NOTE 1:
Summary of Significant Accounting Policies

The City of Redmond was incorporated on December 31, 1912 and operates under the laws of the State of Washington applicable to a Non-Charter Mayor/Council form of government (elected Mayor and City Council composed of seven members). Both Mayor and Council are elected to four-year terms. The City provides general government services including public safety, highways and streets, parks and recreation, planning and zoning, permits and inspection, sanitation, general administrative, and water and wastewater services.

The accounting and reporting policies of the City of Redmond conform to generally accepted accounting principles for governments and are regulated by the Washington State Auditor's Office.

The City's Comprehensive Annual Financial Report (CAFR) is prepared in accordance with Governmental Accounting Standards Board Statements and the following notes detail the City's significant accounting policies

Reporting Entity

The City's (CAFR) includes the financial statements for the City of Redmond and its component units; entities for which the City is considered to be financially accountable. The City has two blended component units; the Redmond Public Corporation and Redmond Community Properties. Although legally separate entities blended component units are, in substance, part of the City's operations. (See Note 15 for descriptions.)

Basic 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 report information on all of the non-fiduciary activities of the primary government and its component units. 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 or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Under the modified accrual basis of accounting, property taxes, sales taxes, utility taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 33. When the expenditure is incurred, grant revenue is considered to have been earned and therefore available and recognized as revenue. Entitlement grant revenue is not tied to expenditures and is recognized when the City is entitled to receive it according to the grant agreement.

Financial Statement Presentation

The City 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 except those required to be accounted for in another fund.
>
> The Capital Improvements Program Fund accounts for financial resources to be used for the acquisition, construction, and preservation of major capital facilities other than those financed by proprietary funds.

The City reports the following major proprietary funds:

> The Water/Wastewater Fund accounts for the activities of providing water and sewer services to its citizens.
>
> The UPD Water/Wastewater Fund accounts for the activities of providing water and sewer services to an urban planned development outside the City limits. Both of these utilities' operations are self-supported through user charges.
>
> The Stormwater Management Fund accounts for the operation, construction, and maintenance of the City's stormwater management system. The utility's operations are self-supported through fees.

Additionally, the City reports the following fund types:

> Internal Service Funds account for fleet maintenance, information technology, and insurance services provided to other departments of the City on a cost reimbursement basis, and for the activities of Redmond Community Properties, a blended component unit of the City.
>
> Agency Funds account for assets held by the City as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City has three Agency Funds: Intergovernmental Custodial, Municipal Employees Benefit Trust, and Contractor's Deposits.
>
> The Pension Trust Fund accounts for the activities of the Firemen's Pension Fund, which accumulates resources for excess pension benefit payments to qualified firefighters.
>
> Special Revenue Funds are used to account for specific revenues that are restricted to or reserved for expenditures for particular purposes.

Debt Service Funds account for the accumulation of resources for and the payment of general obligation and special assessment bonds.

The City does not have any permanent funds.

The City implemented GASB 62 for the fiscal year ending December 31, 2012. This pronouncement codifies all Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements in place prior to November 30, 1989. The City previously followed these pronouncements and disclosed such in the annual report. With the implementation of this GASB this disclosure is no longer necessary.

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 payments-in-lieu of taxes and other 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.

In 2012 the City reevaluated the methodology used to report expenditures by function. In the past the City has classified maintenance on public safety buildings; police and fire stations, as Physical Environment. However during further discussion the decision was made to include these expenditures as Security to more closely represent the true cost. This did not impact the total expenditures for the governmental statements but rather shifted the expenditures between functions. This also impacted the budget to actual comparison schedule for the general fund. The original budget shown in the 2012 CAFR is representative of what was reported on the same schedule in the 2011 CAFR while the final budget incorporates the new classification for Security expenditures. The Actual column on this schedule is comprised by the actual amounts shown on the 2011 CAFR plus the amount shown on the General Government Statement – General Fund in the 2012 CAFR.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, 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 producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utility funds and internal service funds are charges to customers for sales and services, vehicle replacement, and insurance. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The City of Redmond budgets its funds in accordance with the Revised Code of Washington (RCW) 35A.34. In compliance with the code, budgets for all funds are established with the exception of the LID Control and the LID Guaranty Debt Service Funds, and Fiduciary funds. Budgets established for proprietary funds are "management budgets" and as such are not required to be shown in this report.

The biennial budget is proposed by the Mayor and adopted by the City Council with legal budgetary control at the fund level for all funds. Expenditures and other financing uses may not exceed budgeted appropriations at these levels. The Mayor may authorize transfers within all funds. The City Council must approve by ordinance any additional appropriations which increase the total at the fund level. Any unexpended appropriation balances lapse at the end of the biennium.

In addition to authorizing the budget, the City Council biennially approves the Capital Improvement Program. This is a six-year plan for capital project expenditures and anticipated revenue sources. Expenditures and revenues for these projects are budgeted in the Capital Projects Funds and Enterprise Funds.

The City prepares all biennial budgets on the modified accrual basis which conforms to generally accepted accounting principles. The CAFR includes budgetary comparisons for the general and capital projects governmental funds with legally adopted budgets.

The budget process and the time limits under which a budget must be developed are established by State law. The City uses a "budgeting for outcomes" format and follows the procedures outlined below in the year preceding the first year of the two-year budget to establish its biennial budget:

- In winter, community meetings are held to affirm or revise the City's budget priorities. The Mayor appoints staff and citizens to teams which interpret these priorities and develop the primary factors that the City should support to pursue the given priority. These factors are used by staff to develop budget offers.
- In spring, the Mayor develops and submits a budget calendar to the City Council for approval.
- In June, the City Clerk publishes notice for the first public hearing. Also around mid-year staff prepares a six-year forecast and reviews this forecast with the City Council at a public meeting.
- Throughout the summer, City staff create budget offers and review revenue and expenditure estimates.
- In October, preliminary budget estimates are made available to the public.
- Sixty days before the ensuing fiscal year, the Mayor files the preliminary budget with the City Clerk's office.
- During the first two weeks of November, the City Clerk publishes notice of the filing of the preliminary budget and publishes notice of public hearings.
- The City Council holds a series of study sessions to review the preliminary budget to determine if they wish to make any modifications to the Mayor's recommended programs.
- Public hearings are held prior to the adoption of the budget for the public to comment on recommended programs and to offer ideas for new programs.
- Prior to the beginning of the first calendar year of the biennial budget, the City Council, by a majority of the members present, adopts a final operating budget by ordinance.
- The Final Budget document is printed and distributed and posted on the City's website after adoption.

Assets, Liabilities, and Net Position or Equity

Cash and Investments

It is the City's policy to invest temporary cash surpluses. These investments are reported on the Statement of Net Position and the governmental funds Balance Sheet as cash and cash equivalents or investments. Included in cash and cash equivalents are currency on hand, demand deposits with banks or other financial institutions, investments with the Local Government Investment Pool, investments in U.S. Government Mutual Funds and investments with original maturities of three months or less. Interest is allocated to each fund on the basis of investments owned.

In accordance with City policy and Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, US Treasury and Agency Securities, Bankers' Acceptances, Bonds of Washington State and any local government in Washington State which have, at the time of purchase, one of the three highest credit ratings of a nationally recognized rating agency, repurchase agreements, the State

Investment Pool (which is a 2a7-like pool), and mutual funds used specifically for debt issues related to arbitrage.

