



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: City of Mercer Island

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2020 through December 31, 2020 - see draft report.
- Financial statement and federal grant compliance audit for January 1, 2020 through December 31, 2020 – see draft report.

Audit Highlights

- We would like to thank LaJuan Tuttle, Deputy Finance Director, as well as other City staff for their cooperation and timely responses to our requests throughout the audit, especially since the audit was performed in a remote environment.
- We appreciate the City took great care to ensure expenditures of Coronavirus Relief Fund program dollars were properly supported and documented, as well as ensuring the City is in compliance with requirements for this new federal program.
- We thank the City for its commitment to strengthen the relationship with the Office of the Washington State Auditor.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Communications required by audit standards

In relation to our financial statement audit report, we would like to bring to your attention:

- Uncorrected misstatements in the audited financial statements are summarized on the attached schedule. We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements.

- There were no material misstatements in the financial statements corrected by management during the audit.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal>.

Management Representation Letter

We have included a copy of representations requested of received from management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$90,700 and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in summer 2022 and will cover the following general areas:

- Accountability for Public Resources
- Financial Statement
- Federal Programs

The estimated cost for the next audit based on current rates is \$90,700 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

If expenditures of federal awards are \$750,000 or more in any fiscal year, notify our Office so we can schedule your audit to meet federal single audit requirements. Federal awards can include grants, loans, and non-cash assistance such as equipment and supplies.

Working Together to Improve Government

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this

mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Office of the Washington State Auditor
Pat McCarthy

Preliminary Draft - Please do not duplicate, distribute, or disclose.

Accountability Audit Report

City of Mercer Island

For the period January 1, 2020 through December 31, 2020

Published (Inserted by OS)

Report No. 1030130



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Office of the Washington State Auditor Pat McCarthy

Issue Date – (Inserted by OS)

Council
City of Mercer Island
Mercer Island, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

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.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the City of Mercer Island from January 1, 2020 through December 31, 2020.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Self-insurance for paid family and medical leave
- Permit cost recoveries – review of the permit cost recovery model
- Small business grants – compliance with COVID-19 relief program
- Payroll – police and fire overtime
- Third party receipting – compliance with legal and contractual requirements
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

RELATED REPORTS

Financial

Our opinion on the City's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the City's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Mercer Island was incorporated in 1960. The City operates under the council-manager form of government and has seven council members. The Council elects one of its members to serve a two-year term as Mayor. The Council appoints a City Manager to oversee the City's daily operations as well as its 178 employees.

The City serves approximately 24,000 residents. The City provides a full range of services to the public including general government, public safety, municipal court, street and trails maintenance, utilities maintenance, parks and recreation activities, public improvements, planning and zoning, and youth and family services.

The City is funded by a variety of revenue sources, including property taxes, sales taxes, utility taxes, business taxes, charges for services, and grants. In fiscal year 2020, the City's general fund operating budget was approximately \$28 million.

Contact information related to this report	
Address:	City of Mercer Island 9611 S.E. 36th Street Mercer Island, WA 98040
Contact:	LaJuan Tuttle, Deputy Finance Director
Telephone:	206-275-7785
Website:	www.mercerisland.gov

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Mercer Island at <http://portal.sao.wa.gov/ReportSearch>.

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

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- [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



Office of the Washington State Auditor
Pat McCarthy

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Financial Statements and Federal Single Audit Report

City of Mercer Island

For the period January 1, 2020 through December 31, 2020

Published (Inserted by OS)

Report No. 1030087



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

Issue Date – (Inserted by OS)

Council
City of Mercer Island
Mercer Island, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Mercer Island January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
21.019	COVID-19 – Coronavirus Relief Fund

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 15, 2022.

As discussed in Note 23 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 23.

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

March 15, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Mercer Island January 1, 2020 through December 31, 2020

Council
City of Mercer Island
Mercer Island, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Mercer Island, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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



Pat McCarthy, State Auditor

Olympia, WA

March 15, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Mercer Island January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mercer Island, as of December 31, 2020, 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 23 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 23. 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 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

March 15, 2022

FINANCIAL SECTION

City of Mercer Island January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Activities – 2020

Balance Sheet – Governmental Funds – 2020

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2020

Statement of Net Position – Proprietary Funds – 2020

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –
2020

Statement of Cash Flows – Proprietary Funds – 2020

Statement of Fiduciary Net Position – Fiduciary Funds – 2020

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2020

Notes to the Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– General Fund – 2020

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– Street Fund – 2020

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,
PSERS, LEOFF 1, LEOFF 2 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS, LEOFF 1, LEOFF 2,
– 2020

GASB 67 Schedule of Changes in Net Pension Liability and Related Ratios – Firefighters
Pension Fund – 2020

GASB 67 Money-Weighted Rate of Return – Firefighters Pension Fund – 2020

GASB 75 Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1
Retiree Medical and Long-Term Care Benefits – 2020

Notes to Required Supplementary Information – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2020

Notes to Schedule of Expenditures of Federal Awards – 2020

**City of Mercer Island
Management's Discussion and Analysis
For the Year Ended December 31, 2020**

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, 2020. 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 2019 fiscal year data is also included in the discussion.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2020 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 2020 fiscal year by \$248.0 million (*net position*). Of this amount, nearly \$38.2 million 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 \$11.6 million in 2020 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 2020, the City's governmental funds reported combined fund balances of \$27.07 million, an increase of \$5.45 million relative to 2019. Approximately 42% of this amount (\$11.5 million) 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 \$3.85 million of this amount has been designated by the City Council as a contingency reserve.
- At the end of 2020, unrestricted fund balance (the total of *committed*, *assigned*, and *unassigned* components of *fund balance*) for the General Fund was \$14.3 million, or approximately 51% of total General Fund expenditures.
- The City of Mercer Island's total outstanding long-term debt at the end of 2020 was \$10.69 million, which represents a decrease of \$1.97 million from the end of 2019.

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 *Custodial Fund* reports resources held by the City in a custodial capacity for other governments.

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, 2020 and December 31, 2019 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

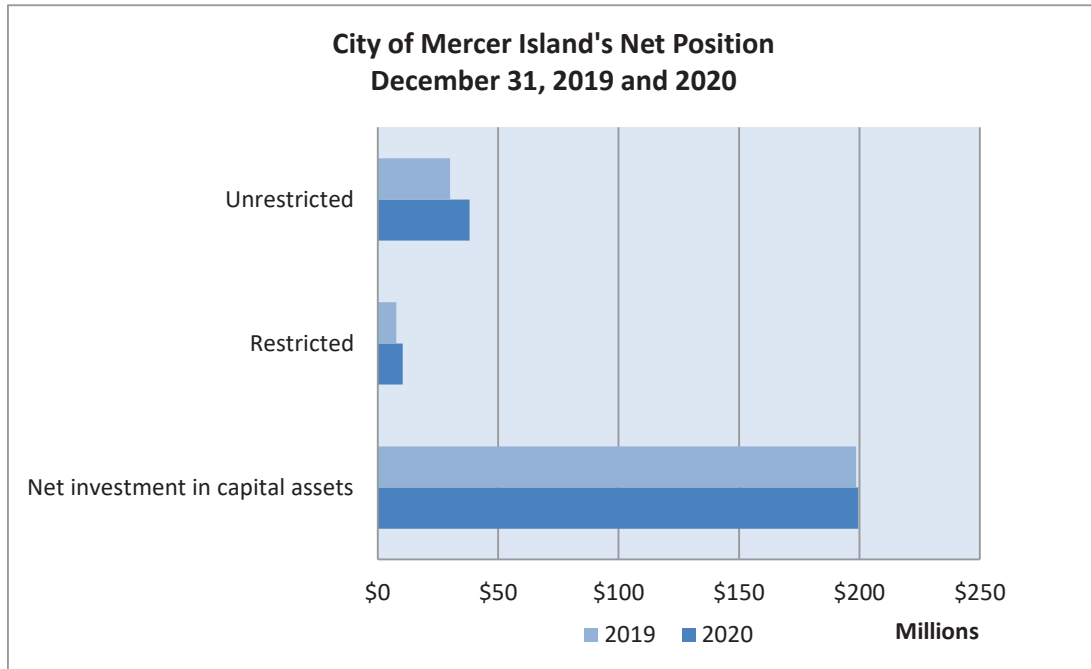
	Governmental Activities		Business Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Current and other assets	\$ 33,353,168	\$ 28,741,667	\$ 31,299,020	\$ 26,823,076	\$ 64,652,188	\$ 55,564,743
Net Pension Asset	5,784,441	6,400,897	-	-	5,784,441	6,400,897
Land	108,789,823	108,789,823	203,992	203,992	108,993,815	108,993,815
Capital assets net of accumulated depreciation	50,724,957	52,238,647	49,372,460	49,283,713	100,097,417	101,522,360
Construction in progress	342,650	181,737	792,699	606,298	1,135,349	788,035
Total assets	\$ 198,995,040	\$ 196,352,771	\$ 81,668,171	\$ 76,917,078	\$ 280,663,210	\$ 273,269,849
Deferred Outflow of Resources						
Deferred amount on refunding	\$ 19,420	29,130	252,582	280,647	\$ 272,002	309,777
Asset Retirement Obligations	\$ -	-	88,714	-	\$ 88,714	-
Pensions	2,489,195	2,382,202	334,875	299,157	2,824,070	2,681,359
Total deferred outflow of resources	\$ 2,508,615	\$ 2,411,332	\$ 676,171	\$ 579,804	\$ 3,184,786	\$ 2,991,136
Liabilities						
Current Liabilities	\$ 3,552,612	\$ 2,952,307	\$ 2,063,768	\$ 1,737,451	\$ 5,616,380	4,689,758
Non-Current Liabilities	18,504,373	20,439,277	8,837,344	9,641,586	27,341,717	30,080,863
Total liabilities	\$ 22,056,985	\$ 23,391,584	\$ 10,901,112	\$ 11,379,037	\$ 32,958,097	\$ 34,770,621
Deferred Inflow of Resources						
Unavailable revenue	\$ 210,156	189,597	-	-	\$ 210,156	189,597
Pensions	2,283,434	4,315,231	378,817	574,214	2,662,251	4,889,445
Total deferred inflow of resources	\$ 2,493,590	\$ 4,504,828	\$ 378,817	\$ 574,214	\$ 2,872,407	\$ 5,079,042
Net Position						
Net investment in capital assets	\$ 157,749,924	\$ 158,102,183	\$ 41,803,649	\$ 40,563,753	\$ 199,553,573	198,665,936
Restricted	10,305,424	7,753,681	-	-	10,305,424	7,753,681
Unrestricted	8,897,732	5,011,826	29,260,764	24,979,878	38,158,496	29,991,704
Total net position	\$ 176,953,080	\$ 170,867,690	\$ 71,064,413	\$ 65,543,631	\$ 248,017,493	\$ 236,411,321

For the City of Mercer Island, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$248.0 million at the close of 2020. The largest component of the City's total net position at \$199.55 million 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 4.2%, or \$10.3 million, of the City's total net position represents resources that are subject to external restrictions on how they may be used. The increase in restricted net position in 2020, as compared to 2019, is primarily the result of an increase in real estate excise tax revenues, which are restricted for capital projects related to streets, pedestrian/bicycle facilities, parks, and public

buildings. The remaining 15.4%, or \$38.2 million, 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 \$29.3 million, or 76.7% 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 2020 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.



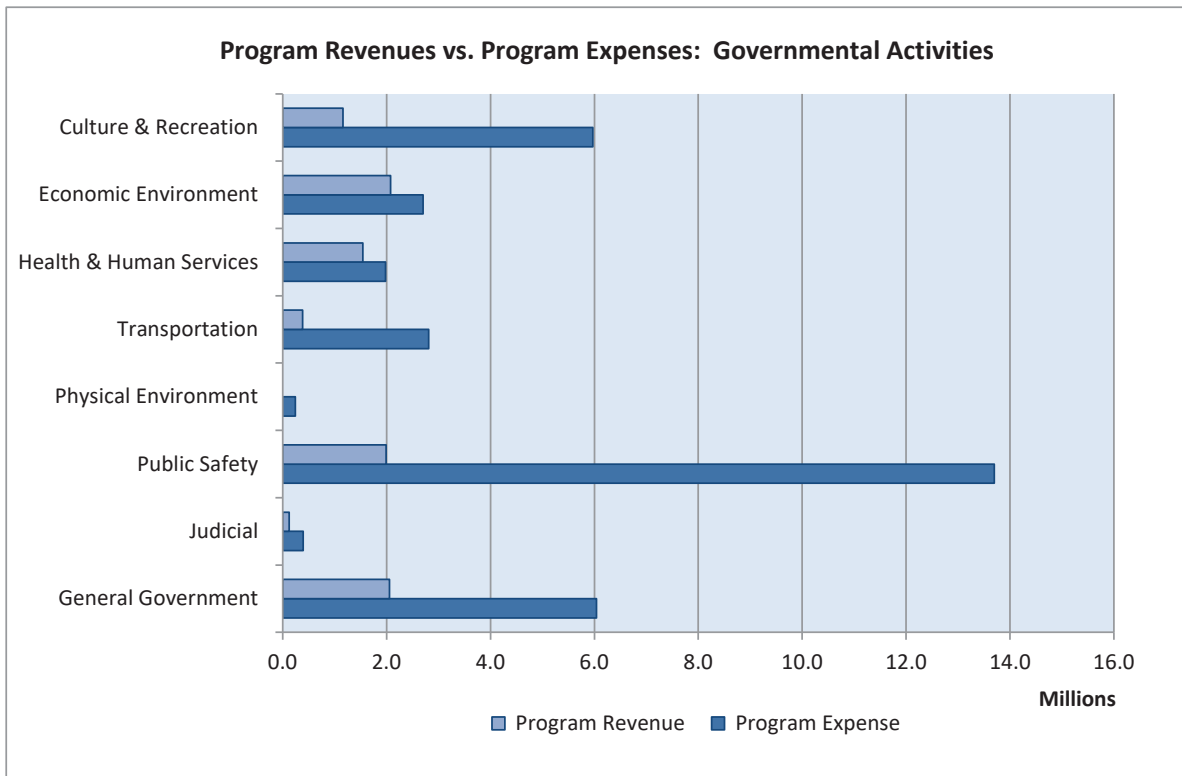
A more detailed look at the revenues and expenses underlying the changes in the City's net position is presented on the following page. Compared to the prior year, the City's total net position increased \$11.6 million in 2020. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. At the end of 2020, the City's total net position for governmental activities was \$176.95 million. Governmental activities increased \$6.08 million in 2020 primarily due to better than expected sales tax and real estate excise taxes paired with a decrease in spending due to the global pandemic.

