliance establishes on-line services through a jointly operated internet portal. Additionally, the Alliance has established a partnership with Microsoft to help define the E-Gov architecture, provide consulting services, offer training, and donated software.

The inter-local agreement may be terminated if Principals holding at least sixty percent (60%) of the weighted vote of all of the Principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1) property contributed without charge by any member shall revert to the contributor, (2) all property purchased after the effective date of the inter-local agreement shall be distributed to the Principals based upon each Principals 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 is not reflected in the financial statements.

Budget monitoring information may be obtained from City of Bellevue, Information Technology Department, PO Box 90012, Bellevue, WA 98009.

NORCOM

In November of 2007, the City of Kirkland, with the cities of Bellevue, Bothell, Clyde Hill, Medina, Mercer Island, and Snoqualmie, along with Eastside Fire and Rescue, King County Fire Protection Districts 27 and 45, King and Kittitas County Fire Protection District 51, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire and Life Safety District entered into an interlocal agreement to establish and maintain a consolidated emergency service communications center. In 2008, the City of Redmond joined as a subscriber. Prior to the interlocal agreement, the formation efforts were carried out under a Joint Powers Agreement originally approved in 2005 and amended in 2006 and 2007. On July 1, 2009, the separate dispatch operations of the cities of Bellevue and Kirkland were combined and began operating as the North East King County Regional Public Safety Communications Agency (or NORCOM). NORCOM includes 911 telephone answering, computer aided dispatch of fire, police and EMS resources, public safety field technology and a records management system.

Operating revenues are provided by user fees charged to each member based on average call volume. For 2019 the City of Mercer Island's share of these fees was \$786,184.

Additional financial information can be obtained from NORCOM, c/o Finance Manager, P.O. Box 50911, Bellevue, WA 98015.

NOTE 20 – POLLUTION REMEDIATION OBLIGATIONS

In 1991 the City's Maintenance Shop found a problem when it tested the "tightness" of its three underground storage tanks for unleaded gasoline and diesel fuel. A subsequent site investigation found minor problems but no failure of the three tanks or connecting piping. Soil samples, test pits and monitoring wells indicated that contamination was not widespread. A consultant's report concluded that "the quantity of the petroleum released was probably quite small and poses little impact to the surrounding environment."

The state Department of Ecology (DOE) recommended quarterly monitoring of three on-site monitoring wells. It is unclear from DOE and City records whether the City followed this recommendation. In June of 1993, the three tanks were removed along with an estimated 100 cubic yards of contaminated soils. Sampling of the excavation site found the soils removal was successful, but groundwater contamination was still present. The City installed an "air sparing/vapor extraction system" to remove groundwater contamination. Use of the system required a permit from the Puget Sound Air Pollution Control Agency. For reasons that are not known, the permit was never granted and the system was not activated.

In early July of 2004, the soils and groundwater of the site occupied by Honeywell International to the west and north of Maintenance Shop were tested as part of due diligence for a prospective sale of the property. The property is jointly owned by the Archdiocese of Seattle and two other out-of-state religious organizations. The consultants performing this testing found evidence of petroleum hydrocarbons and associated contaminants in soil and groundwater samples that exceeded state cleanup standards as defined by the Model Toxics Control Act. When notified of these results, the City hired Golder Associates to investigate. Golder conducted the original site investigation in 1991.

In two phases of work, Golder installed new monitoring wells, did soils borings, and tested the existing monitoring wells. Golder confirmed that the Maintenance Shop tanks were the only possible source of the petroleum contamination on the Honeywell site. Golder found that the contamination extended in groundwater beneath the Honeywell office building. Golder believes that petroleum contamination from the Maintenance Shop tanks may have migrated in groundwater to the Honeywell site along the original path of the stream that

now flows generally east to west at the south end of the property. The course of the stream likely was altered to its present south to north flow prior to construction of the building occupied by Honeywell. The old stream channel is believed to be contained in a sandy layer between two impervious layers of clay and hard silt.

On Feb. 22, 2005, the City authorized Golder to begin a third phase of work that will define the precise extent of the petroleum contamination at the Honeywell site, test the indoor air in the Honeywell building to determine whether the contamination beneath the building is affecting air quality, begin removing petroleum contamination in groundwater, and recommend a plan for the final cleanup and monitoring of the Site.

The 2004-2005 remedial investigation found a gasoline groundwater plume extending north from the former underground tank site, under the former Honeywell building, and turning to the northeast toward City Hall.