The City reports its deposit and investment risk disclosures in accordance with GASB 40 (see Note 4).

In accordance with GASB 31, investments in external 2a7-like pools, money market investments, and participating interest-earning investment contracts with remaining maturities of one year or less at the time of purchase are stated at amortized cost. All other investments including the Firemen's Pension Fund are stated at fair value.

Receivables

The City of Redmond recognizes receivables in its financial statements based on the accounting requirements for that statement. These receivables are as follows:

Property Taxes

The City's property tax collections records show that approximately 99% of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years. The City performs an analysis of all uncollected property taxes to test materiality of the uncollected balance as well as the collectability. Based on this analysis the City will determine the classification of the uncollected portion of property taxes; revenue versus uncollected property taxes. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected; therefore no allowance for uncollectible taxes is recorded.

Sales Taxes

There is a running two-month lag in remittance of sales tax to the City. Sales taxes collected in November and December are not remitted by the State to the City until January and February of the following year and they are reported as receivables at year-end. There is no allowance for uncollectible sales taxes because all sales taxes are required by law to be collected by businesses at the time of sale and remitted to the State.

Investment Interest

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

Accounts Receivable

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided. Unbilled services provided to utility customers are estimated at year-end and included in accounts receivable. Uncollectible amounts are considered immaterial and the direct write-off method is used.

Inter-fund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Inventories are defined as assets which may be held for internal consumption or for resale. The City uses the following policies in valuing and recording inventory items:

In proprietary funds a perpetual inventory is maintained, in which the cost is held in an asset account when inventory items are purchased, and expensed when the item is consumed. The first-in, first-out valuation method, which approximates market, is used to value the inventory. A physical inventory is taken at year-end. No inventory is maintained in governmental funds; however, the internal service fund inventories are included in the “Governmental Activities” on the Statement of Net Position.

Restricted Assets

Restricted assets include those monies reserved for customers’ deposits, bond reserve monies and impact fees.

Advance on Service Contract

For fiscal years prior to December 31, 2012, the City amortized under guidance provided by FASB 71 the Tolt Pipeline project and the Tolt Meter project with the City of Seattle. In further review, this is not a deferred outflow of resources but rather an advance on a service contract.

The City implemented GASB 65, “Items Previously Reported as Assets and Liabilities” for the fiscal year ended December 31, 2012. With the implementation of this pronouncement the bond issuance costs were written off in both the enterprise and governmental funds as of December 31, 2011. The impact of this implementation is more thoroughly discussed in Note 19.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective funds. Capital assets are defined by the City as land and buildings with an original cost of $50,000 or more each, machinery, equipment, software, vehicles, transportation and utility infrastructure and other improvements with an original cost of $10,000 or more each and an estimated useful life of more than one year, and all artwork regardless of its initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

Asset	Years
Buildings/Building improvements	50
Other improvements	15-50
Vehicles	3-15
Machinery and equipment	6-20
Utility infrastructure	10-100
Streets, paths, trails	50
Street lights and traffic signals	30

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation, compensatory time in lieu of overtime and sick leave benefits. Twenty-five percent of unused sick leave is payable at retirement or death. Any outstanding sick leave is lost at resignation; therefore, outstanding sick leave at year-end is not accrued because the payment cannot be deemed probable nor can the amount be reasonably estimated. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Other Post-Employment Benefits

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred.

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.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

The City implemented GASB 54 for the fiscal year ending December 31, 2011. This pronouncement changed how the City classifies fund balances to better identify available resources and assess liquidity and financial flexibility. Fund balances are categorized as Nonspendable or Spendable amounts as indicated below.

Nonspendable Fund Balance: fund resources that are in a form that either *never* could be spent or in a form that is *temporarily* not spendable. This can include resources that are spendable in form but are under legal restrictions that temporarily or permanently bar spending.

Spendable amounts are further segregated into categories based on the degree to which the uses of resources are constrained.

- *Restricted Fund Balance:* fund resources that are subject to restrictions that are *legally enforceable* by *outside parties*. This includes resources raised through enabling legislation.
- *Committed Fund Balance:* fund resources that are legally limited by the resolution by the City Council. A resolution must be taken to impose limitations on the use of these resources, and another resolution is required to modify or eliminate those limitations.
- *Assigned Fund Balance:* fund resources that are limited by the mayor, or department directors based on delegation, for its intended use. This type of limitation can be imposed by the highest level of decision making within the entity or a designee, but little or no formal action is required to modify or eliminate those limitations.
- *Unassigned Fund Balance:* fund resources that are in spendable form and are not restricted, committed or assigned.

The primary flow assumption utilized by the City is:

1. Restricted
2. Committed
3. Assigned
4. Unassigned

However, prior to the commencement of any project, the flow assumption is reviewed to ensure that the proper resources are being used.

NOTE 2:
Stewardship, Compliance and Accountability

During 2012, there have been no material violations of finance-related legal or contractual provisions.

NOTE 3:
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.

Some liabilities, including bonds, loans and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:

G.O Bonds payable	$	(68,920,000)
Unamortized bond premiums		(1,514,528)
Loans payable		(2,140,793)
Accrued interest payable		(138,817)
Compensated absences		(4,035,343)
Other post-employment benefits		(2,686,791)
Net adjustment to reduce fund balance - total governmental funds To arrive at net position – governmental activities	$	(79,436,272)

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 – 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.

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

Developer/Private asset contributions	$	675,640
Change in investment interest receivable due beyond the City's 60 day measurable and available period		(67,913)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position-governmental activities	$	607,727

Receipt of long-term debt proceeds increases the current financial resources of governmental funds and repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Principal repayments:		
General obligation bonds	$	3,350,000
Public Works Trust Fund Loans repayment		202,457
Proceeds from long-term debt issuance		(1,794,564)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position- governmental activities	$	1,757,893

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 accrued interest payable	$	6,455
Amortization of debt premiums		130,765
Change in compensated absences payable		(418,728)
Change in other post-employment benefits payable		(516,317)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position- governmental activities	$	(797,825)

NOTE 4:
Cash and Investments

The City of Redmond's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). The FDIC insures the first $250,000 of the City's deposits. The deposit balances over $250,000 are collateralized by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

As of December 31, 2012 the carrying amount of the City's cash demand deposits with Bank of America (B of A) was $7,274,492 with net in-transit items of $66,960. Seized cash on deposit at B of A awaiting court decisions totaled $10,159. The carrying amount and bank balance of the City's cash demand deposits at U.S. Bank at December 31, 2012 was $303,268. $5,005,130 was held in a public funds money market account at Opus Bank. $618,455 retained from contractors pending acceptance of City construction projects was held in escrow or savings accounts at various banks. $912,482 is held by Redmond Community Properties, a blended component unit of the City. Petty cash totaled $38,500, of which $34,670 was allocated to various City offices and $3,830 was unallocated and remains in the City's demand deposit account at Bank of America. $10,000 is held by the City of Bellevue for use by the Eastside Narcotics Task Force.

The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 60 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the City's pool investments is determined by the pool's share price. The City has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The City includes the LGIP as an investment for internal tracking, but it is disclosed on the financial statements as a cash equivalent.