Total expenses in 2020 decreased \$5.6 million, or 14.25%, compared to 2019. The primary driver of this decrease was the impacts of the global COVID 19 pandemic. Significant portions of the City's operations declined as management focused on the delivery of essential services.

City of Mercer Island's Changes in Net Position

	Governmental Activities		Business type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Charges for services	\$ 6,501,899	\$ 10,407,468	\$ 21,944,481	\$ 20,513,576	\$ 28,446,380	\$ 30,921,044
Operating grants and contributions	2,432,868	1,162,915		106,845	2,432,868	1,269,760
Capital grants and contributions	389,747	186,873		-	389,747	186,873
Property tax	14,068,187	13,725,516			14,068,187	13,725,516
Sales tax	5,393,609	5,257,123			5,393,609	5,257,123
B&O tax	4,929,377	4,864,885			4,929,377	4,864,885
Real estate excise tax	4,355,270	3,558,523			4,355,270	3,558,523
Other taxes	1,428,687	1,265,504			1,428,687	1,265,504
Investment earnings	184,411	632,758	200,769	619,465	385,180	1,252,223
Total revenues	\$ 39,684,055	\$ 41,061,565	\$ 22,145,250	\$ 21,239,886	\$ 61,829,305	\$ 62,301,451
Expenses:						
General government	\$ 6,042,766	\$ 4,857,520			\$ 6,042,766	\$ 4,857,520
Judicial	391,452	399,479			391,452	399,479
Public safety	13,699,900	16,851,248			13,699,900	16,851,248
Physical environment	244,340	136,441			244,340	136,441
Transportation	2,809,909	3,761,140			2,809,909	3,761,140
Health & human services	1,978,360	2,786,372			1,978,360	2,786,372
Economic environment	2,700,322	3,008,051			2,700,322	3,008,051
Culture and recreation	5,968,272	7,643,554			5,968,272	7,643,554
Interest on long term debt	44,341	66,603	210,037	231,976	254,378	298,579
Water			6,316,291	5,810,521	6,316,291	5,810,521
Sewer			7,966,024	8,364,513	7,966,024	8,364,513
Stormwater			1,875,708	1,669,650	1,875,708	1,669,650
Total expenses	\$ 33,879,662	\$ 39,510,408	\$ 16,368,060	\$ 16,076,660	\$ 50,247,722	\$ 55,587,068
Increase (decrease) in net position before transfers, special and extraordinary items	\$ 5,804,393	\$ 1,551,157	\$ 5,777,190	\$ 5,163,226	\$ 11,581,583	\$ 6,714,383
Disposition of capital assets	24,590	22,692	-	-	24,590	22,692
Transfers	256,407	387,440	(256,407)	(387,440)	-	-
Increase (decrease) in net position	6,085,390	1,961,290	5,520,783	4,775,787	11,606,173	6,737,075
Net position beginning of year	170,867,690	168,906,400	65,543,631	60,767,845	236,411,321	229,674,245
Prior period adjustment	-	-	-	-	-	-
Net position, end of year	\$ 176,953,080	\$ 170,867,690	\$ 71,064,413	\$ 65,543,631	\$ 248,017,494	\$ 236,411,320



Business-type Activities. At the end of 2020, the City’s total net position for business-type activities, encompassing the water, sewer, and storm water utilities, was \$71.06 million. The total net position for business-type activities increased \$5.52 million in 2020 primarily due to increased rate revenues and lower than expected capital reinvestment expenditures.

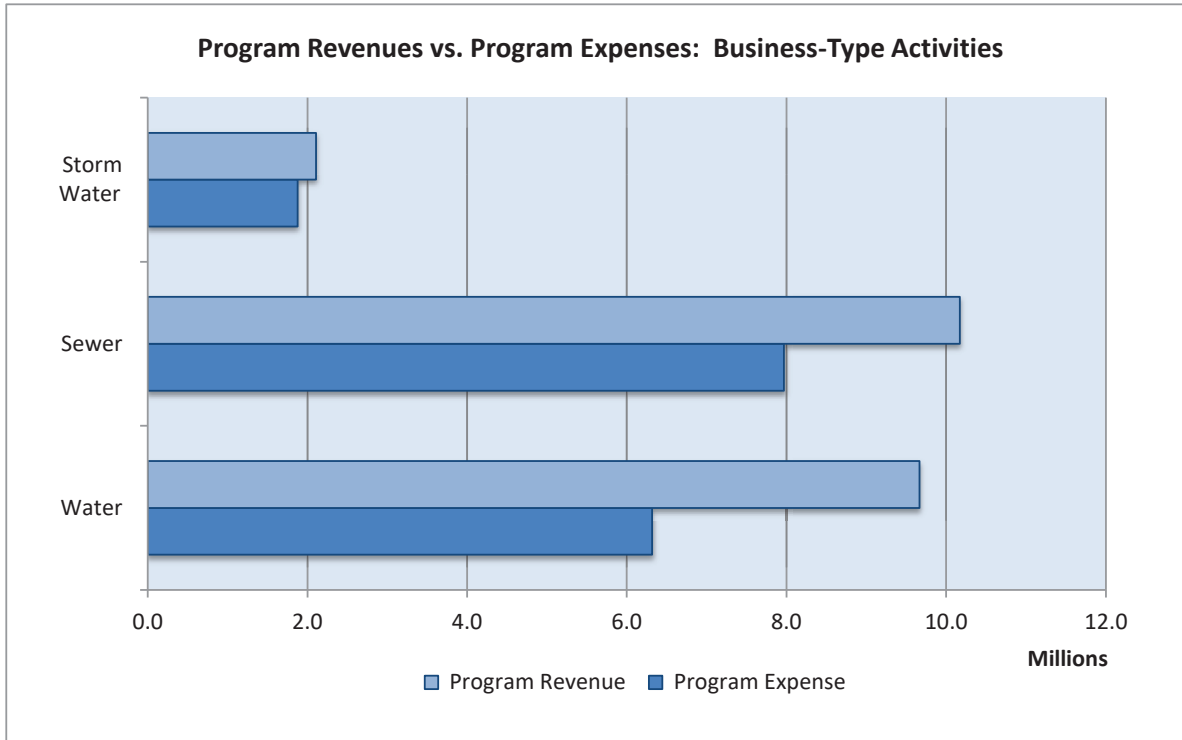
Comparing 2020 to 2019, total operating revenues, which excludes investment earnings and capital grants and contributions, increased \$1.4 million, or 6.5%, which is primarily attributable to charges for services. Total expenses in 2020 increased \$0.29 million compared to 2019.

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.

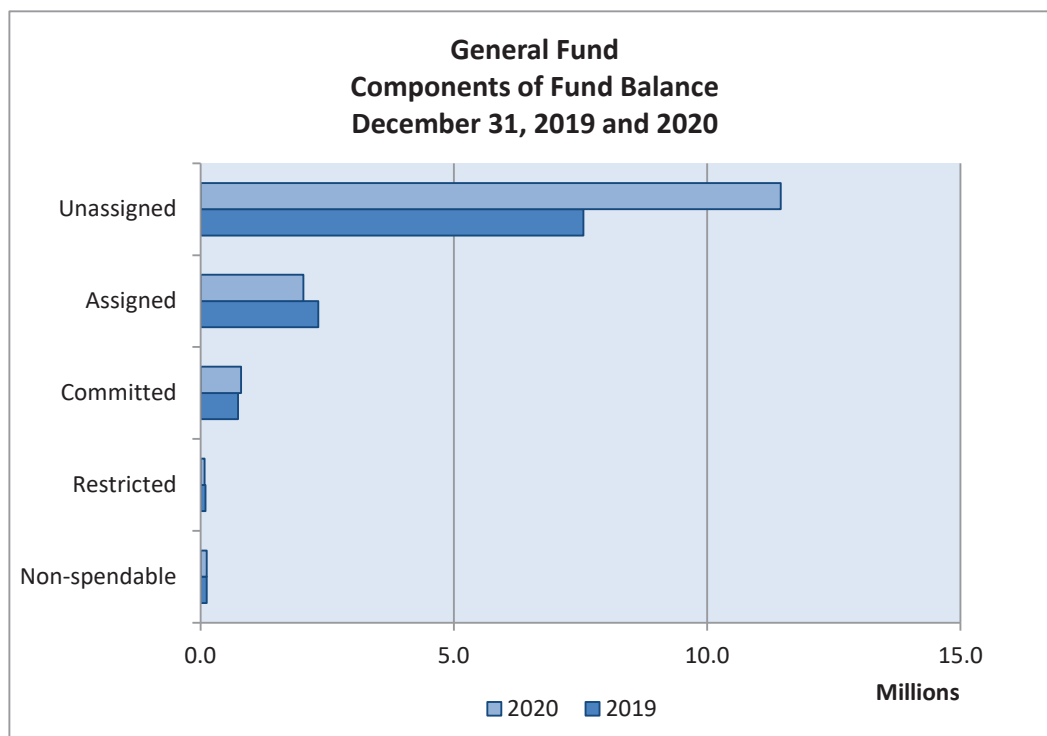
Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure 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 2020 the City's combined ending fund balances for governmental funds amounted to \$27.07 million, which represents an increase of \$5.45 million from the prior year. Of this combined total, \$11.45 million, or 42.3%, 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) \$0.40 million that is *non-spendable* (i.e. not in a spendable form); 2) \$9.75 million that is *restricted* for particular purposes; 3) \$1.47 million that is *committed* for particular purposes; and 4) \$3.99 million 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 2020 ending fund balance was \$14.49 million, which represents an increase of \$3.65 million. Comparing 2020 to 2019, total revenues decreased \$0.65 million, or 2.1%, and total expenditures, excluding transfers out, decreased \$1.65 million, or 5.5%.



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 2020 was \$5.11 million, a 36.4% increase from the prior year. The primary driver of the increase in fund balance was a REET revenue and a decrease in the expected level of spending due to the impacts of the global COVID pandemic.

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 2020 ending fund balance was \$5.31 million, which represents an increase of \$0.82 million, or 18.4%, relative to 2019. 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, 2019 and 2020**

Fund Balance Component	Street Fund			Capital Improvement Fund			Other Governmental Funds		
	2019	2020	% Change	2019	2020	% Change	2019	2020	% Change
Non-spendable	-	-	N/A	-	-	N/A	285,856	285,856	0.0%
Restricted	3,399,501	4,670,459	37.4%	3,177,113	4,463,065	40.5%	471,589	539,785	14.5%
Committed	250,748	344,012	37.2%	150,306	159,816	6.3%	506,478	162,113	-68.0%
Assigned	99,684	99,684	0.0%	1,158,546	687,282	-40.7%	1,279,599	1,171,810	-8.4%
Unassigned	-	-	N/A	-	-	N/A	-	-	N/A
Total fund balance	3,749,933	5,114,155	36.4%	4,485,965	5,310,163	18.4%	2,543,522	2,159,565	-15.1%

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 2020 ending net position was \$33.63 million, which represents an increase of \$3.4 million, or 11.3%, relative to 2019. Operating income was \$3.3 million in 2020, 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 2020 ending net position was \$24.85 million, which represents an increase of \$1.89 million, or 8.3%, relative to 2019. Operating income was \$2.22 million in 2020, 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 2020 ending net position was \$12.70 million, which represents an increase of \$0.29 million, or 2.3%, relative to 2019. Operating income was \$0.21 million in 2020, representing an accumulation of funding for capital projects in coming years.

**Proprietary Funds
Components of Net Position
December 31, 2019 and 2020**

Net Position Component	Water Fund			Sewer Fund			Storm Water Fund		
	2019	2020	% Change	2019	2020	% Change	2019	2020	% Change
Net investment in capital assets	15,576,454	15,993,250	2.7%	17,053,154	17,738,801	4.0%	7,934,145	8,071,599	1.7%
Unrestricted	14,632,337	17,637,838	20.5%	5,902,781	7,111,688	20.5%	4,482,782	4,633,918	3.4%
Total net position	30,208,791	33,631,088	11.3%	22,955,935	24,850,488	8.3%	12,416,927	12,705,517	2.3%

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 \$0.78 million. Following are the *major* budgetary changes to the originally adopted 2019-2020 **General Fund** budget:

- \$1.26 million decrease in the first quarter of 2019 to reduce deficit spending;
- \$1.69 million reduction, primarily in Parks and Recreation, in response to revenue reductions as a result of the impacts of COVID 19;
- Acceptance of \$1.10 million in CARES act funding for pandemic response
- \$1.50 million interfund loan from the Water and Sewer utility funds for litigation expenses.

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, 2020 amounts to \$210.23 million (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	
	2020	2019	2020	2019	2020	2019
Land	\$108,789,823	\$108,789,823	\$203,992	\$203,992	\$108,993,815	\$108,993,815
Buildings	18,184,568	18,937,872	430,048	430,048	18,614,616	19,367,920
Improvements	8,209,009	9,083,748	92,448,833	90,412,420	100,657,842	99,496,168
Machinery & equipment	5,276,231	4,963,471	1,631,873	1,616,455	6,908,104	6,579,926
Infrastructure	17,672,495	17,957,158	-	-	17,672,495	17,957,158
Construction in progress	342,650	181,737	792,699	606,299	1,135,348	788,036
Intangibles	1,382,653	1,296,398	18,129	18,129	1,400,782	1,314,527
Accumulated depreciation			(45,156,424)	(43,193,339)	(45,156,424)	(43,193,339)
	\$159,857,430	\$161,210,207	\$50,369,150	\$50,094,003	\$210,226,578	\$211,304,211

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 14 (Capital Assets) in the notes to the financial statements.