Cleanup of the affected groundwater is required under the State Model Toxics Control Act (MTCA). Golder was asked to develop a conceptual remedial approach for cleanup of the groundwater plume. After the conceptual approach was presented to John Bails of the Washington State Department of Ecology (DOE) and verbally approved, work began on a detailed plan for remediation. Following DOE acceptance, the remedial action plan was formalized and engineering design and compliance monitoring plans were completed in the summer of 2006.

The remedial action consisted of four components:

- Highly impacted groundwater was removed from the area north of the stream separating the Maintenance and Honeywell properties via excavation and the installation of an 80-foot-long by 10-foot-deep interceptor trench. The trench extracts impacted groundwater and pumps it to an activated carbon-based treatment system on the Maintenance property. After treatment, the water discharges to a King County/METRO sanitary sewer under discharge authorization number 4125-01.
- Approximately 260 cubic yards of highly contaminated soil were excavated from the south side of the Honeywell building.
- Biodegradation of the volatile organic compounds (VOCs) associated with the groundwater contamination plume has been enhanced by the introduction of ambient air via four buried airlines that intersect the gasoline plume and the application of oxidative chemicals.
- An existing network of monitoring wells to track the progress of the remediation was expanded. Short-term and long-term groundwater, surface water, and indoor air monitoring activities have been instituted.

In general, concentrations of gasoline and its VOC constituents remain above MTCA cleanup levels but appear to be decreasing with time. The property data for both sites showed progress in reducing the size of the plume, although test wells below the original fuel site still exceeded MTCA requirements. At the recommendation of Golder Associates, a pilot in-situ chemical oxidation test was implemented to accelerate the biodegradation of the contaminated groundwater.

In 2014, the City consulted with Farallon Consulting to complete a technical review of the remediation response, including the evaluation of the proposed pilot in-situ chemical oxidation test. Farallon recommended revamping the monitoring reports, including further descriptions of existing site conditions, cleanup activities, the evaluation of data, and moving from quarterly monitoring intervals to annual reports. Due to concerns over the effectiveness of the costly “in-situ” oxidation treatment, the City transitioned away from in-situ chemical applications in 2015 and 2016.

In compliance with the MTCA, the City continues to monitor and report on the remediation efforts annually. Remedial actions including the introduction of air into the subsurface to improve biological degradation

continue. However, no chemical oxidation (Persulfate injections) are currently scoped. Golder also continues to maintain the remediation system and provide administrative support to complete the King County Metro discharge authorization permit and the DOE monitoring reports.

At significant points during this process, the City has consulted with the State Department of Ecology (DOE) and confirmed that the work being undertaken is appropriate and meets regulatory requirements. DOE has informed the City that the cleanup and monitoring process likely won't be completed for three to five years. DOE's Voluntary Compliance Program for underground storage tanks will allow the City to recover 50% of its costs, up to \$200,000, for the contamination investigation, clean-up and monitoring, following the issuance of a "No Further Action" letter at the completion of monitoring of the site.

NOTE 21 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

Consistent with the Governors instructions the City of Mercer Island made the following changes to its operations:

- Suspended all operations at the Mercer Island Community and Events Center including recreation programming and facility rentals.
- Closed all public buildings to the public and limited operations to essential services only.
- Closed the Mercer Island Thrift Shop, suspending all retail operations.

The City incurred immediate revenue reductions with the closure of the Thrift Shop and Parks and Recreation operations impacting both the General Fund and the Youth and Family Services Fund. The City anticipates a decline in sales tax revenues further impacting the General Fund revenues. Immediate actions are being taken to reduce expenditures in both the General Fund and the Youth and Family Services Fund.

The length of time these measures will be in place, and the full extent of the financial impact on the City of Mercer Island is unknown at this time.