As of December 31, 2012, the City had the following investments and maturities:

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years
Certificates of Deposit	$ 3,593,413	$ 3,593,413	$ -
Federal Farm Credit Bank	11,432,932	2,418,682	9,014,250
Federal Home Loan Bank	19,016,240	7,003,430	12,012,810
Federal Home Loan Mortgage Corporation	24,118,808	7,019,120	17,099,688
Federal National Mortgage Association	24,893,006	-	24,893,006
Local Government Bonds	25,743,655	7,968,341	17,775,314
Subtotal	108,798,054	28,002,986	80,795,068
Local Government Investment Pool	29,893,253	29,893,253	-
Total	$ 138,691,307	$ 57,896,239	$ 80,795,068

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the City's policy requires that it diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date.

Credit Risk. "The City's investment policy was adopted by resolution of the City Council. This policy is reviewed on a biennial basis by the Public Administration and Finance Committee and any modifications made thereto must be approved by the City Council. State law and City policy limit investments to those authorized by State Statute including commercial paper and bonds of the State of Washington and any local government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency. The City further limits its holdings in commercial paper to 10% of the portfolio and 10% per issuer, and local government bonds to 25% of the portfolio and 10% of issuer. At December 31, 2012 the City held no investments in commercial paper. Investment purchases are settled by a delivery versus payment (DVP) method and held by a third party custodian.

Additionally, the City restricts its investment in mutual fund bonds to be used for arbitrage purposes only.

Concentration of Credit Risk. The City diversifies its investments by security type and institution. 100% of the City's portfolio may be invested in US Treasury Notes, Bonds or Certificates, US Government Sponsored Corporations, or the State Investment Pool. 50% of the portfolio may be invested in Certificates of Deposit with no more than 10% held by any one issuer and not exceeding 20% of the issuer's net worth. 25% of the portfolio may be invested in Bankers Acceptances (10% per issuer), State of Washington or Local Government Bonds (10% per issuer), and Repurchase Agreements (25% per dealer). 10% of the portfolio may be invested in Commercial Paper and other authorized investments. On December 31, 2012 more than five percent of the City's investments were held in Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, and Home Loan Mortgage Corporation.

Reconciliation of cash and investments by type to the statements is detailed in the following tables.

Cash & Investments by Type	
Opus Bank-money market	$ 5,005,130
State Investment Pool (LGIP)	29,893,253
Bank of America Business Checking	7,274,492
Deposits/Debits in Transit at 12/31/2012	731,611
Checks/Credits in Transit at 12/31/2012	(664,651)
U.S. Bank deposits in transit	303,268
Petty Cash/Advance Travel	38,500
Police seized Money Market	10,159
Contractor's Retainage Money Market	618,457
Redmond Community Properties	912,482
City of Bellevue - outside agency	10,000
Federal Home Loan Bank	19,016,240
Federal Farm Credit Bank	11,432,932
Federal Home Loan Mortgage Corporation	24,118,808
Federal National Mortgage Association	24,893,006
Local Gov't Bonds	25,743,655
Certificates of Deposit	3,593,413
Grand Total Cash & Investments by Type	$152,930,755

Cash & Investment by Statement	**Cash & Equivalents***	**Restricted Cash**	**Rate Stabilization Fund**	**Investments**	**Restricted Investments**
Governmental Funds					
General Fund	$ 9,038,397	$ -	$ -	$ 26,014,464	$ 4,102,418
Capital Improvements Program Fund	8,894,012	-	-	21,408,119	28,688
Other Governmental Funds	1,901,604	-	-	4,926,542	10,159
Proprietary Funds					
Water/Wastewater	2,338,455	163,255	1,644,361	12,442,356	1,175,500
UPD Water/Wastewater	3,151,894	158,250	547,086	8,919,703	-
Stormwater Management	8,389,231	7,268	-	19,618,474	-
Internal Service Funds	5,493,843	-	-	10,327,612	-
Fiduciary Funds					
Firemen’s Pension Fund	358,939	-	-	-	845,493
Agency Funds	731,376	-	-	-	293,256
	$ 40,297,751	$ 328,773	$ 2,191,447	$103,657,270	$ 6,455,514
				Grand Total Cash & Investments by Statements	$152,930,755

NOTE 5:
Governmental Fund Balances

Governmental fund balances are classified as either spendable or non-spendable. Spendable fund balances are further categorized as restricted, committed, assigned, and unassigned. Restricted amounts are restricted by contract or grant document, committed amounts committed by codification by the City Council and the assigned are assigned by action by the City's mayor or department director based on delegated authority. The breakdown of what makes up each of the fund balance categories from the governmental Balance Sheet that is designated for a particular purpose is shown below.

Restricted For:

Advance life support	$	362,136
Cable access		1,233,920
Capital projects		12,005,233
Debt service		310,856
Fire		2,785,085
Parks		441,593
Planning-transportation		1,778,974
Police		4,217,479
Solid waste recycling		350,890
Tourism		375,356
Total	$	23,861,522

Committed For:

Arts	$	239.952
Capital equipment replacement		3,064,633
Fire equipment		3,976,089
Parks maintenance		956,708
Police		8,500
Travel		20,000
Total	$	8,265,882

Assigned For:

Capital assets	$	19,738,365
Community events		56,318
Maintenance		861,455
Human services fund		49,524
Parks		152,287
Recreation activities		803,562
Reserves		6,871,493
Transportation		3,480,777
Total	$	32,013,781

NOTE 6:
Receivables

Property Taxes

The King County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed on a daily basis.

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

Property taxes are recorded as a receivable when levied, offset by a liability account. During the year, property tax revenues are recognized when cash is received. At year-end, property tax revenues are recognized for December collections to be distributed by the county treasurer in January and February.

Under Washington State law a city may levy property taxes up to $3.60 per $1,000 of assessed valuation. The assessed value was $12,463,279,191 for the City in 2012.

The City of Redmond's maximum property tax levy rate has been reduced from $3.60 to $3.10, or $.50, as a result of annexing to the King County Library District in May, 1990. In addition to the limitation previously noted, the City's levy rate is also subject to the following:

> Washington State law in RCW 84.55.010 limits the growth of regular property taxes to one percent per year or IPD, whichever is less, after adjustments for new construction and annexations, unless an increase greater than this limit is approved by the voters. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.
>
> The Washington State Constitution limits the total regular property tax levy to a maximum of one percent of assessed valuation or $10 per $1,000 of the market value of a property. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

Accordingly, the City levied $1.77 per $1,000 of assessed value for general governmental services, and an additional $0.02 per $1,000 of assessed value for a voter-approved excess tax levy, for a combined total of $1.79 per $1,000 of assessed value.

NOTE 7:
Interfund Receivable and Payable

The composition of interfund receivable and payable as of December 31, 2012 is as follows:

	Due From		Due To	
Operating Reserves Fund	$	452,513	$	-
Advanced Life Support Fund		-		452,513
	$	452,513	$	452,513

Advanced Life Support services are funded by a property tax levy collected by King County. The City provides the services and bills King County for these services on a cost reimbursement basis. In the interval between the payment of the expenditures by the City and the receipt of the expenditure reimbursement from King County, cash is transferred from the Operating Reserves Fund to the Advanced Life Support Fund to cover payment of these expenditures.

NOTE 8:
Capital Assets

The City had an instance that resulted in a decrease in Construction in Progress without a corresponding increase in another asset. This was related to a bridge over State Route 520. This multi-year project was accounted for in the CIP section of the City's financial statements and expensed in 2010 at substantial completion as this asset was transferred to the State of Washington as required for all bridges over state-owned roadways. There were some additional charges in 2012 that totaled $1,212,403.