Long-term debt. At the end of 2020, the City of Mercer Island had total debt outstanding of \$10.69

million. Of this amount, \$7.39 million 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	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ 1,240,466	\$ 2,074,198	\$ 6,148,961	\$ 6,710,948	\$ 7,389,427	\$ 8,785,147
Capital leases	886,460	1,062,956	-	-	886,460	1,062,956
Public works loans	-	-	2,416,544	2,819,301	2,416,544	2,819,301
TOTAL	\$ 2,126,926	\$ 3,137,154	\$ 8,565,505	\$ 9,530,249	\$ 10,692,431	\$ 12,667,404

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 11 (Long-term Debt), Note 12 (Leases), and Note 13 (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.

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 were ordered. These measures included 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. Phased decisions on expenditure reductions continued throughout 2020.

2021-2022 Budget Strategy

In developing a budget recommendation, the City took a conservative and cautious approach to planning for the 2021-2022 biennium. The budget focuses on delivering essential services, fostering continuous process improvement strategies, and providing stability for the organization. It reflects a modified organizational structure and reduced staffing levels as compared to prior years, yet retains the flexibility to adapt to ongoing needs.

The overall budget strategy centers on relatively flat spending while supporting actions that will strengthen the City of Mercer Island's financial position. This two-year budget:

- Maintains core municipal services and supports ongoing emergency response efforts.
- Re-organizes City departments for more effective and efficient service delivery.
- Identifies opportunities and resources to improve operational services.
- Avoids new tax proposals, layoffs, and furloughs.
- Establishes new best practices for implementing capital improvements.
- Reinvests in the maintenance of the City's critical infrastructure.
- Emphasizes the ongoing need for recovery planning for services impacted by the Pandemic.

Stabilizing the Organization

Mercer Island, like many communities in the region, has faced a structural deficit in its operating budget (General Fund) in recent years. This was caused by limited revenue sources that are unable to keep pace with the rising cost of services.

In early 2020, and in response to the impacts of the Pandemic, the City Council endorsed a multi-pronged strategy to address the projected deficit in the General Fund that involved:

- Implementing cost saving measures to reduce operating expenditures without jeopardizing core services.
- Examining past practices and areas to prioritize new process improvements.
- Reviewing business process efficiencies, including the use of technology to reduce costs and staff time.
- Using contingency and reserve funds carefully.

This combination of actions reduced the City's projected shortfall for 2020 by \$3.8 million – the majority through cost saving measures and without having to deeply tap contingency and reserve funds. While the current five-year forecast indicates that the two-year budget balances, the Pandemic has fundamentally changed the way we think about doing business and the City's organization. And while the implementation of these cost-cutting measures and organization-wide savings helped get the organization through 2020, staff are anticipating future deficits in the General Fund as expenditures are expected to exceed projected income in future years.

Budget stabilization has been one of the staff's top priorities throughout the Pandemic and the budget process. By employing the strategies described above the City of Mercer Island can successfully navigate what may be a period of economic recession nationwide, while steadily improving internal operations and the delivery of services.

Significant Budget Issues

Many of the City's long-standing revenue-generating operations remain closed. The Thrift Shop, which supports the City's Youth and Family Services Department, was able to partially open beginning in late

summer 2020, but remains unable to fully open due to safety concerns related to the Pandemic. Staff is working with stakeholders on potential scenarios for a phased Thrift Shop re-opening. It is one of our top priorities to safely re-open the Thrift Shop and restore this critical revenue stream.

Recreation programming continues to be significantly impacted by the Pandemic. With the Mercer Island Community and Event Center closed and recreation programs suspended, staff is working on a recovery plan and anticipate presenting a phased re-opening approach for recreation services to the City Council in early 2021.

The Community Planning and Development (CPD) Department provides critical services to customers interested or engaged in development activity on Mercer Island. Permit revenues from development activity have fallen out of line with projections going back to 2019. This downward trend accelerated through 2020 due to impacts from the Pandemic. At present, a handful of large development projects are in the pipeline and may move forward, while routine permit applications have slowed. A primary focus for the 2021-2022 biennium is to right-size the CPD Department, revisit cost recovery levels, review building code requirements, and institute new tools to ensure costs are aligned with efficient service delivery.

Conclusion

This 2021-2022 Budget is a starting point, built on cautious optimism during a time of unprecedented change. It will guide the organization as work continues to restore suspended services in a fiscally responsible manner.

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, 2020**

	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current assets:</i>			
Cash & cash equivalents	\$ 30,716,760	\$ 28,796,502	\$ 59,513,262
Receivables (net)	3,808,143	955,633	4,763,776
Internal balances	(1,292,592)	1,292,592	-
Inventories	120,857	254,293	375,150
<i>Deferred charges & other assets</i>			
Net pension asset	5,784,441	-	5,784,441
Capital assets not being depreciated:			
Land	108,789,823	203,992	108,993,815
Construction in progress	342,650	792,699	1,135,349
Capital assets net of depreciation:			
Buildings, improvements, machinery and equipment.	33,052,462	49,372,460	82,424,922
Infrastructure	17,672,495	-	17,672,495
Total assets	<u>\$ 198,995,040</u>	<u>\$ 81,668,171</u>	<u>\$ 280,663,210</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	\$ 19,420	\$ 252,582	\$ 272,002
Asset Retirement Obligations	-	88,714	88,714
Pensions	2,489,195	334,875	2,824,070
Total deferred outflows of resources	<u>\$ 2,508,615</u>	<u>\$ 676,171</u>	<u>\$ 3,184,786</u>
LIABILITIES			
<i>Current liabilities:</i>			
Accounts payable and accrued exp.	\$ 2,239,484	\$ 1,060,789	\$ 3,300,273
Accrued interest payable	22,328	21,633	43,961
Bonds, notes, loans payable	1,001,675	957,757	1,959,432
Other current liabilities	37,407	23,589	60,996
Unearned revenue - other	251,718	-	251,718
<i>Noncurrent liabilities:</i>			
Net pension liability	4,166,179	947,457	5,113,636
OPEB Liability	11,721,426	-	11,721,426
Due in more than one year	2,616,768	7,889,887	10,506,655
Total liabilities	<u>\$ 22,056,985</u>	<u>\$ 10,901,112</u>	<u>\$ 32,958,097</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 210,156	\$ -	\$ 210,156
Pensions	2,283,434	378,817	2,662,251
Total deferred inflows of resources	<u>\$ 2,493,590</u>	<u>\$ 378,817</u>	<u>\$ 2,872,407</u>
NET POSITION			
Net investment in capital assets	\$ 157,749,924	\$ 41,803,649	\$ 199,553,573
Restricted for:			
Debt service	23,981	-	23,981
Investment in parks, open space and buildings	4,563,065	-	4,563,065
Streets, paths and trails	5,114,155	-	5,114,155
Criminal Justice & Jails	120,782	-	120,782
Emergency Assistance	192,916	-	192,916
Expendable permanent fund	4,669	-	4,669
Non expendable permanent fund	285,856	-	285,856
Unrestricted	8,897,732	29,260,764	38,158,495
Total net position	<u>\$ 176,953,080</u>	<u>\$ 71,064,413</u>	<u>\$ 248,017,492</u>

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

City of Mercer Island
Statement of Activities
For the Year Ending December 31, 2020

	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	\$ 391,452	\$ 121,182	\$ 200	\$ -	\$ (270,070)		\$ (270,070)
General government	6,042,766	754,033	1,298,858	-	(3,989,875)		(3,989,875)
Public safety	13,699,900	1,825,364	163,364	-	(11,711,173)		(11,711,173)
Physical environment	244,340	-	-	-	(244,340)		(244,340)
Transportation	2,809,909	93,264	10,000	281,057	(2,425,588)		(2,425,588)
Human services	1,978,360	605,423	937,075	-	(435,862)		(435,862)
Economic environment	2,700,322	2,075,747	-	-	(624,575)		(624,575)
Culture & recreation	5,968,272	1,026,885	23,372	108,690	(4,809,325)		(4,809,325)
Interest on long-term debt	44,341	-	-	-	(44,341)	(210,037)	(254,378)
Total governmental activities	\$ 33,879,662	\$ 6,501,899	\$ 2,432,868	\$ 389,747	\$ (24,555,148)	\$ (210,037)	\$ (24,765,185)
Business-type Activities:							
Water	\$ 6,316,291	\$ 9,665,036	\$ -	\$ -		\$ 3,348,745	\$ 3,348,745
Sewer	7,966,024	10,171,877	-	-		2,205,853	2,205,853
Other utilities	1,875,708	2,107,568	-	-		231,860	231,860
Total business type activities	16,158,023	21,944,481	-	-		5,786,458	5,786,458
Total primary government	\$ 50,037,685	\$ 28,446,380	\$ 2,432,868	\$ 389,747	\$ (24,555,148)	\$ 5,576,421	\$ (18,978,727)
GENERAL REVENUES:							
Property taxes					\$ 14,068,187	\$ -	\$ 14,068,187
Sales taxes					5,393,609		5,393,609
B&O taxes					4,929,377		4,929,377
Real estate excise taxes					4,355,270		4,355,270
Other taxes					1,428,687		1,428,687
Investment earnings					184,411	200,769	385,180
Gain (loss) on disposal of capital assets					24,590	-	24,590
TRANSFERS					256,407	(256,407)	(0)
Total general revenues & transfers					\$ 30,640,538	\$ (55,638)	\$ 30,584,900
Change in net position					\$ 6,085,390	\$ 5,520,782	\$ 11,606,173
Net position - beginning					170,867,690	65,543,631	236,411,321
Net position - ending					\$ 176,953,080	\$ 71,064,413	\$ 248,017,493

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

**City of Mercer Island
Balance Sheet
Governmental Funds
December 31, 2020**

	General Fund	Street	Capital Improve	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash & cash equivalents	\$ 13,153,765	\$ 4,640,920	\$ 6,028,023	\$ 2,125,698	\$ 25,948,407
Receivables (net)	2,631,098	543,745	359,868	82,741	3,617,453
Inventories	120,857	-	-	-	120,857
Total assets	15,905,720	5,184,665	6,387,891	2,208,439	29,686,716
LIABILITIES					
<i>Current Liabilities:</i>					
Accounts payable and accrued exp.	923,084	70,510	1,077,728	45,379	2,116,702
Unearned revenue-other	248,222	-	-	3,496	251,718
Deposits payable	37,407	-	-	-	37,407
Total liabilities	1,208,713	70,510	1,077,728	48,875	2,405,826
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	210,156	-	-	-	210,156
Total deferred inflows of resources	210,156	-	-	-	210,156
FUND BALANCE					
Non-Spendable	120,857	-	-	285,856	406,713
Restricted	79,437	4,670,459	4,463,065	539,785	9,752,746
Committed	801,473	344,012	159,816	162,113	1,467,414
Assigned	2,029,590	99,684	687,282	1,171,810	3,988,366
Unassigned	11,455,494	-	-	-	11,455,494
Total fund balance	14,486,851	5,114,155	5,310,163	2,159,565	27,070,733
Total liabilities, deferred inflows of resources, and fund balances	\$ 15,905,720	\$ 5,184,665	\$ 6,387,891	\$ 2,208,441	\$ 29,686,716

Total Fund Balance for Governmental Funds \$ 27,070,733

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	155,380,171
Other long-term assets are not available to pay for current period expenditures are deferred in the funds	8,422,759
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(22,046,613)

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.

Net position of governmental activities

8,126,027
\$ 176,953,080

See also **NOTE 5** for detailed reconciliation.

City of Mercer Island
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2020

	General	Street	Capital Imp	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 12,766,138		\$ 450,817	\$ 613,900	13,830,855
Sales	5,357,818			35,791	5,393,609
B&O	4,929,377			-	4,929,377
REET	-	1,959,872	2,395,399	-	4,355,270
Licenses & permits	2,267,624			-	2,267,624
Intergovernmental	1,669,347	1,216,778	123,651	291,993	3,301,770
Charges for services	3,103,295	93,264	111,510	605,423	3,913,492
Fines & forfeitures	185,843			-	185,843
Investment earnings	187,065			2,159	189,224
Other revenues	383,547			645,082	1,028,629
Total revenues	30,850,053	3,269,914	3,081,377	2,194,348	39,395,692
EXPENDITURES					
Current:					
Judicial	427,504	-	-	-	427,504
General government	6,166,780	-	57,099	98,981	6,322,860
Public safety	14,237,270	-	7,995	5,972	14,251,237
Physical environment	63,604	-	9,833	(0)	73,437
Transportation	791,632	683,245	-	121,226	1,596,103
Health & human services	14,520	-	55,911	2,079,744	2,150,175
Economic environment	2,949,197	-	-	12,143	2,961,340
Culture & recreation	3,268,056	-	1,683,743	5,362	4,957,162
Debt service:					
Principal	84,728	-	-	795,000	879,728
Interest	625	-	-	44,700	45,325
Capital outlay:					
General government	46,540	-	190,223	48,911	285,674
Public safety	-	-	-	83,984	83,984
Physical environment	-	-	91,522	-	91,522
Transportation	15,476	1,212,074	-	10,373	1,237,923
Health & human services	-	-	-	15,501	15,501
Economic environment	3,183	-	-	2,024	5,207
Culture & recreation	-	-	72,991	-	72,991
Total expenditures	28,069,116	1,895,319	2,169,317	3,323,921	35,457,673
Excess (deficiency) of revenues over (under) expenditures	2,780,937	1,374,595	912,060	(1,129,573)	3,938,019
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	47,738	745,614	793,352
Transfers out	(635,567)	(10,373)	(135,600)	-	(781,540)
Interfund loan proceeds	1,500,000			-	1,500,000
Total other financing sources (uses)	864,433	(10,373)	(87,862)	745,614	1,511,812
Net change in fund balances	3,645,370	1,364,222	824,198	(383,959)	5,449,830
Fund balances - Beginning	10,841,483	3,749,933	4,485,965	2,543,522	21,620,903
Fund balances - Ending	\$ 14,486,851	5,114,155	\$ 5,310,163	\$ 2,159,565	27,070,733