City of Mercer Island
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2019

	Budgeted Amounts			
	Original Budget	Final Budget	Actual for Biennium	Variance From Final Budget
REVENUES				
Taxes:				
Property	\$ 25,171,740	\$ 25,171,740	\$ 12,522,800	\$ (12,648,940)
Sales	10,228,791	10,228,791	5,257,123	(4,971,668)
B&O	9,732,727	9,732,727	4,864,885	(4,867,842)
Licenses & Permits	7,384,749	6,121,684	2,684,589	(3,437,095)
Intergovernmental	2,352,064	2,494,789	573,967	(1,920,822)
Charges for Services	7,460,318	6,030,018	4,212,466	(1,817,552)
Fines & Forfeitures	693,208	693,208	300,893	(392,315)
Investment Earnings	51,208	51,208	266,029	214,821
Other Revenues	473,400	473,400	452,096	(21,304)
Total revenues	63,548,205	60,997,565	31,134,847	(29,862,718)
EXPENDITURES				
Current:				
Judicial	972,158	972,158	437,031	(535,127)
General Government	11,486,610	11,942,509	4,844,020	(7,098,489)
Public Safety	28,374,859	28,616,454	14,555,206	(14,061,248)
Physical Environ	-	-	67,938	67,938
Transportation	3,861,047	3,852,337	938,887	(2,913,450)
Health & Human Services	-	-	12,522	12,522
Economic Environment	7,139,948	7,165,073	3,344,713	(3,820,360)
Culture & Recreation	11,950,202	8,825,229	5,501,352	(3,323,877)
Total expenditures	63,784,824	61,373,760	29,701,669	(31,672,091)
Excess (deficiency) of revenues over (under) expenditures	(236,619)	(376,195)	1,433,178	1,809,373
OTHER FINANCING SOURCES (USES)				
Transfers in	1,035,704	607,920	607,920	-
Transfers out	(1,481,400)	(1,285,328)	(880,171)	405,157
Total other financing sources (uses)	(445,696)	(677,408)	(272,251)	405,157
Net change in fund balances	(682,315)	(1,053,603)	1,160,927	2,214,530
Fund balances - Beginning	790,798	-	5,373,810	5,373,810
Fund balances - Ending	\$ 108,483	\$ (1,053,603)	\$ 6,534,738	\$ 7,588,341

City of Mercer Island
Street Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2019

	<u>Budgeted Amounts</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual for Biennium</u>	<u>Variance From Final Budget</u>
REVENUES				
Taxes:				
Other	\$ 3,398,000	\$ 3,398,000	\$ 1,601,198	(1,796,802)
Intergovernmental	2,660,000	2,660,000	1,055,865	(1,604,135)
Charges for Services	-	-	64,242	64,242
Total revenues	6,058,000	6,058,000	2,721,305	(3,336,695)
EXPENDITURES				
Current:				
Transportation	6,692,685	7,099,000	2,946,743	(4,152,257)
Total expenditures	6,692,685	7,099,000	2,946,743	(4,152,257)
Excess (deficiency) of revenues over (under) expenditures	(634,685)	(1,041,000)	(225,437)	815,563
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(85,000)	(85,000)	(44,479)	40,521
Total other financing sources (uses)	(85,000)	(85,000)	(44,479)	40,521
Net change in fund balances	(719,685)	(1,126,000)	(269,916)	856,084
Fund balances - Beginning	2,179,388	2,179,388	4,019,850	1,840,462
Fund balances - Ending	\$ 1,459,703	\$ 1,053,388	\$ 3,749,933	\$ 2,696,545

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
PERS1
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Employer's proportion of the net pension liability (asset)	0.0885640%	0.0999700%	0.0943380%	0.0921020%	0.1014210%	0.090700%	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ 3,405,600	\$ 4,464,694	\$ 4,476,412	\$ 4,946,311	\$ 5,305,261	4,569,055	N/A	N/A	N/A	N/A
TOTAL	\$ 3,405,600	\$ 4,464,694	\$ 4,476,412	\$ 4,946,311	5,305,261	4,569,055	N/A	N/A	N/A	N/A
Employer's covered employee payroll	12,444,511	13,336,568	11,809,152	10,729,144	11,405,710	9,766,732	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	365.4%	298.7%	263.8%	216.9%	215.0%	213.8%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%	N/A	N/A	N/A	N/A

Key Actuarial Assumptions	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	3.50%	3.75%	3.75%	3.75%	3.75%
Actuarial cost method	Entry Age Cost	Entry Age Cost	Entry Age Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	RP-2000 Mortality Table (combined healthy and combined disabled) using 100% of Projection Scale BB					

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Employer's proportion of the net pension liability	0.113624%	0.127078%	0.120307%	0.115169%	0.125812%	0.112022%	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability	\$ 1,103,675	\$ 2,169,744	\$ 4,180,093	\$ 5,798,668	\$ 4,495,334	2,264,369	N/A	N/A	N/A	N/A
TOTAL	\$ 1,103,675	\$ 2,169,744	\$ 4,180,093	\$ 5,798,668	\$ 4,495,334	2,264,369	N/A	N/A	N/A	N/A
Employer's covered employee payroll	\$ 12,372,797	\$ 13,259,166	\$ 11,809,152	\$ 10,729,144	\$ 11,164,401	9,553,259	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	8.92%	16.36%	35.40%	54.05%	40.26%	23.70%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%	N/A	N/A	N/A	N/A