Capital asset activity for the year ended December 31, 2012 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	$ 85,065,414	$ 14,292,942	$ -	$ 99,358,356
Construction in progress	16,951,480	16,569,786	(27,722,735)	5,798,531
Art	344,583	51,571	-	396,154
Total capital assets, not being depreciated	102,361,477	30,914,299	(27,722,735)	105,553,041
Capital assets, being depreciated:				
Buildings/building improvements	68,333,000	7,286,263	-	75,619,263
Improvements other than buildings	28,562,661	1,094,003	(38,500)	29,618,164
Machinery and equipment	30,029,648	1,649,933	(2,110,040)	29,569,541
Infrastructure	228,203,867	4,503,005	-	232,706,872
Total capital assets, being depreciated	355,129,176	14,533,204	(2,148,540)	367,513,840
Less accumulated depreciation for:				
Buildings/building improvements	14,993,918	1,436,859	-	16,430,777
Improvements other than buildings	9,254,381	1,109,019	(38,500)	10,324,900
Machinery and equipment	17,538,225	2,156,756	(2,101,514)	17,593,467
Infrastructure	74,438,521	5,067,627	-	79,506,148
Total accumulated depreciation	116,225,045	9,770,261	(2,140,014)	123,855,292
Total capital assets, being depreciated, net	238,904,131	4,762,943	(8,526)	243,658,548
Governmental activities capital assets, net	$ 341,265,608	$ 35,677,242	$ (27,731,261)	$ 349,211,589

Government Type Activities	
Capital assets not being depreciated	$ 105,553,041
Capital assets being depreciated	367,513,840
Less accumulated depreciation	(123,855,292)
Less GO Bonds	(68,920,000)
Less bond premium	(1,514,528)
Unspent bond proceeds	-
Less Public Works Trust Fund loans	(2,140,793)
Governmental Activities, invested in capital assets net of related debt	$ 276,636,268

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets, not being depreciated:				
Land	$ 12,453,045	$ 155,449	$ -	$ 12,608,494
Construction in progress	12,112,386	9,812,612	(13,345,920)	8,579,078
Total capital assets, not being depreciated	24,565,431	9,968,061	(13,345,920)	21,187,572
Capital Assets, being depreciated:				
Buildings/building improvements	37,147,529	-	-	37,147,529
Improvements other than buildings	265,044,714	16,685,240	(990,109)	280,739,845
Machinery and equipment	706,291	-	-	706,291
Total capital assets, being depreciated	302,898,534	16,685,240	(990,109)	318,593,665
Less accumulated depreciation for:				
Buildings/building improvements	4,644,578	742,951	-	5,387,529
Improvements other than buildings	55,784,287	5,365,412	(990,109)	60,159,590
Machinery and equipment	567,920	40,107	-	608,027
Total accumulated depreciation	60,996,785	6,148,470	(990,109)	66,155,146
Total capital assets, being depreciated, net	241,901,749	10,536,770	-	252,438,519
Business-type Activities, invested in capital assets net of related debt	$ 266,467,180	$ 20,504,831	$ 13,345,920	$ 273,626,091

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

Business-Type Activities	
Capital assets not being depreciated	$ 21,187,572
Capital assets being depreciated	318,593,665
Less accumulated depreciation	(66,155,146)
Less Revenue bonds	(9,345,000)
Less bond premium	(263,264)
Unspent bond proceeds	-
Business-Type Activities, invested in capital assets net of related debt	$ 264,017,827

Depreciation expense was charged to functions/programs of the primary government, not inclusive of Internal Service Funds, as follows:

GOVERNMENTAL ACTIVITIES:		
General Government	$	1,333,570
Security		1,124,027
Physical Environment		14,718
Transportation, Including Depreciation of General Infrastructure Assets		5,067,999
Economic Environment		112,222
Culture and Recreation		1,218,384
Total Depreciation Expense – Governmental Activities	$	8,870,920

The Business-type activities also had $19,675 in amortization expense that is included with depreciation expense in the financial statements.

BUSINESS-TYPE ACTIVITIES		
Water/Wastewater	$	3,649,028
UPD Water/Wastewater		1,329,134
Stormwater		1,170,308
Total Depreciation Expense – Business-type Activities	$	6,148,470

NOTE 9:
Pension Plans

Substantially all City of Redmond 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available CAFR that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

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

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

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

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

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of the AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in the JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	**261,705**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in the JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in the JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$71,394	$1,610,351	464,587
2011	$69,474	$1,344,949	387,592
2010	$73,971	$1,182,081	341,287

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of the final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2)

If no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. 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 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	**27,658**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for ports and universities is 8.62%.

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

	LEOFF Plan 1	LEOFF Plan 2
2012	$395	$1,164,030
2011	$604	$1,192,062
2010	$762	$1,174,424

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- Full-time 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
- Full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A *covered employer* is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, 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 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the 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, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

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

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Nonvested	4,020
Total	**4,203**

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

*The employer rate includes an employer administrative expense fee of 0.16%.

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

	PSERS Plan 2
2012	$21,134
2011	$22,257
2010	$21,213

Firemen's Pension Plan

The City is the administrator of the Firemen's Pension Plan (FPP), a closed, single-employer defined benefit pension plan established in conformance with Revised Code of Washington (RCW) Chapter 41.18. The costs of administering the Plan are paid from the Firemen's Pension Fund. 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 LEOFF and those provided by the FPP for covered firefighters who retire after March 1, 1970. Benefits and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan. Membership in the FPP consists of one deceased and four retired firefighters, one of whom is currently receiving benefits.

The benefits provided by the Plan are potentially in excess of the State's LEOFF plan. For funding purposes and accruing costs, the benefits are measured by a modified aggregate projected benefit method, with the annual cost spread over the period ending December 31, 2012. Under this method, the required contribution is the portion of the actuarial present value of benefits allocated to a valuation year. The actuarial accrued liability is equal to the actuarial value of assets. This cost method is not appropriate for GASB Statements 25 and 27 purposes though it is still recommended for funding purposes. For GASB purposes, the entry age normal cost method is used. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Liability minus the actuarial value of the fund assets. The UAAL will be amortized over a closed 30 year period beginning December 31, 2000. The Plan is a closed off plan and GASB disclosures make no special provision for reporting the cost for this type of plan. Therefore, the minimum actuarial required contribution (ARC) disclosed for GASB purposes has no relationship to the City's funding policy for the Plan.

Under State law, the FPP is provided an allocation of 25% of all monies received by the State from taxes on fire insurance premiums, interest earnings, member contributions made prior to the inception of LEOFF, and City contributions required to meet projected future pensions obligations. These on behalf tax revenues were recognized in the general fund and expensed out to the Firemen's Pension Fund. The actuary has determined that no City contribution is required. The fire insurance premium for 2012 was $127,251 which was sufficient to pay the 2012 Firemen's Pension Fund expenses of $20,936. It also increased the negative Net Pension Obligation to ($1,009,606).

The financial activity of the Firemen's Pension Fund is included in 2012 CAFR of the City of Redmond. No separate stand-alone financial report is issued for the Firemen's Pension Fund.