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, 2020

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

Net changes in fund balances for governmental funds	5,449,830
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(1,282,552)
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	1,792,801
Depreciation Expense	(3,120,685)
	<u>(1,327,884)</u>
	(1,327,884)
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.	825,478
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:	2,210,865
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.	209,650
Change in net position of governmental activities	<u>\$ 6,085,390</u>
See also NOTE 5 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, 2020**

	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	\$ 17,524,369	\$ 6,262,108	\$ 5,010,024	\$ 28,796,502	\$	4,768,353
Receivables (net)	330,667	515,482	109,484	955,633		281
Inventories	243,369	10,924	-	254,293		-
Deferred charges & other assets						
Due from other funds	707,636	707,636	-	1,415,272		-
Capital assets:						
Land	106,125	97,866	-	203,992		-
Construction in progress	371,542	421,157	-	792,699		31,157
Depreciable assets (net of accumulated depreciation)	16,410,988	24,889,873	8,071,599	49,372,460		4,446,102
Total assets	<u>35,694,696</u>	<u>32,905,047</u>	<u>13,191,107</u>	<u>81,790,851</u>		<u>9,245,893</u>
DEFERRED OUTFLOW of RESOURCES						
Deferred amount on refunding	\$ -	\$ 252,582	\$ -	\$ 252,582	\$	-
Asset retirement obligations	88,714	-	-	88,714		-
Pensions	143,016	104,934	86,925	334,875		60,706
Total Deferred Outflow of Resources	<u>231,730</u>	<u>357,516</u>	<u>86,925</u>	<u>676,172</u>		<u>60,706</u>
LIABILITIES						
Current liabilities:						
Accounts payable and accrued exp.	\$ 634,346	\$ 264,533	\$ 161,909	\$ 1,060,789	\$	122,782
Accrued interest payable	2,906	18,727	-	21,633		20,061
Bonds, notes, loans payable	75,000	882,757	-	957,757		181,675
Deposits payable	11,896	-	11,693	23,589		-
Noncurrent liabilities:						
Compensated absences	92,369	43,128	54,645	190,143		33,526
Bonds, notes, loans payable	820,406	6,787,339	-	7,607,744		704,785
Net pension liability	404,633	296,888	245,936	947,457		171,753
Other noncurrent liabilities	92,000	-	-	92,000		-
Total liabilities	<u>2,133,556</u>	<u>8,293,373</u>	<u>474,184</u>	<u>10,901,112</u>		<u>1,234,582</u>
DEFERRED INFLOW of RESOURCES						
Pensions	\$ 161,783	\$ 118,703	\$ 98,331	\$ 378,817	\$	68,671
Total Deferred Inflow of Resources	<u>161,783</u>	<u>118,703</u>	<u>98,331</u>	<u>378,817</u>		<u>68,671</u>
NET POSITION						
Net investment in capital assets	\$ 15,993,250	\$ 17,738,801	\$ 8,071,599	\$ 41,803,649	\$	3,590,799
Unrestricted	17,637,838	7,111,688	4,633,918	29,383,444		4,412,547
Total net position	<u>\$ 33,631,088</u>	<u>\$ 24,850,488</u>	<u>\$ 12,705,517</u>	<u>\$ 71,187,094</u>	<u>\$</u>	<u>8,003,346</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				(122,680)		
Net position of business-type activities				<u>\$ 71,064,413</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, 2020

	Water Fund	Sewer Fund	Storm Drain Fund	Total Enterprise Funds	Governmental Activities-Internal Service Funds
OPERATING REVENUES					
Charges for Services:					
Charge for services	\$ 9,573,106	\$ 10,147,164	\$ 2,046,943	\$ 21,767,212	\$ 1,796,859
Other operating revenue	-	-	4,186	\$ 4,186	-
Total operating revenues	9,573,106	10,147,164	2,051,128	21,771,397	1,796,859
OPERATING EXPENSES					
Maintenance & operations	2,589,211	1,687,286	1,566,020	5,842,517	1,396,319
Water purchased for resale	2,016,364	-	-	2,016,364	-
Metro sewer charges	-	4,798,951	-	4,798,951	-
Administrative and general	349,103	134,299	-	483,402	-
Insurance	113,619	59,583	12,413	185,615	38,299
State utility taxes	481,441	227,889	36,080	745,409	-
Depreciation	713,887	1,021,173	228,024	1,963,084	860,574
Total operating expenses	6,263,625	7,929,181	1,842,537	16,035,343	2,295,192
Operating income (loss)	3,309,481	2,217,982	208,591	5,736,054	(498,333)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	118,882	45,589	36,299	200,769	3,437
Interest expense	(35,920)	(174,117)	-	(210,037)	(30,120)
Other non-operating revenue	53,908	24,713	56,440	135,060	380,822
Gain (loss) on disposition of assets	-	-	-	-	24,590
Total non-operating income (expense)	136,870	(103,816)	92,739	125,792	378,729
Income before contributions & transfers	3,446,350	2,114,166	301,330	5,861,847	(119,604)
Transfers in	-	-	-	-	244,595
(Transfers out)	(24,054)	(219,613)	(12,740)	(256,407)	-
Change in net position	3,422,296	1,894,553	288,590	5,605,440	124,991
Net position--beginning	30,208,792	22,955,935	12,416,927	65,581,654	7,878,354
Net position --ending	\$ 33,631,088	\$ 24,850,488	\$ 12,705,517	\$ 71,187,094	\$ 8,003,346
Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds.				(84,658)	
Change in net position of business-type activities				\$ 5,520,782	

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, 2020

	Water	Sewer	Storm Drain	Totals	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 9,505,462	\$ 10,156,087	\$ 2,050,729	\$ 21,712,279	\$ 1,796,859
Payments to employees	(1,558,652)	(1,147,753)	(871,358)	(3,577,763)	(677,008)
Payments to suppliers	(1,321,632)	(818,563)	(647,344)	(2,787,539)	(785,835)
Payments to other governments	(2,497,805)	(5,026,840)	(36,080)	(7,560,725)	0
Other operating revenues	0	0	4,186	4,186	0
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,127,374	3,162,931	500,133	7,790,438	334,015
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Other non-operating revenues	53,595	24,400	0	77,995	142,233
Interfund loan to General Fund	(707,636)	(707,636)	0	(1,415,272)	0
Interfund transfers received/(paid)	(24,054)	(219,613)	(12,740)	(256,407)	244,595
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(678,095)	(902,849)	(12,740)	(1,593,683)	386,827
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Cash contributions in aid of capital purchases	0	0	56,440	56,440	237,332
Purchase of capital assets	(1,059,642)	(813,113)	(365,478)	(2,238,232)	(839,085)
Principal paid on capital debt	(71,041)	(865,643)	0	(936,683)	(176,497)
Interest paid on capital debt	(36,109)	(176,641)	0	(212,750)	(33,574)
Proceeds from sales of capital assets	0	0	0	0	29,252
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	(1,166,792)	(1,855,396)	(309,038)	(3,331,226)	(782,571)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on Investments	126,855	49,502	39,424	215,782	3,712
Interest received on long-term loans	313	313	0	625	0
NET CASH PROVIDED BY INVESTING ACTIVITIES	127,168	49,815	39,424	216,407	3,712
Net increase(decrease)in cash	2,409,655	454,501	217,779	3,081,935	(58,017)
Cash January 1, 2020	15,114,714	5,807,607	4,792,245	25,714,567	4,826,370
Cash December 31, 2020	17,524,369	6,262,108	5,010,024	28,796,502	4,768,353
Cash at the end of the year consists of:					
Operating fund cash	17,524,369	6,262,108	5,010,024	28,796,502	4,768,353
Total cash at the end of the year	17,524,369	6,262,108	5,010,024	28,796,502	4,768,353
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 3,309,481	\$ 2,217,982	\$ 208,591	\$ 5,736,054	\$ (498,333)
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	713,887	1,021,173	228,024	1,963,084	860,574
(Increase)decrease in accounts receivable	(67,643)	8,924	3,787	(54,933)	0
Increase(decrease) in accounts payable	214,388	(15,529)	79,982	278,841	(12,853)
Increase (decrease) in salary and benefit payable	(42,739)	(69,619)	(20,251)	(132,609)	(15,372)
Total adjustments	817,893	944,949	291,541	2,054,383	832,349
Net cash provided by operating activities	\$ 4,127,374	\$ 3,162,931	\$ 500,133	\$ 7,790,437	\$ 334,016

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

City of Mercer Island
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2020

	Firemens Pension Trust Fund	Custodial Funds
ASSETS		
Cash & cash equivalents	\$ 868,712	\$ 21,406
Interest Receivable	526	-
Total assets	<u>869,238</u>	<u>21,406</u>
LIABILITIES		
Benefits payable	\$ 2,430	\$ -
Due to other governments	-	11,096
Municipal Court trust	-	10,311
Total liabilities	<u>\$ 2,430</u>	<u>21,406</u>
NET POSITION		
Restricted for:		
Pensions	866,808	-
Other Governments		
Total net position	<u><u>\$ 866,808</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 Fiduciary Net Position
Fiduciary Funds
For the year ended December 31, 2020

	Firemens Pension Trust Fund	Custodial Funds
ADDITIONS:		
Contributions:		
Employer	\$ 26,410	\$ -
State shared tax	35,472	
Total other contributions	61,882	-
Investment earnings:		
Interest & dividends	6,433	
Total net investment income (loss)	6,433	-
Collections for other governments	-	230,891
Other	-	-
Total additions	68,315	230,891
DEDUCTIONS:		
Benefit payments	77,944	-
Remit to other governments	-	230,891
Administrative expenses	-	-
Total deductions	77,944	230,891
Net increase (decrease) in fiduciary net position	(9,629)	-
Net position - Beginning	876,437	-
Net position - Ending	\$ 866,808	\$ -

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.

Effective for the fiscal year 2020, the City considered the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The object of this statement is to address accounting and financial reporting for asset retirements that carry legally enforceable remediation obligations. It establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources.

GASB Statement No. 84 – *Fiduciary Activities*. The object of this statement is to improve the identification of fiduciary activities and how they should be reported. It establishes criteria for identifying activities related to control of those assets. Control is defined as holding the assets or the ability to use, exchange, or employ the assets in a manner that provides benefits to the intended recipients.

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.

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.

A **Pension and Other Employee Benefit Trust Fund** accounts for the activities of the Firefighters Pension obligations, which accumulates resources for excess pension benefit payments to qualified firefighters.

A **Custodial Fiduciary funds** account for assets held by the city as an agent for other governments including WA State retail sales tax, leasehold excise tax and State court fines.

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 nine (9) 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 8.

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*. Outstanding balances between funds are reported as *due to/from other funds*. 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 14.

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, asset retirement obligations, 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.

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 and one-half percent (12.5%) 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 and one-half percent (12.5%) 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, 2020 is \$3,848,663 and is included in the un-assigned fund balance of the General Fund.

NOTE 2 – 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 3 - 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 4 – ACCOUNTING AND REPORTING CHANGES

Effective for fiscal year 2020 reporting, the City adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 83, Certain Asset Retirement Obligations. This new GASB statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. It requires that recognition occur when the liability is both incurred and reasonably estimable. Due to the COVID-19 pandemic, GASB issued GASB Statement No. 95 to postpone several newly issued GASB statements, including GASB Statement No.83. The city implemented this standard as of December 31, 2020.

GASB Statement No. 84, Fiduciary Activities. This new GASB statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Due to the COVID-19 pandemic, GASB issued GASB Statement No. 95 to postpone several newly issued GASB statements, including GASB Statement No.84. The city implemented this standard as of December 31, 2020.

Change in Accounting Principle

In reviewing the process of GASB Statement No. 84 implementation, and under the guidance of the BARS Manual, the City determined that the Agency fund used for payroll liability clearing no longer qualifies as a fiduciary fund. The assets and liabilities of the fund are reported in the General fund for fiscal year end 2020. In addition, the collection and remittance of sales tax, leasehold excise tax, and State court fines previously

accounted for in the General Fund have been reclassified as fiduciary and are now accounted for in a Custodial Fiduciary Fund.