Key Actuarial Assumptions	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	3.50%	3.75%	3.75%	3.75%	3.75%
Actuarial cost method	Entry Age Cost	Entry Age Cost	Entry Age Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	RP-2000 Mortality Table (combined healthy and combined disabled) using 100% of Projection Scale BB					

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
PSERS
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Employer's proportion of the net pension liability (asset)	0.015836%	0.019719%	0.019410%	0.019563%	0.022901%	0.021583%	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ (2,059)	\$ 244	\$ 3,803	\$ 8,314	\$ 4,180	(3,125)	N/A	N/A	N/A	N/A
TOTAL	\$ (2,059)	\$ 244	\$ 3,803	\$ 8,314	\$ 4,180	(3,125)	N/A	N/A	N/A	N/A
Employer's covered employee payroll	\$ 72,996	\$ 77,401	\$ 68,723	\$ 63,388	\$ 67,051	57,659	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-2.82%	0.32%	5.53%	13.12%	6.23%	5.42%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	101.85%	99.79%	96.26%	90.41%	95.08%	105.01%	N/A	N/A	N/A	N/A

Key Actuarial Assumptions	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	3.50%	3.75%	3.75%	3.75%	3.75%
Actuarial cost method	Entry Age Cost	Entry Age Cost	Entry Age Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	RP-2000 Mortality Table (combined healthy and combined disabled) using 100% of Projection Scale BB					

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Employer's proportion of the net pension liability (asset)	0.070658%	0.070837%	0.070386%	0.070876%	0.071143%	0.071676%	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ (1,396,634)	\$ (1,286,047)	\$ (1,067,910)	\$ (730,226)	\$ (857,430)	(869,280)	N/A	N/A	N/A	N/A
TOTAL	\$ (1,396,634)	\$ (1,286,047)	\$ (1,067,910)	\$ (730,226)	\$ (857,430)	(869,280)	N/A	N/A	N/A	N/A
Employer's covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	148.78%	144.42%	135.96%	123.74%	127.36%	126.91%	N/A	N/A	N/A	N/A

Key Actuarial Assumptions	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	3.50%	3.75%	3.75%	3.75%	3.75%
Actuarial cost method	Entry Age Cost	Entry Age Cost	Entry Age Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	RP-2000 Mortality Table (combined healthy and combined disabled) using 100% of Projection Scale BB					

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Employer's proportion of the net pension liability (asset)	0.215920%	0.249477%	0.246128%	0.234565%	0.261715%	0.244566%	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ (5,002,204)	\$ (5,064,927)	\$ (3,415,459)	\$ (1,364,300)	\$ (2,689,907)	(3,245,496)	N/A	N/A	N/A	N/A
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (3,275,773)	\$ (3,279,445)	\$ (2,215,545)	\$ (889,424)	\$ (1,757,534)	(2,137,986)	N/A	N/A	N/A	N/A
TOTAL	\$ (8,277,977)	\$ (8,344,372)	\$ (5,631,004)	\$ (2,253,724)	\$ (4,447,441)	(5,383,482)	N/A	N/A	N/A	N/A

Employer's covered employee payroll	\$ 7,582,771	\$ 8,263,780	\$ 7,699,330	\$ 7,105,964	\$ 7,596,018	6,806,464	N/A	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	65.97%	61.29%	44.36%	19.20%	35.41%	47.68%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	119.43%	118.50%	113.36%	106.04%	111.67%	116.75%	N/A	N/A	N/A	N/A

Key Actuarial Assumptions	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30,2018	June 30,2017	June 30,2016	June 30,2015	June 30,2014	June 30,2013
Measurement Date	June 30,2019	June 30,2018	June 30,2017	June 30,2016	June 30,2015	June 30,2014
Inflation	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	3.50%	3.75%	3.75%	3.75%	3.75%
Actuarial cost method	Entry Age Cost	Entry Age Cost	Entry Age Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	RP-2000 Mortality Table (combined healthy and combined disabled) using 100% of Projection Scale BB					