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2012, the most recent actuarial valuation date, is as follows:

($ In Thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
January 1, 2013	$ 1,093	$ 558	$ (536)	196%	$ 0	N/A

The Schedule of Funding Progress entitled Required Supplementary Information, which follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Employer Contributions

($ In Thousands)

Fiscal Year Ending	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC contributed
December 31, 2002	$ 51	$ 15	333.1%
December 31, 2003	$ 59	$ 15	384.9%
December 31, 2004	$ 69	$ 12	573.8%
December 31, 2005	$ 87	$ 12	728.0%
December 31, 2006	$ 99	$ 1	16,266.0%
December 31, 2007	$ 107	$ 1	17,611.9%
December 31, 2008	$ 122	$ 0	N/A
December 31, 2009	$ 117	$ (16)	N/A
December 31, 2010	$ 134	$ (14)	N/A
December 31, 2011	$ 135	$ (14)	N/A
December 31, 2012	$ 127	$ 0	N/A

Three-Year Trend Information

(In whole dollars)

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2010	$ 9,330	1,435%	$ (798,985)
December 31, 2011	$ 15,612	867%	$ (918,785)
December 31, 2012	$ 36,431	349.30%	$ (1,009,606)

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

Valuation date:	January 1, 2013
Actuarial cost method for GASB purposes:	Entry Age Normal
Amortization method:	30-Year, closed as of January 1,2000
Remaining amortization period:	20 years
Asset valuation method:	Fair Market Value

Actuarial Assumptions:

Inflation rate:	2.5%	Projected salary increases:	3.5%
Investment rate of return:	3.2%	Cost of living adjustments:	2.5%

Annual Pension Cost and Net Pension Obligation
Firemen's Pension Plan

	Year Ending 12/31/10	Year Ending 12/31/11	Year Ending 12/31/12
1. Annual Normal Cost, beginning of year	$ -	$ -	$ -
2. Amortization of UAL, beginning of year	(13,403)	(13,403)	(38,338)
3. Interest to end of year	(429)	(429)	(1,228)
4. Annual required contribution at end of year (1+2+3), not less than zero in 2012	(13,832)	(13,832)	-
5. Interest on net pension obligation	(21,582)	(25,568)	(29,401)
6. Adjustment to annual required contribution	44,744	55,012	65,832
7. Annual pension cost (4+5-6)	9,330	15,612	36,431
8. Employer Contributions	(133,868)	(135,412)	(127,252)
9. Change in net pension obligation (7-8)	(124,538)	(119,800)	(90,821)
10. Net pension obligation at beginning of year	(674,447)	(798,985)	(918,785)
11. Net pension obligation at end of year (9+10)	$ (798,985)	$ (918,785)	$ (1,009,606)

By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418 (g) effective January 1, 1975. Permanent employees working 1,040 or more hours per year are eligible but not required to participate in the plan. Temporary employees working less than 1,040 hours per year are required to participate in the plan. Participating permanent employees may choose to defer income tax in accordance with Internal Revenue Code Section 401K, on all, part or none of their contribution while temporary employees may not defer income tax on any of their contribution. There were 731 permanent and 223 temporary participants with account balances at December 31, 2012.

The Municipal Employees Benefit Trust Plan is a defined contribution plan with participants contributing an amount equal to the current Social Security rate (7.65%). One hundred percent of the contributions made by employees hired before April 1, 1986 go to MEBT. Employees hired on or after April 1, 1986 contribute 6.2% to MEBT and 1.45% to Medicare. Permanent employees may make additional contributions up to the limit set by the Internal Revenue Code. The City contributes 7.65% for permanent employees and 4.75% for temporary employees. Of the City's contribution, 1.45% goes to Medicare for employees hired on or after April 1, 1986. Eighty percent of the remaining City contribution goes to MEBT and 20% to administrative fees. The City's contribution is based on the payroll for all employees who are eligible to participate in the plan, regardless of the number of participants. The City's payroll for participating employees in 2012 was $53,584,483. Employee contributions were $3,209,435. City contributions were $3,275,292. The City's total payroll was $54,670,587.

Plan assets consisting of stocks, bonds, and guaranteed insurance contracts, are not the property of the City and are not subject to the claims of the City's general creditors. The Plan is administered by the Plan Committee consisting of seven employee members appointed by the City. The Plan Committee administers the MEBT Plan according to the Plan Document adopted by the City and all applicable IRS regulations. Plan provisions may be established or amended by a majority vote of the Plan Committee. Employees who elect not to participate in the Municipal Employees Benefit Trust plan retain the disability and survivor income insurance provided by the Standard Insurance Company.

Actuarial determinations are not required because (1) long term disability insurance and survivor income insurance are provided by a group insurance policy with Standard Insurance Company, and (2) each participant shall at his normal retirement date instruct the Plan Committee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay retirement benefits in monthly or annual installments (no contributions by the City or the participant shall be added to his account after retirement), (c) pay a single sum in cash, or (d) elect to defer any or all retirement benefits to a later date.

NOTE 10:
Other Postemployment Benefits

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members' necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by one of the City's employee medical insurance programs. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report.

Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2012. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation of $2,686,793 is included as a noncurrent liability on the Statement of Net Position.

	Fiscal Year Ending 12/31/2010	Fiscal Year Ending 12/31/2011	Fiscal Year Ending 12/31/2012
Determination of Annual Required Contribution:			
1-Annual Normal Cost (BOY)	$ 27,070	$ 28,220	$ 57,908
2-Amortization of UAAL* (BOY)	545,784	545,784	849,114
3-Interest to EOY [1 + 2] x *(i)***	25,778	25,830	36,281
4-Annual Required Contribution [1 + 2 + 3]	598,632	599,834	943,303
Determination of Net OPEB Obligation:			
4-Annual Required Contribution	598,632	599,833	943,303
5-Interest on Net OPEB Obligation	66,719	81,518	86,819
6-Adjustment to ARC	87,103	106,422	127,805
7-Annual OPEB Cost [4 + 5 -6]	578,248	574,929	902,317
8-Employer Contributions	249,387	215,966	386,000
9-Change in Net OPEB Obligation [7 - 8]	328,860	358,963	516,317
10-Net OPEB Obligation-BOY [11 from prior year]	1,482,651	1,811,511	2,170,476
Net OPEB Obligation-end of year [9 + 10]	$ 1,811,511	$ 2,170,474	$ 2,686,793

***(i)*is the assumed interest rate that year: 5.5% in 2008, 4.5% in 2009, 4.5% in the remaining years.

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2010	$ 578,248	43.1%	$ 1,811,511
12/31/2011	$ 574,929	37.6%	$ 2,170,474
12/31/2012	$ 902,317	43%	$ 2,686,793

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The City's funding progress, the accrued liability for benefits, the actuarial value of the assets, the unfunded actuarial accrued liability (UAAL), the covered payroll, and the UAAL as a percentage of covered payroll for 2012 and preceding years were as follows:

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
Dec. 31, 2005	$ -	$ 8,512,284	$ 8,512,284	0%	$ 719,423	1183.20%
Dec. 31, 2006	$ -	$ 8,512,284	$ 8,512,284	0%	$ 764,518	1113.41%
Dec. 31, 2007	$ -	$ 8,512,284	$ 8,512,284	0%	$ 557,587	1526.63%
Dec. 31, 2008	$ -	$ 8,512,284	$ 8,512,284	0%	$ 446,200	1907.73%
Dec. 31, 2009	$ -	$ 9,290,267	$ 9,290,267	0%	$ 442,308	2100.41%
Dec. 31, 2010	$ -	$ 9,430,652	$ 9,430,652	0%	$ 461,106	2045.22%
Dec. 31, 2011	$ -	$9,549,490	$9,549,490	0%	$480,703	1986.57%
Dec. 31, 2012	$ -	$14,420,000	$14,420,000	0%	$262,000	5,503.82%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included a 4.00% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits. A medical inflation rate of 7.00%, graded to 6.20% over three years, was used along with a long-term care inflation rate of 4.75%.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2012 was 27 years.