NOTE 5 – 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)	\$ 5,784,441
Deferred Outflow of Resources - pensions	2,428,489
Municipal Court receivable	190,409
Deferred Outflow of Resources -refunding	7,988
Deferred Outflow of Resources -refunding	11,431
Net adjustment	<u>\$ 8,422,759</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	311,493
Depreciable infrastructure (net)	17,672,495
Other depreciable assets (net)	28,606,360
Net adjustment	<u>\$ 155,380,171</u>

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

Net Pension Liability (NPL)	\$ (3,994,426)
G.O. bonds payable	(1,185,000)
Total OPEB liability	(11,721,426)
Deferred Inflow of Resources - Pension	(2,214,763)
Compensated absences	(1,457,992)
Interfund loan payable	(1,415,272)
Un-amortized premium/discount (net)	(55,468)
Interest payable on long term debt	(2,267)
Net adjustment	<u>\$ (22,046,613)</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	\$ 1,792,801
Depreciation Expense	(3,120,685)
Net adjustment	<u>\$ (1,327,884)</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	\$ (57,875)
Special Funding for LEOFF	275,323
Proceeds from Interfund Loan	(1,500,000)
Net adjustment	<u>\$ (1,282,552)</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	\$ 795,000
Net change in interest payable on long term debt	1,458
Amortization of premium/discounts (net)	38,731
Amortization of deferred inflow of resources (net)	(9,710)
Net adjustment	<u>\$ 825,478</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	\$ 376,346
Change in compensated absence payable	(66,123)
Interfund loan payable	84,728
Adjustment to Pension Expense	1,815,914
Net adjustment	<u>\$ 2,210,865</u>

NOTE 6 – 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
General Government			
General	\$ 65,266,223	\$ (780,167)	\$ 64,486,056
Contingency	1,035,704	1,295,316	2,331,020
1% Arts Fund	30,000	13,521	43,521
YFS Endowment	7,000	-	7,000
Total General Government	<u>\$ 66,338,927</u>	<u>\$ 528,670</u>	<u>\$ 66,867,597</u>
Special Revenue Funds			
Street	\$ 6,777,685	\$ 406,315	\$ 7,184,000
YFS Fund	5,714,419	54,808	5,769,227
Total Special Revenue	<u>\$ 12,492,104</u>	<u>\$ 461,123</u>	<u>\$ 12,953,227</u>
Total General & Special Revenue	<u><u>\$ 78,831,031</u></u>	<u><u>\$ 989,793</u></u>	<u><u>\$ 79,820,824</u></u>

NOTE 7 – 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, 2020:

	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			4,074,624	302,196	4,376,820
Drug enforcement & education				41,345	41,345
Human services				196,244	196,244
Jails	79,437			-	79,437
KC parks expansion levy funds			58,550	-	58,550
Streets, paths and trails		4,670,459	329,891	-	5,000,350
Total Restricted	79,437	4,670,459	4,463,065	539,785	9,752,746
Committed					
Art in public places	157,833			-	157,833
Parks, streets, paths and trails		344,012	159,816	-	503,828
Human services				162,113	162,113
LEOFF 1 long term care	603,640			-	603,640
Self insurance	40,000			-	40,000
Total Committed	801,473	344,012	159,816	162,113	1,467,414
Assigned					
Appropriated fund balance					-
Athletic turf field replacement			687,282	-	687,282
Capital improvements				597,190	597,190
Compensated absence	751,055			-	751,055
Debt service				23,981	23,981
LEOFF 1 long term care	1,126,984			-	1,126,984
Petty cash	1,500			-	1,500
Self insurance	69,750			-	69,750
Streets, paths and trails		99,684		-	99,684
Technology and equipment	80,302			550,639	630,942
Total Assigned	2,029,590	99,684	687,282	1,171,810	3,988,366
Unassigned					
	11,455,494	-	-	-	11,455,494
Total Fund Balance	\$ 14,486,851	\$ 5,114,155	\$ 5,310,163	\$ 2,159,564	\$ 27,070,733

NOTE 8 - 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	1,500
FDIC or PDPC Insured Bank Deposits	\$ 1,402,022
Total	\$ 1,403,522

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

The City of Mercer Island is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

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	\$ 55,941,598
Total	\$ 55,941,598

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 Home Loan Bank	AAA	AA+	\$ 1,037,820
Federal National Mortgage Assn	AAA	AA+	1,007,160
U.S. Treasury Notes	AAA	AA+	1,013,280
Total			\$ 3,058,260

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 Home Loan Bank	\$ 1,037,820		1.7%
Federal National Mortgage Assn	1,007,160		1.7%
U.S. Treasury Notes	1,013,280		1.7%
Cash on hand		1,500	0.0%
FDIC or PDPC Insured Bank Deposits		1,402,022	2.3%
Washington State LGIP		\$ 55,941,598	92.6%
Total	\$ 3,058,260	\$ 57,345,120	
Total Cash, Deposits and Investments		\$ 60,403,380	

* Of the total, \$890,118 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, 2020, was 37 days.

The following schedule presents the investments and related maturities as of December 31, 2020.

Investment Type	Fair Value	Maturity (in Years)	
		Less Than 1	1-5
Government Sponsored Enterprises	\$ 3,058,260	\$ 2,020,440	\$ 1,037,820
Municipal Security	-	-	-
Total	\$ 3,058,260	\$ 2,020,440	\$ 1,037,820

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, 2020:

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	\$ 3,058,260		\$ 3,058,260	
Municipal Security	-		-	
Total	\$ 3,058,260	\$ -	\$ 3,058,260	\$ -

NOTE 9 – 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 2020 the City's tax levy was \$0.21620 per \$1,000 on a total assessed valuation of \$15,119,808,629 for a total levy of \$13,934,733. The total property tax levy includes the regular statutory levy and special levies as detailed below:

General Levy

Regular Statutory Levy	\$ 12,281,223
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LID Lifts

Lid Lift - 2008	964,630
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Lid Lift - 2012	688,880
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Total Property Tax Levy 2020	<u>\$ 13,934,733</u>
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NOTE 10 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivable/Payable

At their regular meeting of September 15, 2020 the Mercer Island City Council authorized an interfund loan in the amount not to exceed \$750,000 from the Water Utility Fund to the General Fund, and an interfund loan in the amount not to exceed \$750,000 from the Sewer Utility Fund to the General Fund. The purpose of the interfund loans are to finance costs related to potential litigation to enforce the City's terms of the 2017 Settlement Agreement with Sound Transit. The loans were initiated in November 2020 with a projected three-year repayment schedule with one-percent interest. The General Fund made one monthly installment payment to both the Water Fund and the Sewer Fund in December 2020.

Due To:	Due From		
		General Fund	Total
	Water Fund	707,636	707,636
	Sewer Fund	707,636	707,636
	Total	\$ 1,415,272	\$ 1,415,272

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		\$ 635,567
Street Fund		10,373
Capital Improvement Fund	47,738	135,600
Non-Major Governmental Funds		
Youth & Family Services Fund	250,000	
Non-Voted Bond Fund	225,800	
Technology and Equipment Fund	269,814	
Long Term Parking		
Internal Service Fund		
Equipment Rental (Fleet) Fund	199,228	
Computer Replacement Fund	45,367	
Proprietary Funds		
Water Fund		24,054
Sewer Fund		219,613
Stormwater Fund		12,740
Total Transfers In/Out	\$ 1,037,947	\$ 1,037,947

Transfers out of the General fund include the \$250,000 in contingency fund support of Youth and Family Services Department due to the closure of the Thrift Shop and \$250,000 in funding for future technology and equipment purchases. Transfers out of the business type funds were to cover the utility portion of capital reinvestment costs.

NOTE 11 - 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 2020 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 1/1/20	Amount Issued	Current Period Reductions	Ending Unmatured Debt 12/31/20
2011 LTGO	3/23/11	12/1/30	2.5/4.25	1,500,000	955,000		70,000	885,000
2013 LTGO	2/6/13	12/1/21	1.0/2.0%	4,940,000	1,195,000		590,000	605,000
2013 LTGO	2/6/13	12/1/23	1.0/2.0%	1,140,000	530,000		125,000	405,000
2017 LTGO	8/17/17	12/1/22	2.0 / 4.0%	335,000	255,000		80,000	175,000
2017 LTGO	8/17/17	12/1/29	1.95 / 4.0%	5,870,000	5,385,000		455,000	4,930,000
Total GO Bonds				\$ 13,785,000	\$ 8,320,000	\$ -	\$ 1,320,000	\$ 7,000,000

*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	\$ 605,000
Plus un-amortized bond premium	27,073
Bonds outstanding net	<u>\$ 632,073</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:

	\$ 405,000
Plus un-amortized bond premium	15,238
Bonds outstanding net	<u>\$ 420,238</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	\$ 885,000
Plus un-amortized bond premium	10,406
Bonds outstanding net	<u>\$ 895,406</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	\$ 175,000
Plus un-amortized bond premium	13,156
Bonds outstanding net	<u>\$ 188,156</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	\$ 4,930,000
Plus un-amortized bond premium	323,552
Bonds outstanding net	<u>\$ 5,253,552</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
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	-	-	615,000	119,661
2025-2030	-	-	3,490,000	286,803
TOTAL	\$ 1,185,000	\$ 39,100	\$ 5,815,000	\$ 901,810

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 1/1/2020	Amount Issued	Current Period Reductions	Ending Unmatured 12/31/2020
Sewer Lake Line	1/31/05	7/1/26	1.5%	7,000,000	2,819,302		402,757	2,416,545
Total PWTF Debt				\$ 7,000,000	\$ 2,819,302	\$ -	\$ 402,757	\$ 2,416,545

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

PWTF - Business Type Activities			
Year	Principal	Interest	Total
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	402,757	4,028	406,785
2026	402,757	2,014	404,771
Total	\$ 2,416,545	\$ 42,290	\$ 2,458,834

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 12 - 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	(1,236,406)
Total	\$ 1,736,212

The future minimum lease obligation payments as of December 31, 2020 are as follows:

Year	Principal	Interest	Total
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	86,965	9,622	96,587
2026-2027	183,328	9,846	193,174
Total	\$ 886,460	\$ 102,154	\$ 988,614

NOTE 13 - CHANGES IN LONG TERM LIABILITIES

Long term liability activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	\$ 1,980,000	\$ -	\$ (795,000)	\$ 1,185,000	\$ 820,000
Capital lease	1,062,957	-	(176,497)	886,460	181,675
Deferred amounts:					
Issuance discounts	-	-	-	-	
For issuance premiums	94,197	-	(38,731)	55,466	
Total Bonds Payable	3,137,154	-	(1,010,228)	2,126,926	1,001,675
Net Pension Liability	4,759,901	-	(593,722)	4,166,179	
Total OPEB liability	12,097,772	-	(376,346)	11,721,426	
Compensated absences	1,415,948	75,570	-	1,491,518	
Total governmental activity long term liabilities	\$ 21,410,775	\$ 75,570	\$ (1,980,296)	\$ 19,506,047	\$ 1,001,675
Business Type Activities					
Bonds payable	\$ 6,340,000	\$ -	\$ (525,000)	\$ 5,815,000	\$ 555,000
Issuance discounts	-	-	-	-	
For issuance premiums	370,951	-	(36,990)	333,961	
PWTF Loans	2,819,301	-	(402,757)	2,416,544	402,757
Asset Retirement Obligation	-	92,000	-	92,000	
Net Pension Liability	881,292	66,165	-	947,458	
Compensated absences	157,802	32,341	-	190,143	
Total business type activity long term liabilities	\$ 10,569,345	\$ 190,506	\$ (964,748)	\$ 9,795,103	\$ 957,757

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 \$33,526 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 14 – CAPITAL ASSETS**Changes in Capital Assets – Governmental Activities**

Asset Class	Balance 12/31/2019	Reclass	Additions	Deletions	Balance 12/31/2020
Capital assets not being depreciated					
Land	\$ 92,407,073				\$ 92,407,073
Land infrastructure	16,382,750				16,382,750
Construction in progress	181,737		31,157	(150,777)	62,116
Construction in progress - infrastructure	0		280,534	-	280,534
Total capital assets not being depreciated	\$ 108,971,560	\$ -	311,691	(150,777)	\$ 109,132,473
Capital assets being depreciated					
Buildings	\$ 30,141,306				\$ 30,141,306
Infrastructure	39,636,718		931,540		40,568,258
Improvements	17,284,514			(81,045)	17,203,469
Machinery & Equipment	2,539,355		491,017	(113,432)	2,916,941
Machinery & Equipment - IS	11,127,038		807,928	(187,604)	11,747,362
Intangibles	3,101,427		240,487	(180,462)	3,161,453
Total capital assets being depreciated	\$ 103,830,358	\$ -	2,470,972	(562,542)	\$ 105,738,788
Less accum depreciation For:					
Buildings	\$ (11,203,433)		\$ (753,304)		\$ (11,956,738)
Infrastructure	(21,679,560)		(1,216,203)		(22,895,763)
Improvements	(8,200,765)		(874,739)	81,045	(8,994,460)
Machinery & Equipment	(2,078,037)		(122,206)	113,432	(2,086,811)
Machinery & Equipment - IS	(6,624,887)		(860,574)	184,200	(7,301,261)
Intangibles	(1,805,030)		(154,232)	180,462	(1,778,800)
Total accum depreciation	\$ (51,591,711)	\$ -	\$ (3,981,258)	\$ 559,138	\$ (55,013,832)
Total net depreciable capital assets	\$ 52,238,647	\$ -	\$ (1,510,286)	\$ (3,405)	\$ 50,724,956
Total governmental capital assets (net)	\$ 161,210,207	\$ -	\$ (1,198,596)	\$ (154,182)	\$ 159,857,430

Asset Useful Lives

	<u>Estimated Service Life</u>
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 12/31/2019	Additions	Reductions	Balance 12/31/2020
Capital asset not being depreciated				
Land	\$ 203,992	\$ -	\$ -	\$ 203,992
Construction in progress	606,299	186,400	-	792,699
Total capital asset not being depreciated	810,290	186,400	-	996,690
Capital assets being depreciated				
Intangibles	\$ 18,129	\$ -	\$ -	\$ 18,129
Buildings	430,048	-	-	430,048
Improvements (other than buildings)	90,412,420	2,036,413	-	92,448,833
Machinery & Equipment	1,616,455	15,419	-	1,631,873
Accumulated depreciation	(43,193,339)	(1,963,084)	-	(45,156,424)
Total net depreciable capital assets	\$ 49,283,713	\$ 88,747	\$ -	49,372,460
Total business type capital assets - net	\$ 50,094,003	\$ 275,147	\$ -	\$ 50,369,150

Depreciation Expense

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

Governmental Activities

General government	\$ 180,133
Public safety	337,613
Physical environment	90,888
Transportation	1,246,235
Economic environment	50,805
Mental health	752
Culture and recreation	1,214,259
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	860,574
Total depreciation expense - governmental activities	<u>\$ 3,981,258</u>

Business Type Activities

Water	\$ 713,887
Sewer	1,021,173
Stormwater	228,024
Total depreciation expense - business type activities	<u>\$ 1,963,084</u>

Construction Obligations

The City has active capital improvement projects as of December 31, 2020. There are no material commitments associated with these projects.

NOTE 15 – ASSET RETIREMENT OBLIGATIONS

For the year ending December 31, 2020, the City implemented GASB Statement No. 83 Certain Retirement Obligations, which provides accounting and reporting guidance on asset retirement obligations. This new standard requires the reporting of long-term liabilities not previously reported. The City has the following known asset retirement obligations.