City of Mercer Island
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily or contractually required contributions	\$ 641,359	\$ 647,639	\$ 610,706	\$ 545,652	\$ 504,636	\$ 437,069	N/A	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (641,359)	\$ (647,639)	\$ (610,706)	\$ (545,652)	\$ (504,636)	\$ (437,069)	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Covered employer payroll	\$ 12,934,104	\$ 12,802,735	\$ 12,485,882	\$ 11,333,362	\$ 11,112,882	\$ 10,325,037	N/A	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	5.0%	5.1%	4.9%	4.8%	4.5%	4.2%	N/A	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
PERS Plan 2 / 3
As of December 31, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily or contractually required contributions	\$ 1,648,492	\$ 1,620,939	\$ 1,475,731	\$ 1,259,585	\$ 1,123,738	\$ 941,919	N/A	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (1,648,492)	\$ (1,620,939)	\$ (1,475,731)	\$ (1,259,585)	\$ (1,123,738)	\$ (941,919)	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Covered employer payroll	\$ 12,856,033	\$ 12,726,557	\$ 12,413,233	\$ 11,266,419	\$ 11,048,090	\$ 10,261,952	N/A	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	12.8%	12.7%	11.9%	11.2%	10.2%	9.2%	N/A	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
PSERS
As of December 31, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily or contractually required contributions	\$ 9,576	\$ 9,194	\$ 8,521	\$ 7,725	\$ 7,147	\$ 6,649	N/A	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (9,576)	\$ (9,194)	\$ (8,521)	\$ (7,725)	\$ (7,147)	\$ (6,649)	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Covered employer payroll	\$ 78,071	\$ 76,178	\$ 72,649	\$ 66,943	\$ 64,792	\$ 63,085	N/A	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	12.3%	12.1%	11.7%	11.5%	11.0%	10.5%	N/A	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
LEOFF 1
As of December 31, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily or contractually required contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Covered employer payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	N/A	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily or contractually required contributions	\$ 446,852	\$ 426,194	\$ 419,206	\$ 390,720	\$ 393,006	\$ 375,430	N/A	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (446,852)	\$ (426,194)	\$ (419,206)	\$ (390,720)	\$ (393,006)	\$ (375,430)	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Covered employer payroll	\$ 8,302,343	\$ 7,848,878	\$ 7,874,867	\$ 7,470,757	\$ 7,481,851	\$ 7,178,393	N/A	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	5.4%	5.4%	5.3%	5.2%	5.3%	5.2%	N/A	N/A	N/A	N/A

Firefighters Pension Fund
GASB 67 Schedule of Changes in Net Pension Liability and Related Ratios

\$ Thousands	Fiscal Year Ending December 31:										
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total Pension Liability											
Service Cost	\$0	\$0	\$0	\$0	\$0	\$0	N/A	N/A	N/A	N/A	N/A
Interest on total pension liability	70	65	75	67	67	68	N/A	N/A	N/A	N/A	N/A
Effect of plan changes	0	0	0	0	0	0	N/A	N/A	N/A	N/A	N/A
Effect of economic/demographic gains or losses	0	0	-278	17	17	0	N/A	N/A	N/A	N/A	N/A
Effect of assumptions changes or inputs	240	-96	0	217	217	52	N/A	N/A	N/A	N/A	N/A
Benefit payments	-85	-81	-83	-91	-91	-77	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	\$225	-\$111	-\$286	\$210	\$210	\$43	N/A	N/A	N/A	N/A	N/A
Total pension liability, beginning	1784	1895	2181	1971	1971	1927	N/A	N/A	N/A	N/A	N/A
Total pension liability, ending (a)	\$2,008	\$1,784	\$1,895	\$2,181	2181	1970	N/A	N/A	N/A	N/A	N/A
Fiduciary Net Position							N/A	N/A	N/A	N/A	N/A
Employer contributions	\$26	\$26	\$26	\$26	\$26	\$26	N/A	N/A	N/A	N/A	N/A
Contributions from state fire insurance premium	33	33	32	30	31	31	N/A	N/A	N/A	N/A	N/A
Investment income net of investment expenses	22	15	8	5	1	3	N/A	N/A	N/A	N/A	N/A
Benefit payments	-85	-81	-83	-83	-91	-77	N/A	N/A	N/A	N/A	N/A
Medical payments from fund	0	0	0	0	0	0	N/A	N/A	N/A	N/A	N/A
Administrative expenses	0	0	0	0	0	0	N/A	N/A	N/A	N/A	N/A
Net change in plan fiduciary net position	-3	-6	-16	-22	-32	-16	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, beginning	879	885	901	922.95	955	971	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, ending (b)	876	879	885	901	922.95	955	N/A	N/A	N/A	N/A	N/A
Net pension liability, ending = (a)-(b)	\$1,132	\$905	\$1,010	\$1,279	\$1,258	\$1,015	N/A	N/A	N/A	N/A	N/A
Fiduciary net position as a % of total pension liab	43.6%	49.3%	46.7%	41.3%	42.3%	48.5%	N/A	N/A	N/A	N/A	N/A
Covered Payroll	\$0	\$0	\$0	\$0	\$0	\$0	N/A	N/A	N/A	N/A	N/A
Net pension liability as a % of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Firefighters Pension Fund
GASB 67 Money-Weighted Rate of Return