Note 11:
Construction Commitments

At December 31, 2012 the City had significant contractual obligations on construction projects:

(In thousands)

Transportation Projects	$3,156,000
Utilities Projects	79,000
Total	$3,235,000

Note 12:
Interfund Transfers

(In whole dollars)

Fund		Transfer In		Transfer Out
General Fund	$	5,506,743		8,247,622
Capital Improvements Program Fund		9,114,123		6,810,043
Other Governmental Funds		4,170,673		4,186,800
Internal Service Funds		528,777		75,851
Total Transfers	$	19,320,316	$	19,320,316

Interfund transfers are used to move revenues from the fund that statute or budget requires collection to the fund that statute or budget requires to expend them. This includes movement of the receipts for debt service payments from the fund responsible for expense to the debt service fund for payment. Finally to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 13:
Long-Term Obligations

General Obligation Bonds

General obligation bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service on the 1994, 2008 & 2011 G.O. bonds is paid from the debt service funds. Debt service on the 2004 bonds is paid from the Capital Improvements Program fund. Debt service for unlimited tax voter- approved issues is funded by special property tax levies. These bonds are subject to federal arbitrage rules.

General obligation Bonds outstanding at year-end are as follows:

1994 Unlimited Tax General Obligation and Refunding Bonds and Refunded Debt in 2008: Issued to provide funds for a new fire station and to provide funds in an irrevocable trust to refund a portion of the 1990 GO Bonds and the 1985 GO Refunding Bonds. The 1985 GO Refunding Bonds were paid in full in 1995. The 1990 GO Bonds were paid in full in 2000. The balance of these bonds were paid in full using proceeds from a new refunding bond issuance in 2008. The proceeds of the refunding bond issue, which includes premiums in the amount of $29,600, have been placed in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements.

2004 Limited Tax General Obligation Lease Revenue Bonds: Redmond Community Properties (RCP), a blended component unit of the City of Redmond, issued lease-revenue bonds on behalf of the City in accordance with the provisions of Revenue Ruling 63-20 of the US Treasury on April 1, 2004. Funds from the bonds were used to build the City Hall, a parking garage, and other improvements on the City campus. Although the bonds were issued by RCP, they are reported as a limited tax general obligation of the City in accordance with Generally Accepted Accounting Principles.

2008 Limited Tax General Obligation Bonds: In 2008, the City issued $33,935,000 Limited Tax General Bonds. Proceeds were used for the Bear Creek Parkway Extension and other transportation projects in the City's Transportation Capital Improvement Plan. The Bear Creek Parkway Extension will provide an additional street connection through Downtown Redmond. The project will also improve transit connections and allow for better access to the open space in the downtown area. Redmond Way and Cleveland Street will better serve more uses, including transit, bicycle, and pedestrian traffic. Stronger connections will also support the economic vitality of Redmond's Downtown.

2008 Unlimited Tax General Obligation Refunding Bonds: On September 4, 2008, the City issued $1,315,000 in unlimited tax general obligation refunding bonds with an interest rate of 3.50% to advance refund $1,305,000 of outstanding 1994 unlimited general obligation and refunding bonds. The net proceeds, which included $29,600, were used to purchase U.S. government securities which were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the liability for these bonds have been removed from the general long-term debt.

The advance refunding resulted in a reduction in the aggregate debt service payments of $88,362. In addition, the economic gain (difference between the present values of the old and new debt service payments) was $80,826.

2011 Limited Tax General Obligation Bonds: In 2011, the City issued $8,035,000 Limited Tax General Bonds. Proceeds were used for land acquisition for a Downtown Central Park and other City parks and open space projects in the Capital Investment Program for 2011-2016. Debt payments are budgeted biannually and paid for from levies of taxes within the constitutional and statutory tax limitations provided by law without a vote of the voters of the City. Repayment of the debt is to come from the Parks Capital Improvement Program.

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2012
2004 LTGO Lease-Revenue Bonds	4/1/2004	12/1/2035	2.0% - 5.25%	$ 39,230,000	$ 6,470,000	$ 32,760,000
2008 GO/Refunding	9/4/2008	6/1/2013	3.50%	1,315,000	1,035,000	280,000
2008 LTGO Bonds	9/4/2008	12/1/2028	3.5% - 5.0%	33,935,000	4,745,000	29,190,000
2011 LTGO Bonds		12/1/2021	2.0% - 4.5%	8,035,000	1,345,000	6,690,000
Total General Obligation Bonds				$ 82,515,000	$ 13,595,000	$ 68,920,000

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

Governmental Activities		
Year Ending December 31,	Principal	Interest
2013	3,475,000	3,189,418
2014	3,310,000	3,063,768
2015	3,440,000	2,938,244
2016	3,610,000	2,769,607
2017	3,785,000	2,593,344
2018-2022	19,015,000	10,275,243
2023-2027	16,945,000	6,206,575
2028-2032	9,950,000	2,600,825
2033-2035	5,390,000	547,750
	$ 68,920,000	$ 34,184,774

All long term debt is presented in the Statement of Net Position net of premiums. The gross general obligation bonds payable and premium are as follows:

	2008 Refunding Bonds	2008 General Obligation Bonds	2011 General Obligation Bonds
Bonds Outstanding	$ 280,000	$ 29,190,000	$ 6,690,000
Plus Unamortized Bond Premium	4,440	1,008,248	501,839
Bonds Outstanding, Net	$ 284,440	$ 30,198,248	$ 7,191,839

Revenue Bonds

Revenue Bonds are payable from revenues generated by the user fees. Revenue bonds for the City are backed by the Water/Wastewater and Stormwater utilities. Revenue bonds generally require a cash reserve to be maintained as well as a minimum debt to income for the life of the bonds.

2008 Water/Wastewater Bonds: Bonds in the amount of $11,755,000 were issued in 2008 to finance construction projects for the water utility.

Revenue bonds outstanding at year end are as follows:

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2012
2008 Water/ Wastewater Bonds	12/3/2008	12/1/2023	4.0% - 5.0%	$ 11,755,000	$ 2,410,000	$ 9,345,000
Total Revenue Bonds				$ 11,755,000	$ 2,410,000	$ 9,345,000

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

Business-type Activities		
Year Ending December 31,	Principal	Interest
2013	665,000	439,088
2014	700,000	406,588
2015	725,000	378,588
2016	755,000	349,588
2017-2021	4,350,000	1,171,388
2022-2023	2,150,000	160,000
	$ 9,345,000	$ 2,905,240

All long-term debt is presented in the Statement of Net Position net of premiums. The gross bonds payable and premium are as follows:

	2008 Revenue Bonds
Bonds Outstanding	$ 9,345,000
Plus Unamortized Bond Premium	263,264
Bonds Outstanding, Net	$ 9,608,264

Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Redmond had three such loans in 2012 with one being new. The interest rates are 0.25%, 1.00% and 3.00%. The interest rates for the loans are The outstanding principal balance of $2,140,792 are being repaid from General Fund revenues which are transferred to the Capital Improvements Program Fund where the loan payments are recorded. The water/wastewater loans are paid in full.

	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2013	292,185	10,560	-	-
2014	161,614	5,700	-	-
2015	161,614	4,757	-	-
2016	89,728	3,813	-	-
2017	89,728	3,589	-	-
2018-2022	448,641	14,581	-	-
2023-2027	448,641	8,973	-	-
2028-2032	448,641	3,365	-	-
	$ 2,140,792	$ 55,338	$ -	$ -

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
G.O. Bonds	$ 72,270,000	$ -	$ (3,350,000)	$ 68,920,000	$ 3,475,000
Premiums	1,645,292	-	(130,765)	1,514,527	-
Total bonds payable	73,915,292	-	(3,480,765)	70,434,527	3,475,000
PWTF loans	548,687	1,794,564	(202,457)	2,140,794	292,185
Other post-employment benefits payable	2,170,474	516,317	-	2,686,791	-
Compensated absences	3,855,381	3,617,020	(3,391,429)	4,080,972	3,228,275
Governmental activity long-term liabilities	$ 80,489,834	$ 5,927,901	$ (7,074,651)	$ 79,343,084	$ 6,995,460
Business-Type Activities:					
Bonds payable:					
Revenue Bonds	$ 9,985,000	$ -	$ (640,000)	$ 9,345,000	$ 665,000
Premiums	287,380	-	(24,116)	263,264	-
Total bonds payable	10,272,380	-	(664,116)	9,608,264	665,000
PWTF loans	-	-	-	-	-
Compensated absences	562,348	334,981	(373,135)	524,194	419,355
Business-type activity long-term liabilities	$ 10,834,728	$ 334,981	$ (1,037,251)	$ 10,132,458	$ 1,084,355

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. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid. Governmental funds typically used to liquidate compensated absences are the General Fund, Recreation Activities Fund, Advanced Life Support Fund, and the Recycling Fund.

NOTE 14:
Leases

Operating Leases:

Copier Leases
Operating lease obligations are primarily for rental of copy machines. Total expenditures for leases were $38,823.14 for the year ended December 31, 2012. The future minimum lease payments include the estimated cost for copy usage and are as follows:

Year Ending December 31	Amount
2013	$ 21,794
Total	$ 21,794

Capital Leases:
On February 17, 2004 the City of Redmond entered into a capital lease agreement with Redmond Community Properties (RCP), A Washington Non-Profit Corporation, to lease a new City Hall and parking garage.

RCP, acting as an "on-behalf-of-issuer" under Internal Revenue Service Rulings 63-20 and 82-26, issued bonds dated April 1, 2004 on behalf of the City of Redmond. The bonds were used for construction of the City Hall and parking garage, with a gross amount of the buildings under this lease being $39,230,000. Bond principal and interest payments are the responsibility of RCP.

The lease payments made by the City to RCP will be sufficient to pay debt service on the bonds and operating costs of the buildings. Because RCP is a blended component unit of the City, the lease payments made by Redmond to RCP are reported as bond debt service payments by the City.

NOTE 15:
Blended Component Units Included in Reporting Entity

Two blended component units are included in the City's reporting entity, the Redmond Public Corporation and Redmond Community Properties (RCP).
The RCW 39.84.100 grants cities the authority to establish Industrial Development Corporations. In 1982, the City of Redmond created the Redmond Public Corporation. This is a public corporation whose purpose is to issue tax-exempt non-recourse revenue bonds to finance industrial development within City limits. The corporation may construct and maintain industrial facilities, which it then leases or sells to industrial users. Revenue bonds issued by the corporation are payable from revenues of the industrial development facility funded by the revenue bonds.

In conformity with generally accepted accounting principles (GAAP), the Redmond Public Corporation has been included in the financial reporting entity. The Corporation's Board of Directors is comprised solely of members of the City Council who have the authority to approve issuance of the corporation's revenue bonds. The ability of the City Council to impose its will on the Redmond Public Corporation through the approval or disapproval of revenue bond issuance makes the City of Redmond financially accountable for the Redmond Public Corporation.

Although the Redmond Public Corporation is included in the reporting entity as a blended component unit, no financial impact is reported in the statements. The bonds are not a liability or a contingent liability of the City of Redmond or lien on any of its properties or revenues. Principal and interest on the bonds are payable solely from the funds provided for this payment from the revenues of the industrial development facilities funded by the revenue as provided in the RCW. Records regarding the financial statements of the entities on whose balance sheets the bond liabilities are reported are in the Office of the City Attorney, who acts as the Secretary of the Public Corporation.

RCP is a non-profit corporation organized in 2003 pursuant to Internal Revenue Service Revenue Ruling 63-20. It is related to the National Development Council, a 501(c)(3) organization, through common management. RCP is reported as if it were part of the City of Redmond because its sole purpose is to finance, construct, and lease a City Hall and parking garage to the City. RCP administrative offices are located at:

National Development Council
1425 Fourth Avenue, Suite 608
Seattle, WA 98101-2220

The City leases City Hall and the parking garage from RCP under a capital lease arrangement. For reporting purposes RCP and the City of Redmond are consolidated as required by GAAP. The capital lease payable is reported as bonds payable with City Hall and the parking garage reported as assets of the City. Bond principal and interest payments are reported as debt service by the City.

As part of the capital lease agreement the City pays monthly maintenance and asset management fees to RCP. The financial statements of RCP are reported as an Internal Service Fund in the City's fund financial statements and schedules.

NOTE 16:
Joint Ventures and Operations

Water Storage and Pumping Facility

In February 1990, the City of Redmond joined with the City of Bellevue to construct, operate, and maintain a joint-use water storage and pumping facility located on the common boundary of the two cities. The City of Redmond has an undivided interest in the facility of 44%, and the City of Bellevue has an undivided interest of 56%. The City of Redmond's share of costs to construct the joint-use facility totaled $2,078,539 and is reported on the business-type activity financial statements as improvements other than buildings. The City recognizes depreciation expense annually. Accumulated depreciation totals $1,274,144 with a net book value of $804,395. The City reimbursed the City of Bellevue $8,137 for its share of operating costs in 2012.

Cascade Water Alliance

In April 1999, the City of Redmond entered into an interlocal agreement with seven other water providers in the region to create the Cascade Water Alliance. The purpose of the Alliance is to provide water supply to meet current and future needs of the Alliance's members in a cost-effective and environmentally responsible manner.

The Alliance is governed by a board of directors consisting of one individual representative appointed by resolution of the member's legislative authority. Each member entity must pay annual dues based on the number of units served by the water system within their jurisdiction. The City of Redmond's dues for 2012 were $474,696. The City of Redmond also paid the Alliance $1,379,648 in 2012 for Regional Capital Facilities Charges for new hookups to the water system that Redmond collected from new customers.

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

In 2011, the CWA's Board passed a resolution offering to purchase the outstanding RCFCs credits from its members at a discounted rate. These credits were awarded to its members who transferred or retained an independent water supply in excess of its needs. The Alliance's members were allowed to use such credits to apply against future RCFCs. The CWA offered to buy out the RCFC credits at $2,500 per Cascade Equivalent Residential Unit (CERU) from its members. The City of Redmond chose the one-time redemption option. The payment was finalized and the total of $ 3,076,875 was sent to the City of Redmond in December 2012. Such receipt was reported as capital contributions in the City Water/Wastewater fund on the proprietary funds' Statement of Revenues, Expenses, and Changes in Fund Net Position. These monies will be held to be used to call the outstanding revenue bonds issued in 2008 when these become callable in 2019.

Audited financial information can be obtained from Pamela Higbee, Cascade Water Alliance, 1400 112th Avenue SE, Suite 220, Bellevue, WA 98004.

NOTE 17:
Contingencies and Litigation

As of December 31, 2012, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims nor lawsuits, would affect materially, the financial condition of the City.

NOTE 18:
Risk Management

The City is exposed to various risks of loss such as: theft, damage, destruction of assets, errors & omissions, injuries or property damage to others, employees' health, and natural disasters. The City has three internal service funds to account for and finance its self-insured risks of loss. The City purchases commercial insurance for claims in excess of anticipated self-insured losses. All funds of the City participate in the self-insurance programs and make payments to the self-insurance funds based on estimates of the amounts needed to pay excess insurance and related risk management and service costs, prior and current year claims paid in the current year, and to maintain adequate reserves for catastrophic losses in a given year.

The claims payment portion of the Insurance Claims and Reserve Fund provides coverage up to a maximum of $25,000 per occurrence for insurance-related claims and expenses. There were no claims that settled in 2012 above the City's self-insurance limit. Reserves for open claims are established by an independent claims adjusting firm on a case reserve basis based on the assessment of the settlement potential and costs specifically associated with a particular claim, given the information available at the time. Cases are reviewed no less than monthly and are subject to periodic audits. Lawsuits are reviewed and handled directly by the City Attorney or the excess insurer's appointed legal counsel. Reserves are established for estimated ultimate loss costs and related loss adjustment expenses.

The City of Redmond had been an associate member of the Cities Insurance Association of Washington (CIAW) for some years until December 1, 2010. Effective December 1, 2010 the City revised the risk program. See prior year's annual financial reports for more information about the CIAW risk pool.

In 2010 the city conducted a comprehensive review of its property and liability risk programs. As a result, the City issued a request for proposal (RFP) for a broker/consultant and selected Bannon Carlson & Kessel, Inc. Bannon Carlson & Kessel, Inc. then conducted a search for service providers to meet the City's needs. This resulted in the City selecting Travelers Insurance for liability coverage and retaining Affiliated FM for property coverage. As a result, the city's risk program changed from a $100,000 self-insured retention for general liability claims to a $25,000 deductible. A deductible limit applies to all claim costs while a self-insured retention only applied to any judgment or settlement. The liability limits were extended to $20 million for general liability as described in the table below. No claims were settled in excess of the deductible amounts.

Property insurance coverage remained consistent with prior years.

Medical Self Insurance Program:

The Medical Self-Insurance Fund provides coverage up to a maximum of $135,000 per person per calendar year with the Excess Insurance covering an Unlimited Major Medical Maximum. There was one claimant who exceeded the per-person limit in 2012; in 2011 there were four (4) who exceeded, in 2010 there were five (5) who exceeded, and zero claims in 2009 and 2008. All funds of the City from which employee wages are paid make premium payments to the Medical Self-Insurance Fund based on health insurance rates derived from actual fund experience and historical and market trend rates

Council authorized the City to self-insure workers' compensation benefits effective January 1, 1998 for employee injuries and illnesses. For 2012 the City self-insures $500,000 of each accident or illness and purchases excess insurance above that, up to the statutory requirements. No reported claim for 2012, 2011, 2010, 2009, or 2008 exceeded the City's self-insurance coverage. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2012, the City had reserves of $1,063,334 in the Insurance Fund, $6,674,704 in the Medical Self-Insurance Fund, and $458,405 in the Workman's Compensation Fund to provide against risk of future loss. Claims liabilities of $1,101,172 have been reported in the Medical Self-Insurance Fund and $113,822 in the Workman's Compensation Fund based on estimates provided by the City's third party administrators. Historical claims liabilities for incurred but not reported (IBNR) in the Insurance Claims and Reserve Fund average 15% to 17% of paid claims for the year. Reported claims liabilities are based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the self-insurance funds' claims liabilities in 2010, 2011 and 2012 were:

		Beginning of Year Liability		Current Year Claims & Changes in Estimates		Claims Payments		End of Year Liability
Insurance Fund								
2010	$	-	$	268,243	$	268,243	$	-
2011	$	-	$	197,549	$	197,549	$	-
2012	$	-	$	104,519	$	104,519	$	-
Medical Insurance Fund								
2010	$	956,000	$	5,671,121	$	7,633,621	$	1,006,400
2011	$	1,006,400	$	5,417,122	$	7,444,422	$	1,020,900
2012	$	1,020,900	$	3,730,965	$	5,853,037	$	1,101,172
Workman's Compensation Fund								
2010	$	67,768	$	127,807	$	267,734	$	72,159
2011	$	72,159	$	285,402	$	456,507	$	98,946
2012	$	98,946	$	489,479	$	702,247	$	113,822

Commercial insurance policies were purchased to protect the City from claims which exceed the coverage provided by the self-insurance funds.

	Coverage	Self-Insured Retention
Property policy limit	$150,000,000	$100,000
Earth movement	$50,000,000	3%/$100,00 minimum per location
Flood	$50,000,000	$100,000
Employee theft	$1,000,000	$10,000
General liability – per occurrence	$1,000,000	$25,000
General liability – aggregate	$2,000,000	
Law enforcement	$1,000,000	$25,000
Employment related practices	$1,000,000	$25,000
Auto liability	$1,000,000	$25,000
Umbrella excess liability (excess of general liability, auto, law enforcement liability)	$20,000,000	$10,000
Employment-related practices excess	$9,000,000	
Underground storage tank liability	$1,000,000	$5,000
Blanket fidelity (employee dishonesty)	$1,000,000	$10,000 deductible
Excess worker's compensation	statutory	$350,000; $500,000 Police & Fire
Excess medical insurance	$1,000,000	$120,000

NOTE 19:
GASB 65 Implementation

The City implemented GASB 65, "Items Previously Reported as Assets and Liabilities", for the year ended December 31, 2012. The portion of this standard that impacted the City was the requirement to eliminate the amortization of bond issuance costs. The implementation required the expensing of outstanding bond issuance costs retroactively and showing a prior period adjustment. The total prior period adjustment is $337,159 which restated the 2011 ending fund balance from $660,698,559 to $660,361,400. The proprietary statements were restated from $308,830,321 to $308,738,117 or by $92,204. The government wide statements where restated from $351,868,238 to $351,626,283 or by $244,955. The amount per bond is listed below.

Governmental Activities:

Name	Year/Type	Issuance Costs remaining 12/31/2011
Bear Creek Parkway	2008/G.O. Bonds	$177,151
1994 Refunding-Fire	2008/G.O. Bonds	4,585
Parks	2011/G.O. Bonds	63,219
	Total	$244,955

Business-Type Activities:

Name	Year/Type	Issuance Costs remaining 12/31/2011
Water Bonds	2008/Revenue Bonds	$92,204