Emergency Water Well

The City is obligated by Washington Administrative Code (WAC) to take specific actions to decommission a water well in accordance with section WAC 173-160-381. The Code requires that the City take certain steps to permanently abandon a cased well including removal of liners, debris, sediments and obstruction; perforate and seal casings; and fill the casings. Engineering estimates set the cost of decommissioning the Water Utility emergency well at \$92,000 inclusive of sales tax and project management. Accordingly, a long term liability and deferred outflow of resources has been accounted for in the Water Utility Fund for the estimated cost of asset retirement obligations for the emergency well. The deferred outflow of resources will be amortized over the well's remaining useful life of approximately 27 years.

Underground Fuel Tank

The City is obligated by Washington Administrative Code (WAC) to take specific actions when retiring underground storage tanks (UST's) in accordance with section WAC 173-360A-0810. The Code requires that the City take certain steps to permanently take USTs out of service including the removal, transportation and disposal of liquid, sludge, hazardous waste, as well as removal or capping of tanks and piping. Mercer Island currently has one underground fuel tank with a remaining useful life ranging from 0 to 5 years. The ARO for the underground tank is currently unknown. A site assessment is currently ongoing to determine if the underground tank is leaking fuel which would indicate the need for pollution remediation. If remediation steps are required, in addition to retirement costs, the estimated liability will be reported under GASB 49.

Aquatic lease with Department of Natural Resources

The City is obligated by a lease agreement with the Department of Natural Resources (DNR) to remove all improvements to leased park land at the termination of the lease. Improvements include public buildings, public restrooms, waterfront plaza, fixed boat dock and pilings, fixed fishing pier, grated floating dock, grated steel gangway, bulkhead, treated pilings at swim beach, stormwater outfalls, recreation trails, and in-water buoys. The potential for termination of this lease is viewed as remote. The estimated cost of the asset retirement obligation liability for DNR aquatic lands is currently unknown, as such no liability is accrued on the citywide statement of net position.

NOTE 16 - 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 162 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, 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 \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 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 \$400 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 17 - 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 2020:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$(5,113,636)
Pension assets	5,784,441
Deferred outflows of resources	2,824,071
Deferred inflows of resources	(2,662,251)
Pension expense/expenditures	107,275

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 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – August 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	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 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – August 2020:		
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%
September – December 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Variable
Total	12.97%	7.90%

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

The City of Mercer Islands' actual contributions to the plan were \$1,451,758 for the year ended December 31, 2020.

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 2020 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January – August 2020:		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.14%	7.20%
September - December 2020:		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.25%	7.20%

The City of Mercer Islands' actual contributions to the plan were \$10,124 for the year ended December 31, 2020.

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% in 2020.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – December 2020		
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 \$445,627 for the year ended December 31, 2020.

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, 2020, the state contributed \$76,297,643 to LEOFF Plan 2. The amount recognized by the City of Mercer Island as its proportionate share of this amount is \$2,852,340.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, 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 developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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 its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.

- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

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 was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2020, 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	\$3,609,843	\$2,881,980	\$2,247,208
PERS 2/3	8,360,358	1,343,619	(4,434,669)
PSERS 2	19,229	(1,766)	(18,383)
LEOFF 1	(1,075,944)	(1,321,881)	(1,534,658)
LEOFF 2	(88,310)	(4,460,794)	(8,040,985)

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, 2020, the City of Mercer Island reported a total pension liability of \$4,225,599 and a total pension asset of \$5,784,441 for its proportionate share of the net pension asset and liabilities of State sponsored plans as follows:

	Liability (or Asset)
PERS 1	\$2,881,980
PERS 2/3	1,343,619
PSERS 2	(1,766)
LEOFF 1	(1,321,881)
LEOFF 2	(4,460,794)

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	(1,321,881)	(4,460,794)
State's proportionate share of the net pension (asset) associated with the employer	(8,941,169)	(2,852,340)
TOTAL	(10,263,049)	(7,313,133)

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

	Proportionate Share 6/30/2019	Proportionate Share 6/30/2020	Change in Proportion
PERS 1	0.000000%	0.000000%	0.000000%
PERS 1 UAAL	0.088564%	0.081630%	-0.006934%
PERS 2/3	0.113624%	0.105057%	-0.008567%
PSERS 2	0.015836%	0.012837%	-0.002999%
LEOFF 1	0.070658%	0.069996%	-0.000662%
LEOFF 2	0.215920%	0.218682%	0.002762%

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 2020, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the City of Mercer Island recognized pension expense as follows:

	Pension Expense
PERS 1	(\$143,485)
PERS 2/3	83,892
PSERS 2	3,887
LEOFF 1	(56,209)
LEOFF 2	225,955
Firefighter Pension Fund	(221,315)
TOTAL	(107,275)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, 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		\$16,046
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	278,216	
TOTAL	\$278,216	\$16,046

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$480,996	\$168,388
Net difference between projected and actual investment earnings on pension plan investments		68,236
Changes of assumptions	19,137	917,808
Changes in proportion and differences between contributions and proportionate share of contributions	262,027	519,022
Contributions subsequent to the measurement date	453,149	
TOTAL	\$1,215,309	\$1,673,454

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$2,427	\$132
Net difference between projected and actual investment earnings on pension plan investments	94	
Changes of assumptions	9	3,339
Changes in proportion and differences between contributions and proportionate share of contributions	67	860
Contributions subsequent to the measurement date	3,417	
TOTAL	\$6,014	\$4,331

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		\$13,827
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL		\$13,827

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$617,227	\$79,116
Net difference between projected and actual investment earnings on pension plan investments		49,719
Changes of assumptions	6,462	690,728
Changes in proportion and differences between contributions and proportionate share of contributions	428,611	135,029
Contributions subsequent to the measurement date	240,069	
TOTAL	\$1,292,366	\$954,593

State Sponsored Plans & Firefighters Pension	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$1,100,648	\$247,636
Net difference between projected and actual investment earnings on pension plan investments	32,259	147,828
Changes of assumptions	25,608	1,611,876
Changes in proportion and differences between contributions and proportionate share of contributions	690,704	654,911
Contributions subsequent to the measurement date	974,851	
TOTAL	\$2,824,071	\$2,662,251

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

For the year ended December 31, 2020

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								
2021	-	(94,844)	68,820	(125)	19	-	(20,895)	83,278
2022	-	(94,844)	68,820	(115)	6	-	(17,438)	46,667
2023	-	(94,844)	68,820	(76)	6	-	(17,438)	46,667
2024	-	(94,844)	47,807	(76)	6	-	(17,438)	46,667
2025	-	(94,844)	7,760	(76)	6	-	(17,438)	46,667
Thereafter	-	(44,803)	-	(392)	25	-	(44,384)	158,666
Total Deferred (Inflows)/Outflows	\$ -	\$ (519,022)	\$ 262,027	\$ (860)	\$ 67	\$ -	\$ (135,029)	\$ 428,611

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.

City of Mercer Island, Washington

For the fiscal year ended June 30, 2020

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								
2021	-	(40,092)	97,264	(16)	566	-	(11,987)	79,601
2022	-	(40,092)	97,264	(16)	200	-	(11,987)	68,966
2023	-	(40,092)	97,264	(16)	196	-	(11,987)	68,966
2024	-	(40,092)	74,425	(16)	196	-	(11,987)	68,966
2025	-	(8,018)	64,637	(16)	196	-	(11,987)	68,966
Thereafter	-	-	50,142	(54)	1,074	-	(19,180)	261,758
Total Deferred (Inflows)/Outflows	\$ -	\$ (168,388)	\$ 480,996	\$ (132)	\$ 2,427	\$ -	\$ (79,116)	\$ 617,224

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, 2020

Net differences between projected and actual earnings on plan investments					
	PERS 1	PERS 2/3	PSERS	LEOFF 1	LEOFF 2
Year					
2021	(72,816)	(443,821)	(726)	(49,358)	(310,803)
2022	(2,290)	(19,567)	(1)	(2,573)	(14,154)
2023	22,218	137,581	277	14,031	96,004
2024	36,842	257,571	545	24,073	179,233
2025					
Thereafter	-	-	-	-	-
Total Deferred (Inflows)/Outflows	\$ (16,046)	\$ (68,236)	\$ 94	\$ (13,827)	\$ (49,719)

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

For the fiscal year ended June 30, 2020

Changes in assumptions								
	PERS 1	PERS 2/3		PSERS 2		LEOFF 1	LEOFF 2	
Recognition Period (Years)		Inflows	Outflows	Inflows	Outflows		Inflows	Outflows
Year								
2021	-	(174,594)	3,844	(323)	4	-	(86,623)	972
2022	-	(174,594)	3,844	(323)	2	-	(86,623)	742
2023	-	(174,594)	3,844	(323)	0	-	(86,623)	742
2024	-	(174,594)	3,663	(323)	0	-	(86,623)	742
2025	-	(108,724)	3,585	(323)	0	-	(86,623)	742
Thereafter	-	(110,708)	358	(1,722)	2	-	(257,614)	2,523
Total Deferred (Inflows)/Outflows	\$ -	\$ (917,808)	\$ 19,137	\$ (3,339)	\$ 9	\$ -	\$ (690,728)	\$ 6,462

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 Fund - 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 2020 with a valuation date of January 1, 2020.

- **Inflation:** 2.25% total economic inflation; 3.25% salary inflation
- **Investment rate of return (Discount Rate):** 2.00%

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

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 2.00%. as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.00%) or 1 percentage point higher (3.00%) than the current rate

	1% Decrease 1.00%	Current Discount Rate 2.00%	1% Increase 3.00%
Total pension liability	\$ 1,951,063	\$ 1,754,845	\$ 1,587,059
Fiduciary net position	866,808	866,808	866,808
Net Pension liability	<u>\$ 1,084,255</u>	<u>\$ 888,037</u>	<u>\$ 720,251</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, 2020	\$876,437	12.00	1.00	\$ 882,933
Monthly net external cash flows:				
January	(13,809)	12.00	1.00	(13,911)
February	(6,905)	11.00	0.92	(6,952)
March	(6,905)	10.00	0.83	(6,948)
April	42,681	9.00	0.75	42,918
May	(6,450)	8.00	0.67	(6,482)
June	(6,450)	7.00	0.58	(6,478)
July	(6,450)	6.00	0.50	(6,474)
August	(5,626)	5.00	0.42	(5,643)
September	(6,450)	4.00	0.33	(6,466)
October	6,755	3.00	0.25	6,767
November	(6,450)	2.00	0.17	(6,458)
December	-	1.00	0.08	-
Ending Value - December 31, 2020				\$ 866,808
Money Weighted Rate of Return	0.74%			

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 2020 with a valuation date of January 1, 2020. Total pension liability was calculated as of the measurement date of December 31, 2020. The reporting date is December 31, 2020 which is the same as the Plans fiscal year ending date.

The City believes an assumed discount rate of 2.00% 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 2.12% as of December 31, 2020. Rounding this rate to the nearest quarter percent gives a discount rate of 2.00%. Using 2.00% for both the long term expected rate of return and the bond index means that 2.00% can be used as the single discount rate.

Net Pension Liability Schedule

	December 31, 2019	December 31, 2020
Total pension liability	\$ 2,008,356	\$ 1,754,845
Fiduciary net position	876,437	866,808
Net pension liability	<u>\$ 1,131,919</u>	<u>\$ 888,037</u>

Plan Fiduciary net position as a % of total pension liability	43.64%	49.40%
Covered Payroll	0	0
Net pension liability as a % of covered payroll	N/A	N/A

Key Actuarial Assumptions

	December 31, 2019	December 31, 2020
Discount Rate	2.75%	2.00%
Long-term rate of return, net	2.75%	2.00%
Municipal bond rate	2.75%	2.00%
Valuation Date	January 1, 2018	January 1, 2020
Measurement Date	December 31, 2019	December 31, 2020
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, 2019	\$ 2,008,356	\$ 876,437	\$ 1,131,919
Changes for the Year:			
Service Cost	-	-	-
Interest on total pension liability	54,166	-	54,166
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(357,949)	-	(357,949)
Effect of assumptions changes or inputs	128,216	-	128,216
Benefit payments	(77,944)	(77,944)	-
Medical payments from fund	-	-	-
Employer contributions	-	26,410	(26,410)
Contributions from state fire insurance premium	-	35,472	(35,472)
Net investment income	-	6,433	(6,433)
Administrative expenses	-	-	-
Balances as of December 31, 2020	\$ 1,754,845	\$ 866,808	\$ 888,037

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, 2020, 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	\$32,165	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL	\$32,165	\$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
2021	\$13,659
2022	9,070
2023	5,935
Thereafter	3,501
Total	\$32,165

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	2.00%
Projected salary increases	3.25%

NOTE 18- 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, 2020:

Total OPEB Liability Schedule

	December 31, 2019	December 31, 2020
Total OPEB liability	\$ 12,097,772	\$ 11,721,426
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, 2020 the City's cost for providing these benefits was \$411,325.

At December 31, 2020 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, 2020
- **Measurement Date:** December 31, 2020
- **Discount Rate:** 2.00%; **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 2.00%. as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.00%) or 1 percentage point higher (3.00%) than the current rate:

	1% Decrease 1.00%	Current Discount Rate 2.00%	1% Increase 3.00%
Total OPEB Liability 12/31/2020	\$ 13,413,201	\$ 11,721,426	\$ 10,316,903

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 12/31/2020	\$ 10,414,367	\$ 11,721,426	\$ 13,242,418

Changes in the Total OPEB Liability

GASB 75 Change to Total OPEB Liability	
	(Decrease) Total OPEB Liability
Balances as of December 31, 2019	\$ 12,097,772
Changes for the Year:	
Service Cost	-
Interest on total OPEB liability	327,788
Effect of plan changes	-
Effect of economic/demographic gains or losses	(36,602)
Effect of assumptions changes or inputs	(308,648)
Expected benefit payments	(358,884)
Balances as of December 31, 2020	<u>\$ 11,721,426</u>

The City believes an assumed discount rate of 2.00% is an appropriate long-term rate of return on investments for its Health plan.

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, 2019 to December 31 ,2019	January 1, 2020 to December 31 ,2020
Service Cost	\$ -	\$ -
Interest on total OPEB liability	397,275	327,788
Effect of plan changes	-	-
Recognition of Deferred Inflows/Outflows of Resources		
Recognition of economic/demographic gains or losses	-	(36,602)
Recognition of assumptions changes or inputs	1,907,799	(308,648)
OPBE Expense	\$ 2,305,074	\$ (17,462)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, 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
2021	\$0
2022	0
2023	0
2024	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 19 – 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	\$ 30,681,449	\$ 61,816,297
Increase (decrease) due to perspective difference	168,604	535,411
Revenues on the GAAP basis	30,850,053	62,351,708
Expenditure on the budgetary basis	28,041,118	57,742,786
Increase (decrease) due to perspective difference	27,998	42,054
Expenditure on the GAAP basis	28,069,116	57,784,840
Other financing sources (uses) on the budgetary basis	1,304,037	1,031,787
Increase (decrease) due to perspective difference	(439,605)	(1,684,941)
Other financing sources (uses) on the GAAP basis	864,432	(653,154)
Fund Balance beginning of year on the budgetary basis	6,534,738	6,534,738
Increase (decrease) due to perspective difference	4,306,746	4,306,746
Fund Balance beginning of year on the GAAP basis	10,841,484	10,841,483
Fund Balance end of year on the budgetary basis	10,479,106	10,479,106
Increase (decrease) due to perspective difference	4,007,747	4,007,747
Fund Balance end of year on the GAAP basis	\$ 14,486,851	\$ 14,486,851

NOTE 20 - 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, 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 2020 the City of Mercer Island's share of these fees was \$734,591.

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

NOTE 21 – 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 22 – PAID FAMILY MEDICAL LEAVE ACT SELF INSURANCE

The City of Mercer Island administers a voluntary plan for paid family and medical leave benefits for its employees. Voluntary plans are approved by the Employment Security Department and are available for employers who wish to opt out of the State of Washington's Paid Family & Medical Leave Program for either family leave benefit, medical leave benefit, or both, and instead administer their own internal plan. Employers with voluntary plans are required to offer benefits that are equal to or exceed the benefits offered by the State's program and must report employee hours, wages, premiums deducted from employee pay, and other information to the Employment Security Department on a quarterly basis.

The City paid \$49,829 in claims during 2020 and held \$0 of employee premiums at year end.

NOTE 23 – COVID-19 PANDEMIC

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.

NOTE 24 – SUBSEQUENT EVENTS

The following material events occurred subsequent to the balance sheet date of December 31, 2020:

- The American Rescue Plan Act (ARPA) is a Federal economic stimulus package that was signed into law on March 11, 2021, in response to the economic and public safety impacts of the COVID-19 Pandemic (pandemic). The \$1.9 trillion legislation includes \$19.53 billion to cities and towns with less than 50,000 residents to aid in their response and recovery from the pandemic.

On June 8, 2021 Washington's OFM announced ARPA allocation amounts for NEU cities, along with specific instructions to acknowledge the desire for and facilitate the transfer of ARPA funds. Mercer Island was estimated to receive \$5.64 million. The OFM confirmed the City of Mercer Island will receive \$7.23 million in ARPA funds. The first half, or \$3.61 million, of the funding was received in June 2021 with the remainder expected in 2022. The City is required to commit the funds by December 2024, and fully expend the funds no later than December 2026

- At the regular meeting of July 6, 2021 the City Council passed Resolution Number 1600 authorizing the purchase of real property located at 4004 Island Crest Way, for a purchase price of \$1,175,000 plus closing costs. Final settlement of the purchase was executed on August 6, 2021.

City of Mercer Island
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2020

	Budgeted Amounts			
	Original Budget	Final Budget	Actual for Biennium	Variance From Final Budget
REVENUES				
Taxes:				
Property	\$ 25,171,740	\$ 25,171,740	\$ 25,288,938	\$ 117,198
Sales	10,228,791	10,228,791	10,614,941	386,150
B&O	9,732,727	9,732,727	9,794,262	61,535
Licenses & Permits	7,384,749	6,121,684	4,952,213	(1,169,471)
Intergovernmental	2,352,064	3,678,058	2,243,314	(1,434,744)
Charges for Services	7,460,318	6,030,018	7,315,761	1,285,743
Fines & Forfeitures	693,208	693,208	486,736	(206,472)
Investment Earnings	51,208	51,208	284,490	233,282
Other Revenues	473,400	473,400	835,643	362,243
Total revenues	63,548,205	62,180,834	61,816,297	(364,537)
EXPENDITURES				
Current:				
Judicial	972,158	972,158	864,535	(107,623)
General Government	11,486,610	13,769,478	11,057,340	(2,712,138)
Public Safety	28,374,859	28,616,454	28,792,477	176,023
Physical Environ	-	-	131,542	131,542
Transportation	3,861,047	3,852,337	1,745,995	(2,106,342)
Health & Human Services	-	-	27,042	27,042
Economic Environment	7,139,948	7,165,073	6,297,093	(867,980)
Culture & Recreation	11,950,202	8,825,229	8,741,409	(83,820)
Debt Service:				
Principal	-	-	84,728	84,728
Interest	-	-	625	625
Total expenditures	63,784,824	63,200,729	57,742,786	(5,457,943)
Excess (deficiency) of revenues over (under) expenditures	(236,619)	(1,019,895)	4,073,511	5,093,406
OTHER FINANCING SOURCES (USES)				
Transfers in	1,035,704	219,820	797,525	577,705
Transfers out	(1,481,400)	(1,285,328)	(1,265,738)	19,591
Misc Other Financing Sources		1,500,000	1,500,000	1,500,000
Total other financing sources (uses)	(445,696)	434,492	1,031,787	2,097,295
Net change in fund balances	(682,315)	(585,403)	5,105,298	7,190,701
Fund balances - Beginning	790,798	-	5,373,810	5,373,810
Fund balances - Ending	\$ 108,483	\$ (585,403)	\$ 10,479,106	\$ 12,564,511

The notes to the Financial Statements are an integral part of this schedule.

City of Mercer Island
Street Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2020

	Budgeted Amounts			
	Original Budget	Final Budget	Actual for Biennium	Variance From Final Budget
REVENUES				
Taxes:				
Other	\$ 3,398,000	\$ 3,398,000	\$ 3,561,070	163,070
Intergovernmental	2,660,000	2,660,000	2,272,643	(387,357)
Charges for Services	-	-	157,506	157,506
Total revenues	6,058,000	6,058,000	5,991,219	(66,781)
EXPENDITURES				
Current:				
Transportation	6,692,685	7,099,000	4,842,062	(2,256,938)
Total expenditures	6,692,685	7,099,000	4,842,062	(2,256,938)
Excess (deficiency) of revenues over (under) expenditures	(634,685)	(1,041,000)	1,149,158	2,190,158
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(85,000)	(85,000)	(54,852)	30,148
Total other financing sources (uses)	(85,000)	(85,000)	(54,852)	30,148
Net change in fund balances	(719,685)	(1,126,000)	1,094,306	2,220,306
Fund balances - Beginning	2,179,388	2,179,388	4,019,850	1,840,462
Fund balances - Ending	\$ 1,459,703	\$ 1,053,388	\$ 5,114,155	\$ 4,060,767

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

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
PERS1
As of June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employer's proportion of the net pension liability (asset)	0.0816300%	0.0885640%	0.0999700%	0.0943380%	0.0921020%	0.1014210%	0.090700%	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ 2,881,980	\$ 3,405,600	\$ 4,464,694	\$ 4,476,412	\$ 4,946,311	\$ 5,305,261	4,569,055	N/A	N/A	N/A
TOTAL	\$ 2,881,980	\$ 3,405,600	\$ 4,464,694	\$ 4,476,412	\$ 4,946,311	5,305,261	4,569,055	N/A	N/A	N/A
Employer's covered employee payroll	12,352,088	12,444,511	13,336,568	11,809,152	10,729,144	11,405,710	9,766,732	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	428.6%	365.4%	298.7%	263.8%	216.9%	215.0%	213.8%	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%	N/A	N/A	N/A

Key Actuarial Assumptions	2020	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	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 Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	Mortality rates developed using the Society of Actuaries Pub H-2010. OSA applied the long-term MP-2017 generational scale.						

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employer's proportion of the net pension liability	0.105057%	0.113624%	0.127078%	0.120307%	0.115169%	0.125812%	0.112022%	N/A	N/A	N/A
Employer's proportionate share of the net pension liability	\$ 1,343,619	\$ 1,103,675	\$ 2,169,744	\$ 4,180,093	\$ 5,798,668	\$ 4,495,334	2,264,369	N/A	N/A	N/A
TOTAL	\$ 1,343,619	\$ 1,103,675	\$ 2,169,744	\$ 4,180,093	\$ 5,798,668	\$ 4,495,334	2,264,369	N/A	N/A	N/A
Employer's covered employee payroll	\$ 12,273,235	\$ 12,372,797	\$ 13,259,166	\$ 11,809,152	\$ 10,729,144	\$ 11,164,401	9,553,259	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	10.95%	8.92%	16.36%	35.40%	54.05%	40.26%	23.70%	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%	N/A	N/A	N/A

Key Actuarial Assumptions	2020	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	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 Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	Mortality rates developed using the Society of Actuaries Pub H-2010. OSA applied the long-term MP-2017 generational scale.						

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
PSERS
As of June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employer's proportion of the net pension liability (asset)	0.012837%	0.015836%	0.019719%	0.019410%	0.019563%	0.022901%	0.021583%	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ (1,766)	\$ (2,059)	\$ 244	\$ 3,803	\$ 8,314	\$ 4,180	(3,125)	N/A	N/A	N/A
TOTAL	\$ (1,766)	\$ (2,059)	\$ 244	\$ 3,803	\$ 8,314	\$ 4,180	(3,125)	N/A	N/A	N/A
Employer's covered employee payroll	\$ 78,852	\$ 72,996	\$ 77,401	\$ 68,723	\$ 63,388	\$ 67,051	57,659	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-2.24%	-2.82%	0.32%	5.53%	13.12%	6.23%	5.42%	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	101.68%	101.85%	99.79%	96.26%	90.41%	95.08%	105.01%	N/A	N/A	N/A

Key Actuarial Assumptions	2020	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	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 Cost	Normal	Normal	Normal
Mortality	Mortality rates developed using the Society of Actuaries Pub H-2010. OSA applied the long-term MP-2017 generational scale.						

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employer's proportion of the net pension liability (asset)	0.069996%	0.070658%	0.070837%	0.070386%	0.070876%	0.071143%	0.071676%	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ (1,321,881)	\$ (1,396,634)	\$ (1,286,047)	\$ (1,067,910)	\$ (730,226)	\$ (857,430)	(869,280)	N/A	N/A	N/A
TOTAL	\$ (1,321,881)	\$ (1,396,634)	\$ (1,286,047)	\$ (1,067,910)	\$ (730,226)	\$ (857,430)	(869,280)	N/A	N/A	N/A
Employer's covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	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	146.88%	148.78%	144.42%	135.96%	123.74%	127.36%	126.91%	N/A	N/A	N/A

Key Actuarial Assumptions	2020	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	2.75%	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	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 Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal
Mortality	Mortality rates developed using the Society of Actuaries Pub H-2010. OSA applied the long-term MP-2017 generational scale.						

City of Mercer Island
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employer's proportion of the net pension liability (asset)	0.218682%	0.215920%	0.249477%	0.246128%	0.234565%	0.261715%	0.244566%	N/A	N/A	N/A
Employer's proportionate share of the net pension liability/ (asset)	\$ (4,460,794)	\$ (5,002,204)	\$ (5,064,927)	\$ (3,415,459)	\$ (1,364,300)	\$ (2,689,907)	(3,245,496)	N/A	N/A	N/A
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (2,852,340)	\$ (3,275,773)	\$ (3,279,445)	\$ (2,215,545)	\$ (889,424)	\$ (1,757,534)	(2,137,986)	N/A	N/A	N/A
TOTAL	\$ (7,313,134)	\$ (8,277,977)	\$ (8,344,372)	\$ (5,631,004)	\$ (2,253,724)	\$ (4,447,441)	(5,383,482)	N/A	N/A	N/A

Employer's covered employee payroll	\$ 8,294,242	\$ 7,582,771	\$ 8,263,780	\$ 7,699,330	\$ 7,105,964	\$ 7,596,018	6,806,464	N/A	N/A	N/A
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	53.78%	65.97%	61.29%	44.36%	19.20%	35.41%	47.68%	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	115.83%	119.43%	118.50%	113.36%	106.04%	111.67%	116.75%	N/A	N/A	N/A

Key Actuarial Assumptions	2020	2019	2018	2017	2016	2015	2014
Discount Rate	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Long-term rate of return, net	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.50%
Valuation Date	June 30,2019	June 30,2018	June 30,2017	June 30,2016	June 30,2015	June 30,2014	June 30,2013
Measurement Date	June 30,2020	June 30,2019	June 30,2018	June 30,2017	June 30,2016	June 30,2015	June 30,2014
Inflation	2.75%	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%
Salary increases-including inflation	3.50%	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 Cost	Entry Age Normal	Entry Age Normal	Entry Age Normal

Mortality Mortality rates developed using the Society of Actuaries Pub H-2010. OSA applied the long-term MP-2017 generational scale.

City of Mercer Island
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required contributions	\$ 543,576	\$ 641,359	\$ 647,639	\$ 610,706	\$ 545,652	\$ 504,636	\$ 437,069	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (543,576)	\$ (641,359)	\$ (647,639)	\$ (610,706)	\$ (545,652)	\$ (504,636)	\$ (437,069)	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Covered employer payroll	\$ 11,342,713	\$ 12,934,104	\$ 12,802,735	\$ 12,485,882	\$ 11,333,362	\$ 11,112,882	\$ 10,325,037	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	4.8%	5.0%	5.1%	4.9%	4.8%	4.5%	4.2%	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
PERS Plan 2 / 3
As of December 31, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required contributions	\$ 1,451,758	\$ 1,648,492	\$ 1,620,939	\$ 1,475,731	\$ 1,259,585	\$ 1,123,738	\$ 941,919	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (1,451,758)	\$ (1,648,492)	\$ (1,620,939)	\$ (1,475,731)	\$ (1,259,585)	\$ (1,123,738)	\$ (941,919)	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Covered employer payroll	\$ 11,259,547	\$ 12,856,033	\$ 12,726,557	\$ 12,413,233	\$ 11,266,419	\$ 11,048,090	\$ 10,261,952	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	12.9%	12.8%	12.7%	11.9%	11.2%	10.2%	9.2%	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
PSERS
As of December 31, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required contributions	\$ 10,124	\$ 9,576	\$ 9,194	\$ 8,521	\$ 7,725	\$ 7,147	\$ 6,649	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (10,124)	\$ (9,576)	\$ (9,194)	\$ (8,521)	\$ (7,725)	\$ (7,147)	\$ (6,649)	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Covered employer payroll	\$ 83,166	\$ 78,071	\$ 76,178	\$ 72,649	\$ 66,943	\$ 64,792	\$ 63,085	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	12.2%	12.3%	12.1%	11.7%	11.5%	11.0%	10.5%	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
LEOFF 1
As of December 31, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Covered employer payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	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%	0.0%	N/A	N/A	N/A

City of Mercer Island
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required contributions	\$ 445,627	\$ 446,852	\$ 426,194	\$ 419,206	\$ 390,720	\$ 393,006	\$ 375,430	N/A	N/A	N/A
Contributions in relation to the statutorily or contractually required contributions	\$ (445,627)	\$ (446,852)	\$ (426,194)	\$ (419,206)	\$ (390,720)	\$ (393,006)	\$ (375,430)	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A
Covered employer payroll	\$8,359,712	\$8,302,343	\$7,848,878	\$7,874,867	\$7,470,757	\$7,481,851	\$7,178,393	N/A	N/A	N/A
Contributions as a percentage of covered employee payroll	5.3%	5.4%	5.4%	5.3%	5.2%	5.3%	5.2%	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:									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total Pension Liability										
Service Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	N/A	N/A	N/A
Interest on total pension liability	54	70	65	75	67	67	68	N/A	N/A	N/A
Effect of plan changes	0	0	0	0	0	0	0	N/A	N/A	N/A
Effect of economic/demographic gains or losses	-358	0	0	-278	17	17	0	N/A	N/A	N/A
Effect of assumptions changes or inputs	128	240	-96	0	217	217	52	N/A	N/A	N/A
Benefit payments	-78	-85	-81	-83	-91	-91	-77	N/A	N/A	N/A
Net change in total pension liability	-\$254	\$225	-\$111	-\$286	\$210	\$210	\$43	N/A	N/A	N/A
Total pension liability, beginning	2008	1784	1895	2181	1971	1971	1927	N/A	N/A	N/A
Total pension liability, ending (a)	\$1,755	\$2,008	\$1,784	\$1,895	\$2,181	2181	1970	N/A	N/A	N/A
Fiduciary Net Position								N/A	N/A	N/A
Employer contributions	\$26	\$26	\$26	\$26	\$26	\$26	\$26	N/A	N/A	N/A
Contributions from state fire insurance premium	35	33	33	32	30	31	31	N/A	N/A	N/A
Investment income net of investment expenses	6	22	15	8	5	1	3	N/A	N/A	N/A
Benefit payments	-78	-85	-81	-83	-83	-91	-77	N/A	N/A	N/A
Medical payments from fund	0	0	0	0	0	0	0	N/A	N/A	N/A
Administrative expenses	0	0	0	0	0	0	0	N/A	N/A	N/A
Net change in plan fiduciary net position	-10	-3	-6	-16	-22	-32	-16	N/A	N/A	N/A
Fiduciary net position, beginning	876	879	885	901	922.95	955	971	N/A	N/A	N/A
Fiduciary net position, ending (b)	867	876	879	885	901	923	955	N/A	N/A	N/A
Net pension liability, ending = (a)-(b)	\$888	\$1,132	\$905	\$1,010	\$1,279	\$1,258	\$1,015	N/A	N/A	N/A
Fiduciary net position as a % of total pension liab	49.4%	43.6%	49.3%	46.7%	41.3%	42.3%	48.5%	N/A	N/A	N/A
Covered Payroll	\$0	\$0	\$0	\$0	\$0	\$0	\$0	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

Firefighters Pension Fund
GASB 67 Money-Weighted Rate of Return

Fiscal Year Ending December 31	Net Money- Weighted Rate of Return
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%
2020	0.74%

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:									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total OPEB Liability										
Service Cost	\$0	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest on total OPEB liability	328	397	369	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes in benefit terms	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of economic/demographic gains or losses	(37)	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of assumptions changes or inputs	(309)	1,908	(732)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Expected benefit payments	(359)	(276)	(227)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total OPEB liability	(376)	2,029	(590)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability, beginning	12,098	10,068	10,658	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability, ending (a)	11,721	12,098	10,068	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered employee payroll	\$0	\$0	\$0	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 fiduciary 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 contribution 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, 2019	December 31, 2020
Discount Rate	2.75%	2.00%
Long-term rate of return, net	2.75%	2.00%
Municipal bond rate	2.75%	2.00%
Valuation Date	January 1, 2018	January 1, 2020
Measurement Date	December 31, 2019	December 31, 2020
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, 2019	December 31, 2020
Discount Rate	2.75%	2.00%
Long-term care inflation rate	4.50%	4.50%
Valuation Date	January 1, 2018	January 1, 2020
Measurement Date	December 31, 2019	December 31, 2020
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 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 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

City of Mercer Island
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via WA Department of Commerce)	COVID 19 - Coronavirus Relief Fund	21.019	NA	1,101,150	-	1,101,150	-	2, 3, 4
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via King County)	COVID 19 - Coronavirus Relief Fund	21.019	NA	37,372	-	37,372	-	2, 3, 4
			Total CFDA 21.019:	1,138,522	-	1,138,522	-	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	2H79SP014301 -06	-	219,293	219,293	-	2, 3
CENTERS FOR DISEASE CONTROL AND PREVENTION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF	COVID 19 - Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	NA	-	9,120	9,120	-	2, 3, 4
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WA Health Care Authority)	Block Grants for Community Mental Health Services	93.958	K3682	16,668	-	16,668	-	2, 3
U.S. COAST GUARD, HOMELAND SECURITY, DEPARTMENT OF (via WA Parks & Recreation Commission)	Boating Safety Financial Assistance	97.012	NA	14,479	-	14,479	-	3, 4
			Total Federal Awards Expended:	1,169,669	228,413	1,398,082	-	

The accompanying notes are an integral part of this schedule.

City of Mercer Island
Notes to Schedule of Expenditures of Federal Awards
(and State/Local Assistance)
For the Year Ended December 31, 2020

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Mercer Island's financial statements. The City uses the modified accrual basis of accounting for governmental funds and the full accrual basis of accounting for the Government-wide Statements and the proprietary funds.

NOTE 2 - FEDERAL DE MINIMIS INDIRECT COST RATE

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

NOTE 3 - PROGRAM COSTS

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

NOTE 4 - NOT AVAILABLE (N/A)

The City was unable to obtain other identification number.

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.

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Exit Recommendations
City of Mercer Island
Audit Period Ending: 12/31/2020

We are providing the following exit recommendations for management's consideration. They are not referenced in the audit report. We may review the status of the following exit items in our next audit.

Accountability:

Police Overtime Approval

During our review of the police department paid overtime process, we noted the department did not follow proper procedures for approving overtime hours. We noted the following:

- Seven instances where a commander/supervisor had approved their own overtime hours. The Department implemented new procedures for supervisors/commanders to no longer be allowed to approve their own timesheets after fiscal year 2021.

We recommend the department ensure that overtime is reviewed and approved by employees' supervisors per department policy.

Fire Overtime Approval

We reviewed the fire department's overtime approval process. We noted the department's policy requires employees' overtime sheets to be signed by the individual and watch commander or other designated supervisor. We noted the following:

- Nine instances where a watch commander signed and approved their own timesheet. As a watch commander, they should have obtained a signature from the Deputy Chief for Fire Chief for secondary review and approval.
- Two instances where timesheets were not signed by the individual, but were signed by a supervisor.
- Two instances where timesheets were signed by the individual, but were not signed by a supervisor.

We recommend the department ensure overtime approvals follow department policy.

Financial Statements:

Payroll Accrual

The City does not accrue payroll at year-end to ensure it is reported in the correct fiscal period. We calculated the amount of payroll expenditures that were posted to FY2020 that should have been accrued back to 12/31/2019 (2019 expenditures posted to 2020). We also calculated the amount of payroll expenditures that were posted to FY2021 that should have been accrued back to 12/31/2020 (2020 expenditures posted to 2021). Based on our calculation, we determined FY2020 payroll is overstated by \$817,096.



Exit Recommendations
City of Mercer Island
Audit Period Ending: 12/31/2020

We recommend the City establish policies and procedures to accrue payroll to the proper reporting period in accordance with GAAP.

Summary of Uncorrected Items

Description	Statement / Schedule	Opinion Unit
Cash & Investments is understated by \$78,395 This amount represents the City's contribution to ARCH that is held in the ARCH Trust Fund account	Statement of Net Position	Governmental Activities
General Fund payroll expenditures are overstated by \$564,338 due to the City not performing a year-end accrual for payroll	Statement of Revenues, Expenditures, and Change in Fund Balance	General Fund
Street Fund payroll expenditures are overstated by \$7,349 due to the City not performing a year-end accrual for payroll	Statement of Revenues, Expenditures, and Change in Fund Balance	Street Fund
Capital Improvement Fund payroll expenditures are understated by \$2,319 due to the City not performing a year-end accrual for payroll	Statement of Revenues, Expenditures, and Change in Fund Balance	Capital Improvement Fund
Water Fund payroll expenses are overstated by \$38,176.42 due to the City not performing a year-end accrual for payroll	Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position	Water Fund
Sewer Fund payroll expenses are overstated by \$25,547 due to the City not performing a year-end accrual for payroll	Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position	Sewer Fund
Storm Drain Fund payroll expenditures are overstated by \$22,881 due to the City not performing a year-end accrual for payroll	Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position	Storm Drain Fund
Aggregate Remaining Fund payroll expenditures/expenses are overstated by \$95,642 due to the City not performing a year-end accrual for payroll	Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position Statement of Revenues, Expenditures, and Change in Fund Balance	ARF
Governmental Activities payroll expenses are overstated by \$665,011 due to the City not performing a year-end accrual for payroll	Statement of Activities	Governmental Activities
Storm and Surface Water Fund expenditures are understated by \$25,401 due to the City not performing a year-end accrual for an invoice expenditure dated for 1/12/2021 for work that was completed in FY2020.	Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position Statement of Revenues, Expenditures, and Change in Fund Balance	Storm Drain Fund



TO

DATE: 15 March 2022

Office of the Washington State Auditor

40 Lake Bellevue Drive Suite 123,
Bellevue, WA 98005

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of City of Mercer Island for the period from January 1, 2020 through December 31, 2020. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.



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2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records, notwithstanding immaterial uncorrected items referenced below.

Additional representations related to the financial statements:

10. We acknowledge our responsibility for fair presentation of financial statements and believe financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.
11. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
12. The financial statements include financial information of the primary government and all component units, fiduciary and other activity required by generally accepted accounting principles to be included in the financial reporting entity.
13. The financial statements properly classify all funds and activities.
14. All funds that meet the quantitative criteria in GASB requirements or are otherwise particularly important to financial statement users, are presented as major funds.

GEORGE BOGARD
Manager



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15. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and depreciated as applicable.
16. We have no plans or intentions that may materially affect the reported value or classification of assets, liabilities or net position.
17. Revenues are appropriately classified by fund and account.
18. Expenses have been appropriately classified by fund and account, and allocations have been made on a reasonable basis.
19. Net position components (net investment in capital assets, restricted and unrestricted) and fund balance components (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, as applicable, approved.
20. Significant assumptions we used in making accounting estimates are reasonable.
21. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the government is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements, and other loss contingencies.
22. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
23. We acknowledge our responsibility for reporting supplementary information, (such as the Schedule of Expenditures of Federal Awards) in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.
24. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
25. We acknowledge our responsibility for the supplementary information required by generally accepted accounting principles in the United States (RSI) and believe RSI is measured and presented within prescribed guidelines.



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26. We have disclosed to you all significant changes in the methods of measurement and presentation of RSI, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the RSI.
27. We believe the effects of uncorrected financial statement misstatements summarized in the schedule of uncorrected items provided to us by the auditor are not material, both individually and in the aggregate, to each applicable opinion unit.
28. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.

Additional representations related to expenditures under federal grant programs:

29. We acknowledge our responsibility for complying, and have complied, with the requirements of 2 CFR § 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.
30. With regards to your audit of federal grant programs, we have made available all relevant and requested information of which we are aware, including:
 - a. All federal awards and related grant agreements (including amendments, if any), contracts with pass-through entities, service organizations and vendors, and correspondence.
 - b. All communications from federal awarding agencies, vendors, service organizations or pass-through entities concerning possible noncompliance.
 - c. All information regarding corrective actions taken and management decisions or follow-up work performed by federal or pass-through agencies on any findings reported in the past.
 - d. All documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - e. Interpretations or other support for any situations where compliance with requirements might be questionable or unclear.
31. We have identified and complied with all direct and material compliance requirements of federal awards.
32. Management is responsible for establishing effective internal control and has maintained sufficient control over federal programs to provide reasonable assurance that awards are managed in compliance with laws, regulations, contracts or grant agreements that could have a material effect on each of our federal awards.
33. Federal program financial reports and claims for advances and reimbursements are supported by the accounting records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards.



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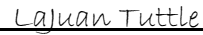


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34. Copies of federal program reports provided to you are true copies of the reports submitted, or electronically transmitted, to federal agencies or pass-through agencies, as applicable.
35. We are responsible for, and will accurately prepare, the auditee section of the Data Collection Form as required by the Uniform Guidance.



JESSI BON
City Manager



LAJUAN TUTTLE
Deputy Finance Director



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