Fiscal Year Ending December 31	Net Money- Weighted Rate of Return
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	0.35%
2015	0.13%
2016	0.55%
2017	0.92%
2018	1.70%
2019	2.57%

**LEOFF 1 Retiree Medical and Long-Term Care Benefits
GASB 75 Schedule of Changes in Total OPEB Liability and Related Ratios**

\$ Thousands	Fiscal Year Ending December 31:									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total OPEB Liability										
Service Cost	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest on total OPEB liability	397	369	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes in benefit terms	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of economic/demographic gains or losses	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of assumptions changes or inputs	1,908	(732)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Expected benefit payments	(276)	(227)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total OPEB liability	2,029	(590)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
 Total OPEB liability, beginning	 10,068	 10,658	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A
Total OPEB liability, ending (a)	12,098	10,068	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
 Covered employee payroll	 \$0	 \$0	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A
 Total OPEB liability as a % of covered employee p	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A	 N/A

NOTES TO RSI

Local Government Pension Trust Fund - Firefighters Pension Fund

In addition to the two statewide retirement systems, the City is itself the administrator of a Firemen's Pension System, which is shown as a pension trust fund in the financial reports of the City.

Schedules of required supplementary information including a 10 year schedule of changes in the net pension liability and related ratios and a 10 year schedule of the money-weighted rate of return are provided to present multi-year trend information.

Employer contributions for pensions are total contributions to the fund net of disbursements from the fund for medical expenses under RCW 41.26.150. It includes revenues from fire insurance premium taxes. Prior to 2014, administrative expenses were also subtracted from employer contributions. GASB Statement 67 has separated funding from financial reporting. Paragraph 32c of GASB 67 provides guidance for a schedule of an actuarially determined contribution, if such contribution is calculated. The actuarial determined contributions is not calculated due to the fact that benefits are being funded on a pay-as-you-go basis

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and key actuarial assumptions detailed below, and projected forward to the measurement date.

<i>Key Actuarial Assumptions</i>	December 31, 2018	December 31, 2019
Discount Rate	4.00%	2.75%
Long-term rate of return, net	4.00%	2.75%
Municipal bond rate	4.00%	2.75%
Valuation Date	January 1, 2018	January 1, 2018
Measurement Date	December 31, 2018	December 31, 2019
Inflation	2.25%	2.25%
Salary increases-including inflation	3.25%	3.25%
Actuarial cost method	Entry Age Normal	Entry Age Normal
Mortality	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for

Total OPEB Liability

In accordance with RCW 41.26, which establishes the Washington Law Enforcement Officers' and Firefighters Retirement System, the city provides lifetime medical care for law enforcement officers and fire fighters employed prior to October 1, 1977. The City of Mercer Island's LEOFF Plan 1 (the Health Plan) is a single employer defined benefit healthcare plan administered by the city. The Health Plan provides medical, prescription drug, Medicare premiums, long-term care, and other eligible medical expenses for LEOFF Plan 1 retirees. The Health Plan is closed to new entrants, and dependent spouses and children are not covered. The retiree does not contribute towards the cost of medical care. The Plan does not issue a separate standalone financial report.

The Health Plan is funded on a pay-as-you go basis and there are no assets accumulated in a qualifying trust.

The actuarial assumptions are intended to estimate the future experience of members. Valuation assumptions include:

<i>OPEB - Key Actuarial Assumptions</i>	December 31, 2018	December 31, 2019
Discount Rate	4.00%	2.75%
Long-term care inflation rate	4.50%	4.50%
Valuation Date	January 1, 2018	January 1, 2018
Measurement Date	December 31, 2018	December 31, 2019
Actuarial cost method	Entry Age Normal	Entry Age Normal
Mortality	For service-retired members assumptions are based on the RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and set forward one year for females. For disabled members assumptions are based on RP-2000 Mortality table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set forward two years	For service-retired members assumptions are based on the RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and set forward one year for females. For disabled members assumptions are based on RP-2000 Mortality table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set forward two years

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov