# 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 (GASB) 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. The City has one component unit presented in the fiduciary fund statements, Redmond Community Facilities District, which was created in 2014 for the purpose of financing the construction of a pedestrian/bicycle bridge over SR 520 at the Overlake Transit Station. (See Note 14 - Component Units for additional information.)

## 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 Investments 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 four Agency Funds: Intergovernmental Custodial, Municipal Employees Benefit Trust, Contractor's Deposits, and Redmond Community Facilities District.

> The Pension Trust Fund accounts for the activities of the Firefighter'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.

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.

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 Investments 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

### 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 Firefighter'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.

## 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, and are paid out of the General Fund.

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. It is the deferred charge on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time.

### 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 Balance

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. Fund balances are categorized as Nonspendable or Spendable amounts as follows:

*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.

*Flow assumption:* When expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first. When expenditure is incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's policy to spend committed resources first, then assigned and unassigned, in that order. 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 2014, 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 | $ | (61,780,000) |
| Unamortized bond premiums | | (2,614,621) |
| Deferred loss on refunding | | 1,442,597 |
| Loans payable | | (1,677,549) |
| Accrued interest payable | | (226,043) |
| Compensated absences | | (3,846,090) |
| Other post-employment benefits | | (3,488,739) |
| Net adjustment to reduce fund balance - total governmental funds To arrive at net position – governmental activities | $ | (72,190,445) |

| | | |
|---|---|---|
| The Net Pension Asset is reported in the government-wide statement of net position but not in the governmental balance sheet | $ | 1,000,994 |

**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 | $ | 829,705 |
| Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position-governmental activities | $ | 829,705 |

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, and governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of activities:

| | | |
|---|---|---|
| Principal repayments: | | |
| General obligation bonds | $ | 3,500,000 |
| Public Works Trust Fund Loans repayment | | 166,336 |
| Amortization of debt premiums | | 189,589 |
| Amortization of deferred loss on refunding | | (68,967) |
| Net adjustment to decrease net change in fund balances-governmental funds to arrive at change in net position-governmental activities | $ | 3,786,958 |

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 | $ | 7,999 |
| Change in compensated absences payable | | (51,445) |
| Change in other post-employment benefits payable | | (373,570) |
| Change in net pension asset | | 1,000,994 |
| Net adjustment to decrease net change in fund balances-governmental funds to arrive at change in net position-governmental activities | $ | 583,978 |

# NOTE 4:
## Deposits and Investments

**Deposits**

As of December 31, 2014 the carrying amount of the City's cash demand deposits with Key Bank was $1,932,072 and Bank of America (B of A) was $1,360,526 and the in-transit items were $37,960. Seized cash on deposit at B of A awaiting court decisions totaled $10,170. The carrying amount and bank balance of the City's cash demand deposits at U.S. Bank at December 31, 2014 was $209,391. $8,032,661 was held at Opus Bank and $9,132,810 was held at Banner Bank in a public funds money market accounts. $614,127 retained from contractors pending acceptance of City construction projects was held in escrow or savings accounts at various banks. $160,404 was held at City of Redmond Client Trust Account at Wells Fargo. Petty cash totaled $48,500, of which $35,770 was allocated to various City offices and $12,730 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.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of outside party. The City of Redmond's deposits are entirely covered by the Federal Depository Insurance Corporation (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 insured 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.

**Investments**

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, 2014, the City had the following investments and maturities:

| Investment Type | Fair Value | Less Than 1 Year | 1 to 5 Years |
|---|---|---|---|
| Federal Farm Credit Bank | 15,963,140 | - | 15,963,140 |
| Federal Home Loan Bank | 42,529,381 | 6,004,020 | 36,525,361 |
| Federal Home Loan Mortgage Corporation | 55,938,556 | 9,011,756 | 46,926,800 |
| Federal National Mortgage Association | 20,396,799 | 8,003,940 | 12,392,859 |
| Local Gov't Bonds | 13,095,912 | 6,000,107 | 7,095,805 |
| Treasury Notes | 7,938,913 | - | 7,938,913 |
| Subtotal | 155,862,701 | 29,019,823 | 126,842,878 |
| Investments reported as cash equivalents: | | | |
| Money Market (Opus/Banner Bank) | 17,165,471 | 17,165,471 | |
| Local Government Investment Pool | 6,046,714 | 6,046,714 | |
| Subtotal | 23,212,185 | 23,212,185 | |
| Total | 179,074,886 | 52,232,008 | 126,842,878 |

### 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
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, 2014 the City held no investments in commercial paper.

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, 2014 more than five percent of the City's investments were held in Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and local government bonds.

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

| **Cash & Investments by Type** | |
|---|---|
| Opus Bank-money market | $ 8,032,661 |
| Banner Bank-money market | 9,132,810 |
| State Investment Pool (LGIP) | 6,046,714 |
| Key Bank Public Checking | 1,932,072 |
| Bank of America Business Checking | 1,360,526 |
| Deposits/Debits in Transit at 12/31/2014 | 38,560 |
| Checks/Credits in Transit at 12/31/2014 | (7,310,811) |
| U.S. Bank | 209,391 |
| Petty Cash/Advance Travel | 48,500 |
| Wells Fargo Trust Account RCP | 160,404 |
| Police seized Money Market | 10,472 |
| Contractor's Retainage Money Market | 614,127 |
| City of Bellevue - outside agency | 10,000 |
| Federal Home Loan Bank | 42,529,381 |
| Federal Farm Credit Bank | 15,963,140 |
| Federal Home Loan Mortgage Corporation | 55,938,556 |
| Federal National Mortgage Association | 20,396,799 |
| Local Gov't Bonds | 13,095,912 |
| US Treasury Notes | 7,938,913 |
| **Grand Total Cash & Investments by Type** | $176,148,127 |

| | Cash & Equivalents* | Restricted Cash | Rate Stabilization Fund | Investments | Restricted Investments |
|---|---|---|---|---|---|
| Governmental Funds | | | | | |
| General Fund | $ 3,486,135 | $ 994,040 | $ - | $ 25,671,603 | $ 3,884,730 |
| Capital Investments Program Fund | 3,509,120 | - | - | 29,290,706 | 3,188 |
| Other Governmental Funds | 984,444 | 72,042 | - | 8,798,797 | 11,274 |
| Proprietary Funds | | | | | |
| Water/Wastewater | 2,860,183 | 16,373 | 2,927,811 | 19,825,900 | 1,175,500 |
| UPD Water/Wastewater | 1,740,258 | 32,000 | 1,179,266 | 13,562,435 | - |
| Stormwater Management | 3,442,552 | 7,308 | - | 27,045,778 | 1,634,409 |
| Internal Service Funds | 1,914,883 | - | - | 15,938,970 | - |
| Fiduciary Funds | | | | | |
| Firefighter's Pension Fund | 162,192 | - | - | - | 1,319,284 |
| Agency Funds | 1,063,892 | - | - | - | 3,593,054 |
| | $ 19,163,660 | $1,121,763 | $ 4,107,077 | $140,134,189 | $ 11,621,438 |
| | | | | **Grand Total Cash & Investments by Statements** | $176,148,127 |

# 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 | $ | 1,125,903 |
| Cable access | | 1,169,119 |
| Capital projects | | 20,724,810 |
| Debt service | | 31,197 |
| Fire | | 2,353,896 |
| Parks | | 620,143 |
| Planning-transportation | | 733,942 |
| Police | | 4,383,952 |
| Reserves | | 454,814 |
| Solid waste recycling | | 513,539 |
| Tourism | | 488,880 |
| Total | $ | 32,600,195 |
| **Committed For:** | | |
| Arts | $ | 318,725 |
| Capital equipment replacement | | 3,060,833 |
| Development Review | | 269,761 |
| Fire equipment | | 4,552,572 |
| Parks maintenance | | 986,019 |
| Police | | 8,500 |
| Recreation activities | | 744,552 |
| Travel | | 20,000 |
| Total | $ | 9,960,962 |

**Assigned For:**

| | | |
|---|---|---|
| Capital assets | $ | 18,777,166 |
| Community events | | 49,256 |
| Maintenance | | 863,267 |
| Human services fund | | 32,379 |
| Parks | | 136,124 |
| Real Property Fund | | 31,246 |
| Reserves | | 6,481,708 |
| Transportation | | 2,398,569 |
| Business tax | | 173,604 |
| Total | $ | 28,943,319 |

# 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. 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 $14,135,063,166 for the City in 2014.

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 $1.62 per $1,000 of assessed value for general governmental services and no additional voter-approved excess tax levy.

# NOTE 7:
## Capital Assets

The City had one instance that resulted in a decrease in Construction in Progress without a corresponding increase in another asset, 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. There were some additional charges in 2014 that totaled $2,922.

Capital asset activity for the year ended December 31, 2014 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Primary Government** | | | | |
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 99,904,495 | $ 795,509 | $ (132,235) | $ 100,567,769 |
| Construction in Progress | 9,604,944 | 14,296,286 | (3,887,940) | 20,013,290 |
| Art | 470,274 | 81,294 | (2,490) | 549,078 |
| Total capital assets, not being depreciated | $ 109,979,713 | $ 15,173,089 | $ (4,022,665) | $ 121,130,137 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings/Building Improvements | $ 75,619,263 | $ 49,671 | $ - | $ 75,668,934 |
| Improvements Other than Buildings | 30,361,139 | 522,426 | - | 30,883,565 |
| Machinery and Equipment | 26,279,188 | 2,324,543 | (343,245) | 28,260,486 |
| Infrastructure | 237,853,584 | 3,272,246 | - | 241,125,830 |
| Total capital assets, being depreciated | $ 370,113,174 | $ 6,168,886 | $ (343,245) | $ 375,938,815 |
| Less Accumulated Depreciation for: | | | | |
| Buildings/Building Improvements | $ (18,010,485) | $ (1,583,577) | $ - | $ (19,594,062) |
| Improvements Other than Buildings | (11,277,975) | (1,051,603) | - | (12,329,578) |
| Machinery and Equipment | (16,083,777) | (2,121,754) | 288,747 | (17,916,784) |
| Infrastructure | (84,690,615) | (5,246,271) | | (89,936,886) |
| Total accumulated depreciation | $ (130,062,852) | $ (10,003,205) | $ 288,747 | $ (139,777,310) |
| Total capital assets, being depreciated, net | $ 240,050,322 | $ (3,834,319) | $ (54,498) | $ 236,161,505 |
| Governmental activities capital assets, net | $ 350,030,035 | $ 11,338,770 | $ (4,077,163) | $ 357,291,642 |

NET INVESTMENT IN CAPITAL ASSETS

| | | |
|---|---|---|
| Governmental Activities | | |
| Capital assets not being depreciated | $ | 121,130,137 |
| Capital assets being depreciated | | 375,938,815 |
| Less accumulated depreciation | | (139,777,310) |
| Less GO Bonds | | (61,780,000) |
| Less bond premium | | (2,614,620) |
| Less Public Works Trust Fund loans | | (1,677,548) |
| Plus deferred outflow on refunding bonds | | 1,442,597 |
| Governmental Activities, net investment in capital assets | $ | 292,662,071 |

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

| | | |
|---|---|---|
| GOVERNMENTAL ACTIVITIES: | | |
| General Government | $ | 1,298,613 |
| Security | | 1,190,695 |
| Physical Environment | | 14,718 |
| Transportation, Including Depreciation of General Infrastructure Assets | | 6,321,325 |
| Economic Environment | | 78,265 |
| Culture and Recreation | | 1,099,590 |
| Total Depreciation Expense – Governmental Activities | $ | 10,003,205 |

| | | Beginning Balance | | Increases | | Decreases | | Ending Balance |
|---|---|---|---|---|---|---|---|---|
| **BUSINESS-TYPE ACTIVITIES** | | | | | | | | |
| Capital Assets, Not Being Depreciated: | | | | | | | | |
| Land | $ | 17,798,963 | | 4,349,115 | $ | - | $ | 22,148,078 |
| Construction in Progress | | 18,220,133 | | 29,202,202 | | (8,326,493) | | 39,095,842 |
| Total Capital Assets, Not Being Depreciated | $ | 36,019,096 | $ | 33,551,317 | $ | (8,326,493) | $ | 61,243,920 |
| Capital Assets, Being Depreciated: | | | | | | | | |
| Buildings/Building Improvements | $ | 37,147,529 | $ | 811,395 | $ | - | $ | 37,958,924 |
| Improvements Other than Buildings | | 290,050,663 | | 8,113,331 | | (549,372) | | 297,614,622 |
| Machinery and Equipment | | 792,647 | | 68,278 | | - | | 860,925 |
| Total Capital Assets, Being Depreciated | $ | 327,990,839 | $ | 8,993,004 | $ | (549,372) | $ | 336,434,471 |
| Less Accumulated Depreciation for: | | | | | | | | |
| Buildings/Building Improvements | $ | (6,130,480) | $ | (742,950) | $ | - | $ | (6,873,430) |
| Improvements Other than Buildings | | (65,824,909) | | (6,100,694) | | 70,912 | | (71,854,691) |
| Machinery and Equipment | | (549,395) | | (43,964) | | | | (593,359) |
| Total Accumulated Depreciation | $ | (72,504,784) | $ | (6,887,608) | $ | 70,912 | $ | (79,321,480) |
| Total Capital Assets, Being Depreciated, Net | $ | 255,486,055 | $ | 2,105,396 | $ | (478,460) | $ | 257,112,991 |
| Business-Type Activities Capital Assets, Net | $ | 291,505,151 | $ | 35,656,713 | $ | (8,804,953) | $ | 318,356,911 |

NET INVESTMENT IN CAPITAL ASSETS

| | | |
|---|---|---|
| Business-Type Activities | | |
| Capital assets not being depreciated | $ | 61,243,922 |
| Capital assets being depreciated | | 336,434,469 |
| Less accumulated depreciation | | (79,321,480) |
| Less Revenue bonds | | (30,660,000) |
| Less bond premium | | (3,380,462) |
| Unspent bond proceeds | | 2,892,265 |
| Business-Type Activities, net investment in capital assets | $ | 287,208,714 |

Depreciation expense was charged to Business-Type Activities as follows:

| | | |
|---|---|---|
| BUSINESS-TYPE ACTIVITIES | | |
| Water/Wastewater | $ | 3,888,777 |
| UPD Water/Wastewater | | 1,336,044 |
| Stormwater | | 1,686,275 |
| Total Depreciation Expense – Business-type Activities | $ | 6,911,096 |

The Business-Type Activities also had $23,487 in amortization expense that is included with depreciation expense in the financial statements.

**Disposal of Assets**

In 1997, the cities of Redmond, Kirkland, and Bellevue assumed the assets, liabilities, and operations of the Rose Hill Water District and the cities entered into an Interlocal Operations and Maintenance Agreement. That agreement assigned service areas to the three cities and provided that any unincorporated area which is subsequently annexed into a city shall remain in or be transferred to the service area of the annexing city.

In 2013, the City Council approved the Kirkland Annexation Agreement regarding Water Facilities amending the Interlocal Operations and Maintenance Agreement dated 1997 and 2005 respectively. On January 2nd, 2014, the City of Redmond agreed to transfer ownership of water distribution facilities within the Kingsgate water service area consisting of approximately 24,000 feet of water mains, fire hydrants, water meters, and other appurtenances to the City of Kirkland. The City of Redmond agreed to donate the above assets with a book value of $478,462 to the City of Kirkland.

As a result, the City wrote off the net book value of $478,462 in the Water/Wastewater Fund as a loss on disposal of such assets in conformity with generally accepted accounting principles (GAAP).

## NOTE 8:
## 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 comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

### 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; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 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.

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 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 2013, 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, in lieu of any retirement benefit, 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 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, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. Members who do not choose a contribution rate default to a 5 percent rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 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, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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.

**There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:**

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 85,328 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 31,047 |
| Active Plan Members Vested | 150,706 |
| Active Plan Members Nonvested | 101,191 |
| **Total** | **368,272** |

## 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.

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, 2014, are as follows:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| Employer* | 9.21%** | 9.21%** | 9.21%*** |
| Employee | 6.00%**** | 4.92%**** | ***** |

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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 |
|---|---|---|---|
| 2014 | $28,032 | $2,180,482 | $612,623 |
| 2013 | $55,331 | $1,845,778 | $522,262 |
| 2012 | $71,394 | $1,610,351 | $464,587 |

## 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 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 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 2013, 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, in lieu of any retirement benefit, 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 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 there is an 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 there is 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 beneficiary or the estate 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 benefit 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 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.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

**There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:**

| | |
|---|---:|
| Retirees and Beneficiaries Receiving Benefits | 10,511 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 699 |
| Active Plan Members Vested | 16,830 |
| Active Plan Members Nonvested | 1,600 |
| **Total** | **29,640** |

### 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. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed $54.2 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, 2014, are as follows:

| | LEOFF Plan 1 | LEOFF Plan 2 |
|---|---|---|
| Employer* | 0.18% | 5.23%** |
| Employee | 0.00% | 8.41% |
| State | N/A | 3.36% |

*The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for ports and universities is 8.59%.

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 |
|---|---|---|
| 2014 | $436 | $1,288,335 |
| 2013 | $409 | $1,225,340 |
| 2012 | $395 | $1,164,030 |

### 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:

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

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; 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 2014, 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, in lieu of any retirement benefit, 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:**

| | |
|---|---:|
| Retirees and Beneficiaries Receiving Benefits | 43 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 119 |
| Active Plan Members Vested | 4,513 |
| Active Plan Members Nonvested | 1,383 |
| **Total** | **6,058** |

## 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, 2014, are as follows:

| | PSERS Plan 2 |
|---|---|
| Employer* | 10.54% |
| Employee | 6.36% |

* The employer rate includes an employer administrative expense fee of 0.18%.

Both 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 |
|---|---|
| 2014 | $27,822 |
| 2013 | $21,168 |
| 2012 | $21,134 |

## Firefighters' Pension Plan

The City is the administrator of the Firefighters' Pension Plan (FPP), a single-employer defined benefit pension plan established in conformance with Revised Code of Washington (RCW) 41.18. The Pension Board consists of five members: the Mayor, who is the chairman of the board, the City Clerk, the City Treasurer, and two regularly employed firefighters elected by secret ballot of the firefighters, each of whom serve two-year terms. Costs of administering the Plan are paid from the Firefighters' Pension Plan. The Plan provides 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. As of December 31, 2014, there are two inactive plan members currently receiving benefits, one inactive plan member not receiving benefits because LEOFF benefits exceed those provided by FPP, and there are no active plan members. The plan is closed to new entrants.

Under State law, the FPP is provided an allocation of 25% of all moneys 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 pension obligations. These on-behalf tax revenues were recognized in the general fund and expensed out to the Firefighters' Pension Plan. The fire insurance premium for 2014 was $145,808, which was sufficient to pay the 2014 Firefighter's Pension Plan expenses of $51,172. It also increased the negative Net Pension Obligation to $1,199,247.

The financial activity of the Firefighters' Pension Plan is presented in the Statement of Net Position – Fiduciary Funds, and the Statement of Changes in Net Position – Fiduciary Funds. No separate stand-alone financial report is issued for the Firefighters' Pension Plan. Although the City administers the pension plan, it is funded 100% by a percentage of the tax on fire insurance premiums which is received from the state annually.

### Investment Policy

The Firefighter's Pension Plan follows the City's policy to invest temporary cash surpluses. These investments are reported on the Statement of Net Position - Fiduciary Funds 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 the 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.

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 Firefighter's Pension Plan are stated at fair value.

The City reports its deposit and investment risk disclosures in accordance with GASB 40. See Note 4 – Cash and Investments for detail.

### Funded Status and Funding Progress

The funded status of the plan as of January 1, 2015, 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, 2015 | $ 1,484 | $ 483 | $ (1,001) | 306% | $ - | 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, 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 | $ - | 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 | $ - | N/A |
| December 31, 2013 | $ 138 | $ - | N/A |
| December 31, 2014 | $ 146 | $ - | N/A |

## Three-Year Trend Information

(In whole dollars)

| Fiscal Year Ending Dec 31 | Annual Pension Cost (APC) | Contribution as a Percentage of APC | Net Pension Obligation (NPO) |
|---|---|---|---|
| 2012 | $ 36,431 | 349.30% | $ (1,009,606) |
| 2013 | $ 43,199 | 319.92% | $ (1,104,611) |
| 2014 | $ 51,172 | 284.94% | $ (1,199,247) |

## Net Pension Obligation

The Net Pension Obligation (NPO) tracks the cumulative difference between the Annual Pension Cost (APC) and the actual contributions deposited. Since contributions have exceeded the APC each year, a negative NPO has been accumulating over the years.

**Annual Pension Cost and Net Pension Obligation**
**January 1, 2015**

| | Year Ending 12/31/12 | Year Ending 12/31/13 | Year Ending 12/31/14 |
|---|---|---|---|
| 1. Annual Normal Cost, beginning of year | $ - | $ - | $ - |
| 2. Amortization of UAL, beginning of year | (38,338) | (38,338) | (79,729) |
| 3. Interest to end of year | (1,228) | (1,228) | (2,519) |
| 4. Annual required contribution at end of year (1+2+3), not less than zero | - | - | - |
| 5. Interest on net pension obligation | (29,401) | (32,307) | (35,348) |
| 6. Adjustment to annual required contribution | 65,832 | 75,506 | 86,520 |
| 7. Annual pension cost (4+5-6) | 36,431 | 43,199 | 51,172 |
| 8. Employer Contributions | (127,252) | (138,204) | (145,808) |
| 9. Change in net pension obligation (7-8) | (90,821) | (95,005) | (94,636) |
| 10. Net pension obligation at beginning of year | (918,785) | (1,009,606) | (1,104,611) |
| 11. Net pension obligation at end of year (9+10) | $ (1,009,606) | $ (1,104,611) | $ (1,199,247) |

## Net Pension Liability

The plan's Total Pension Liability is the portion of the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive plan members that is attributed to those members' past periods of service. The Net Pension Liability (asset) is the difference between the plan's total pension liability and the market value of plan assets. On the basis of the actuarial assumptions used in the January 1, 2015 valuation, it is estimated that the current assets of the fund, along with future revenues from state fire insurance taxes (assumed to be paid to the fund for five years from the valuation date or 2020) and investment earnings will be sufficient to pay all future FPF pension benefits.

The components of the City's net pension liability (asset) at December 31, 2014 are as follows:

| | | |
|---|---|---|
| Total pension liability | $ | 483,433 |
| Less: Plan fiduciary net position | | 1,484,427 |
| City's net pension liability (asset) | $ | (1,000,994) |
| Plan fiduciary net position as a percentage of the total pension liability | | 307.06% |

**City of Redmond**
**Firefighter's Pension Plan**
**Schedule of Changes in Net Pension Liability**

| Total Pension Liability | 2014 |
|---|---|
| Service cost (Entry Age Normal Cost) | $ - |
| Interest | 10,399 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | 154,238 |
| Changes of assumptions | - |
| Benefit payments and refunds | (12,372) |
| Net Change in Total Pension Liability | 152,265 |
| Total Pension Liability - Beginning | 331,168 |
| Total Pension Liability - Ending (a) | $ 483,433 |
| Plan Fiduciary Net Position | |
| Contributions - Employer | $ 145,808 |
| Contributions - Member | - |
| Net Investment Income | 10,994 |
| Benefit Payments and Refunds | (12,372) |
| Admin. Expense | (5,261) |
| Other | - |
| Net Change in Plan Fiduciary Net Position: | 139,169 |
| Plan Fiduciary Net Position - Beginning | 1,345,258 |
| Plan Fiduciary Net Position - Ending (b) | $ 1,484,427 |
| Net Pension Liability (Asset) - Ending (a) - (b) | $ (1,000,994) |
| Plan fiduciary net position as a percentage of the total pension liability | 307.06% |
| Covered employee payroll | - |
| Net pension liability (asset) as a percentage of covered employee payroll | n/a |

The Schedule of Changes in Net Pension Liability and Schedule of Contributions presented in Required Supplementary Information following the notes to the financial statements presents ten-year trend information about whether the net pension liability (asset) is increasing or decreasing over time and the factors affecting the changes.

### Annual Money-weighted Rate of Return

For 2014, the money-weighted rate of return for the Firefighter's Pension Plan investments was 0.78%. The annual money-weighted rate of return on pension plan investments is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. The Schedule of Investment Returns presented in Required Supplementary information following the notes to the financial statements presents ten-year trend information for the annual money-weighted rate of return.

### Discount Rate and Investment Earnings

The discount rate is the single rate that reflects (1) the long-term expected rate of return on pension plan investments that are expected to be used to finance payment of benefits, to the extent that the pension Plan's Fiduciary net Position is projected to be sufficient to make projected benefit payments and pension plan assets are expected to be invested using a strategy to achieve that return, and (2) a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another scale), to the extent that conditions for use of the long-term expected rate of return are not met. Since the Fiduciary net Position is projected to be positive in all future years, the discount rate is equal to the Investment Earnings assumption of 3.2%. The table below illustrates the effect on the net pension liability if the discount rate were to increase or decrease by 1%.

City of Redmond
Firefighters' Pension Plan
Effect of 1% Change in Discount Rate
As of January 1, 2015

| | | |
|---|---|---|
| 1) Net pension liability (3.20% discount rate) | | |
| A) Total pension liability | $ | 483,433 |
| B) Fiduciary net position | | 1,484,427 |
| C) Net pension liability [(A)-(B)] | $ | (1,000,994) |
| 2) Effect of 1% decrease in discount rate (2.20% discount rate) | | |
| A) Total pension liability | $ | 545,074 |
| B) Fiduciary net position | | 1,484,427 |
| C) Net pension liability [(A)-(B)] | $ | (939,353) |
| 2) Effect of 1% increase in discount rate (4.20% discount rate) | | |
| A) Total pension liability | $ | 438,390 |
| B) Fiduciary net position | | 1,484,427 |
| C) Net pension liability [(A)-(B)] | $ | (1,046,037) |

### Actuarial Procedures and Assumptions

Actuarial Cost Method
Entry Age Normal Cost Method using a Member by Member approach and attributing liability as a level percentage of compensation that is projected over each Member's career (hire date through retirement date). Since all Members are now retired, the Total Pension Liability is simply the present value of future expected benefit payments.

Valuation of Assets
All assets are carried on a market value basis. Investments held in the Fund's trust account are readily valued through daily quoted market prices.

Fire Insurance Premiums
Future fire insurance premium tax revenues are assumed to increase at the rate of 2.5% per year and are assumed to stop after 2020.

Future Salaries
Salaries are assumed to increase at the rate of 3.5% per annum. This assumption is for future inflation increases only. Since the member have at least 20 years of service, no additional increase is assumed for merit increases.

Postretirement Benefit Increases

Certain benefits increase at the same rate as the salaries for active members of the same rank the retiree had attained at retirement. These salaries were assumed to increase at the rate of 3.5% per annum.

Other benefits increase at the same rate as the Consumer Price Index increases. The CPI was assumed to increase at the rate of 2.5% per annum.

Vesting

Terminating members may forfeit a vested right to a deferred benefit if they withdraw their accumulated contributions. For the purposes of the valuation, it is assumed that no such forfeitures will occur.

Family Composition

All active members are assumed to be married, with no children, when they retire. Wives are assumed to be three years younger than their husbands. Surviving spouses are assumed not to remarry.

Service Retirement

All members who attain, or who have attained, age 65 in active service are assumed to retire immediately. Other members eligible for service retirement are assumed to retire at the rates indicated:

| Age | Rate |
|---|---|
| 50 | 7% |
| 51 | 7 |
| 52 | 7 |
| 53 | 7 |
| 54 | 11 |
| 55 | 12 |
| 56 | 12 |
| 57 | 15 |
| 58 | 16 |
| 59 | 16 |
| 60 | 23 |
| 61 | 23 |
| 62 | 24 |
| 63 | 24 |
| 64 | 25 |
| 65 | 25 |
| 66 | * |

*Immediate retirement is assumed for every person who attains age 66.

Disablement

The rates of disablement are assumed to be at the rates indicated:

| Age | Rate |
|---|---|
| 30 | 0.8% |
| 35 | 1.5 |
| 40 | 2.3 |
| 45 | 4.0 |
| 50 | 7.0 |
| 55 | 9.0 |
| 60 | 10.0 |

## Mortality

The mortality rates used in this valuation are as follows:

| Age | Members and Members Retired From Service | Disabled Members | Spouses |
|---|---|---|---|
| 40 | .0948 | .1123 | .0671 |
| 45 | .1236 | .1527 | .1048 |
| 50 | .1683 | .2239 | .1577 |
| 55 | .2662 | .3926 | .2872 |
| 60 | .5104 | .7529 | .5544 |
| 65 | .9871 | 1.4088 | 1.0445 |
| 70 | 1.7189 | 2.3645 | 1.7689 |
| 75 | 2.962 | 4.1107 | 2.8695 |
| 80 | 5.2585 | 7.3395 | 4.7507 |
| 85 | 9.3349 | 12.7467 | 8.1706 |
| 90 | 15.9968 | 20.8834 | 14.0538 |
| 95 | 24.5603 | 29.4203 | 20.1512 |
| 100 | 32.9712 | 37.1685 | 24.4834 |

1. Active and service-retired members — RP-2000 Mortality Table (combined healthy) for Males, projected to 2019 using 50% of Projection Scale AA, with ages set back one year.

2. Disabled members — RP-2000 Mortality Table (combined healthy) for Males, projected to 2019 using 50% of Projection Scalle AA, with ages set forward two years.

3. Spouses — RP-2000 Mortality Table (combined healthy) for Females, projected to 2019 using 50% of Projection Scalle AA, with ages set forward one year.

## Other Terminations of Employment

Since there are no Active Members, the rate of assumed future withdrawal from active service for any reason is 0% per year for all ages.

## Cost of Living Increases

| Decade | Average Annual Wage Increases for the United States | Average Annual CPI-U Increases for the United States | Excess |
|---|---|---|---|
| 2004 - 2014 | 2.8 % | 2.3 % | 0.5 % |
| 1994 - 2004 | 4.1 | 2.5 | 1.6 |
| 1984 - 1994 | 3.9 | 3.6 | 0.3 |
| 1974 - 1984 | 7.2 | 7.7 | (0.5) |
| 1964 - 1974 | 5.8 | 4.7 | 1.1 |
| **Cumulative Period** | | | |
| 2004 - 2014 | 2.8 % | 2.3 % | 0.5 % |
| 1994 - 2004 | 3.5 | 2.4 | 1.1 |
| 1984 - 1994 | 3.6 | 2.8 | 0.8 |
| 1974 - 1984 | 4.5 | 4.0 | 0.5 |
| 1964 - 1974 | 4.8 | 4.1 | 0.7 |

The wage information is based on statistics from the Social Security System. The CPI figures are based on the national Consumer Price Index, U.S. City Average and All Urban Consumers. Over all years considered, wages have increased 0.7% faster than CPI but over the last 10 years the difference has been 0.5%.

### Municipal Employees Benefit Trust

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 758 permanent and 280 temporary participants with account balances at December 31, 2014.

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 2014 was $51,937,664. Employee contributions were $3,287,074. City contributions were $3,287,074. The City's total payroll was $57,124,212.

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 9:
## 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, 2009. 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 $3,488,741 is included as a noncurrent liability on the Statement of Net Position.

| | Fiscal Year Ending 12/31/2012 | Fiscal Year Ending 12/31/2013 | Fiscal Year Ending 12/31/2014 |
|---|---|---|---|
| Determination of Annual Required Contribution: | | | |
| 1-Annual Normal Cost (BOY) | $ 57,908 | $ 57,908 | $ 57,908 |
| 2-Amortization of UAAL (BOY) | 849,114 | 849,114 | 849,114 |
| 3-Interest to EOY [(1) + (2)] x *(i)** | 36,281 | 36,281 | 36,281 |
| 4-ARC at EOY [(1)+(2)+(3)] | $ 943,303 | $ 943,303 | $ 943,303 |
| 5-Interest on Net OPEB Obligation | $ 86,819 | $ 107,472 | $ 124,607 |
| 6-Adjustment to ARC | 127,805 | 161,640 | 191,739 |
| 7-Annual OPEB Cost [(4)+(5)-(6)] | $ 902,317 | $ 889,135 | $ 876,171 |
| 8-Employer Contributions | 386,000 | 460,757 | 502,601 |
| 9-Change in Net OPEB Obligation [(7) – (8)] | 516,317 | 428,378 | 373,570 |
| 10-Net OPEB Obligation-BOY [(11) prior year] | $ 2,170,476 | $ 2,686,793 | $ 3,115,171 |
| Net OPEB Obligation-end of year [(9) + (10)] | $ 2,686,793 | $ 3,115,171 | $ 3,488,741 |

** 'i' is the assumed interest rate that year: 4.0% in 2012, 4.0% in 2013, 4.0% in 2014.*

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Contribution as a Percentage of OPEB Cost | Net OPEB Obligation |
|---|---|---|---|
| 12/31/2012 | $ 902,317 | 43% | $ 2,686,793 |
| 12/31/2013 | $ 889,135 | 52% | $ 3,115,171 |
| 12/31/2014 | $ 876,171 | 57% | $ 3,488,741 |

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 2014 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% |
| Dec. 31, 2006 | - | 8,512,284 | 8,512,284 | 0 | 764,518 | 1113 |
| Dec. 31, 2007 | - | 8,512,284 | 8,512,284 | 0 | 557,587 | 1527 |
| Dec. 31, 2008 | - | 8,512,284 | 8,512,284 | 0 | 446,200 | 1908 |
| Dec. 31, 2009 | - | 9,290,267 | 9,290,267 | 0 | 442,308 | 2100 |
| Dec. 31, 2010 | - | 9,430,652 | 9,430,652 | 0 | 461,106 | 2045 |
| Dec. 31, 2011 | - | 9,549,490 | 9,549,490 | 0 | 480,703 | 1987 |
| Dec. 31, 2012 | - | 14,420,000 | 14,420,000 | 0 | 262,000 | 5504 |
| Dec. 31, 2013 | - | 14,664,000 | 14,664,000 | 0 | 249,000 | 5889 |
| Dec. 31, 2014 | - | 14,893,000 | 14,893,000 | 0 | 249,000 | 5981 |

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% in 2012, grading down to an ultimate rate of 4.60% in 2081 and beyond, 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 10:
## Construction Commitments

At December 31, 2014 the City had significant contractual obligations on construction projects:

| (In thousands) | |
|---|---|
| Transportation Projects | $7,485 |
| Transportation Maintenance | 187 |
| General Government | 331 |
| Utilities Projects | 11,516 |
| Total | $19,519 |

## Note 11:
## Interfund Transfers

Interfund transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, to move receipts for debt service from the fund collecting the receipts to a debt service fund as debt service payments become due, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers at December 31, 2014 were as follows:

| | | Transfer from | | | | |
|---|---|---|---|---|---|---|
| | | General Fund | Capital Investments Program Fund | Other Governmental Funds | Internal Service Funds | **Total** |
| Transfer to | General Fund | $ - | $ - | $ 746,280 | $ 193,595 | **$ 939,875** |
| | Capital Investments Program Fund | 4,087,535 | - | 2,845,919 | - | **6,933,454** |
| | Other Governmental Funds | 5,493,480 | 896,491 | - | - | **6,389,971** |
| | **Total** | **$ 9,581,015** | **$ 896,491** | **$ 3,592,199** | **$ 193,595** | **$ 14,263,300** |

# Note 12:
# Long-Term Obligations

## General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds have been issued for general government activities and are being repaid from debt service funds.

In 2013 the City issued $33,085,000 in limited tax general obligation refunding bonds with an interest rate of 3.75% to advance refund $32,760,000 of outstanding 2004 Limited Tax General Obligation Lease Revenue Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $1,530,533. This amount is being charged to operations through the year 2035 using the straight-line method. The remaining balance of $1,442,597 is reported as a deferred outflow in the statement of net position.

General obligation bonds outstanding at December 31, 2014 are as follows:

| | Issue Date | Maturity Date | Interest Rate | Amount Issued | Redemptions to Date | Outstanding 12/31/2014 |
|---|---|---|---|---|---|---|
| 2008 LTGO Bonds | 9/4/2008 | 12/1/2028 | 3.5% - 5.0% | $ 33,935,000 | $ 7,370,000 | $ 26,565,000 |
| 2011 LTGO Bonds | 3/16/2011 | 12/1/2021 | 2.0% - 4.5% | 8,035,000 | 2,665,000 | 5,370,000 |
| 2013 LTGO Refunding Bonds | 9/12/2013 | 12/1/2035 | 1.75% - 5.0% | 33,085,000 | 3,240,000 | 29,845,000 |
| Total General Obligation Bonds | | | | $ 75,055,000 | $ 13,275,000 | $ 61,780,000 |

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

| Governmental Activities | | |
|---|---|---|
| Year Ending December 31 | Principal | Interest |
| 2015 | 3,590,000 | 2,680,119 |
| 2016 | 3,720,000 | 2,553,169 |
| 2017 | 3,850,000 | 2,424,919 |
| 2018 | 3,970,000 | 2,302,719 |
| 2019 | 4,095,000 | 2,176,319 |
| 2020-2024 | 17,100,000 | 8,168,444 |
| 2025-2029 | 15,790,000 | 4,182,881 |
| 2030-2034 | 7,875,000 | 1,489,338 |
| 2035 | 1,790,000 | 80,548 |
| | $ 61,780,000 | $ 26,058,456 |

## Revenue Bonds

The City issues revenue bonds to finance construction projects for the City's utilities. Revenue bonds are payable from revenues generated by the user fees, and are backed by the Water/Wastewater and Stormwater utilities. Revenue bonds generally require a cash reserve be maintained of 120% of the current portion of revenue bonds payable, plus interest.

Revenue bonds outstanding at year end are as follows:

| | Issue Date | Maturity Date | Interest Rate | Amount Issued | Redemptions to Date | Outstanding 12/31/2014 |
|---|---|---|---|---|---|---|
| 2008 Water/ Wastewater Bonds | 12/3/2008 | 12/1/2023 | 4.0% - 5.0% | $ 11,755,000 | $ 3,775,000 | $ 7,980,000 |
| 2014 Stormwater Bonds | 7/24/2014 | 12/1/2034 | 3.26% - 4.25% | $ 22,950,000 | $ 270,000 | $ 22,680,000 |
| Total Revenue Bonds | | | | $ 34,705,000 | $ 4,045,000 | $ 30,660,000 |

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

| | Business-type Activities | |
|---|---|---|
| Year Ending December 31 | Principal | Interest |
| 2015 | 1,490,000 | 1,383,348 |
| 2016 | 1,540,000 | 1,339,048 |
| 2017 | 1,590,000 | 1,286,598 |
| 2018 | 1,650,000 | 1,224,198 |
| 2019 | 1,710,000 | 1,158,098 |
| 2020-2024 | 8,815,000 | 4,571,875 |
| 2025-2029 | 6,095,000 | 2,766,300 |
| 2030-2034 | 7,770,000 | 1,084,050 |
| | $ 30,660,000 | $ 14,813,515 |

### Public Works Trust Fund Loans

The City currently has two State of Washington Public Works Trust Fund Loans with principal outstanding of $1,677,548. The interest rates are 0.25% and 1.00%. These loans are considered obligations of the general government and are being repaid from General Fund revenues which are transferred to the Capital Investments Program Fund where the loan payments are recorded.

Public Works Trust Fund Loans outstanding at December 31, 2014 are as follows:

| | Governmental Activities | |
|---|---|---|
| Year Ending | Principal | Interest |
| 2015 | 166,336 | 4,733 |
| 2016 | 94,451 | 3,778 |
| 2017 | 94,451 | 3,542 |
| 2018 | 94,451 | 3,306 |
| 2019 | 94,451 | 3,070 |
| 2020-2024 | 472,254 | 11,806 |
| 2025-2029 | 472,254 | 5,903 |
| 2030-2031 | 188,900 | 708 |
| | $ 1,677,548 | $ 36,846 |

## Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Bonds Payable: | | | | | |
| G.O. Bonds | $ 65,280,000 | $ - | $ (3,500,000) | $ 61,780,000 | $ 3,590,000 |
| Premiums | 2,804,209 | - | (189,589) | 2,614,620 | - |
| Total bonds payable | 68,084,209 | - | (3,689,589) | 64,394,620 | 3,590,000 |
| PWTF loans | 1,843,885 | - | (166,337) | 1,677,548 | 166,336 |
| Other post-employment benefits payable | 3,115,169 | 373,570 | - | 3,488,739 | - |
| Compensated absences | 3,837,781 | 3,819,332 | (3,597,064) | 4,060,049 | 3,248,039 |
| Governmental activity long-term liabilities | $ 76,881,044 | $ 4,192,902 | $ (7,452,990) | $ 73,620,956 | $ 7,004,375 |

| **Business-Type Activities:** | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable: | | | | | |
| Revenue Bonds | $ 8,680,000 | $ 22,950,000 | $ (970,000) | $ 30,660,000 | $ 1,490,000 |
| For issuance premiums | 239,149 | 3,232,779 | (91,466) | 3,380,462 | - |
| Total Bonds Payable | 8,919,149 | 26,182,779 | (1,061,466) | 34,040,462 | 1,490,000 |
| Compensated absences | 545,096 | 288,907 | (293,626) | 540,377 | 432,302 |
| Business-type activity long-term liabilities | $ 9,464,245 | $ 26,471,686 | $ (1,355,092) | $ 34,580,839 | $ 1,922,302 |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $42,792 of internal service funds compensated absences are included in the above amounts. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid. Governmental funds typically used to liquidate compensated absences are the General Fund, Recreation Activities Fund, Advanced Life Support Fund, and the Recycling Fund.

## Arbitrage

Arbitrage occurs when the City invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. At the fund level, the City recognizes this liability only when it is due and payable. The City had no arbitrage excess earnings liability in 2014.

## Pending Loans

The City Council of the City of Redmond adopted the Resolution #1371 in 2012 accepting a Washington State Department of Ecology (DOE) loan for the Redmond Way Water Quality Facility. The estimated loan amount is $4,412,000. There was no outstanding loan as of 12/31/2014. The full amount is expected to be drawn down in 2015. When the project completion date has occurred, DOE and the City will execute an amendment to the loan agreement which details the final loan amount and DOE will prepare a final loan repayment schedule. The estimated loan will bear interest at the rate of 2.6% per annum, calculated on the basis of a 365 day year. The final loan amount will be repaid in equal installment semiannually over a term of twenty years.

Additional information on the City's long-term liabilities is provided in the City's Debt Manual which is available at:

http://www.redmond.gov/Government/FinancesandBudget/FinancialReports/.

# NOTE 13:
# Leases

**Operating Leases:**

<u>Copier Leases</u>
Operating lease obligations are primarily for rental of copy machines. Total expenditures for leases were $9,564 for the year ended December 31, 2014.
The future minimum lease payments are as follows:

| Year Ending December 31 | | Amount |
|---|---|---|
| 2015 | $ | 11,543 |
| 2016 | | 11,543 |
| 2017 | | 11,543 |
| 2018 | | 11,543 |
| 2019 | | 8,174 |
| Total | $ | 54,346 |

# Note 14:
# Component Units

**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 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.

Redmond Community Properties (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

In 2004, RCP issued Lease Revenue Bonds to finance construction of City Hall and the parking garage. The City leased these facilities 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 was reported as bonds payable, and City Hall and the parking garage reported as assets of the City. Bond principal and interest payments were reported as debt service by the City. As part of the capital lease agreement the City paid 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.

In September 2013, the City issued Limited Tax General Obligation Refunding Bonds to advance refund and defease the Redmond Community Properties Lease Revenue Bonds. Following the issuance of the bonds and the defeasance and refunding of the outstanding RCP bonds, all assets, including title to City Hall and the parking garage, transferred to the City.

Both of these blended component units are inactive and are in the process of being dissolved. The City anticipates that this will be completed in 2015.

**Component Units Reported in Fiduciary Fund Statements**

Redmond Community Facilities District 2014-1 (District) is a special purpose district formed on July 15, 2014 by Resolution No. 1411 of the City Council of the City of Redmond, Washington. RCW 36.145 authorizes cities to form community facilities districts when the owners of one hundred percent (100%) of the land to be included in the district petition the city to do so. In May 2014 the City of Redmond received a petition from Microsoft Corporation to form a community facilities district for the purpose of financing the construction of a pedestrian/bicycle bridge over SR 520 at the Overlake Transit Station and the construction of canopy coverage for waiting areas at the Overlake Transit Station.

The District is an independently governed, special purpose district, vested with the corporate authority included under Article VII, section 9 of the state Constitution to make local improvements by special assessments. Construction of the improvements will be financed through special assessments of $33,300,000 levied against specific Microsoft Corporation properties. The assessment will be paid in fifteen equal annual installments, with the first installment due in November, 2015. The project will be advance-funded by Microsoft in annual installments between December 2014 and December 2017. The design and construction of the project elements will be administered by Sound Transit. Sound Transit has agreed to pay any cost of the improvements in excess of the assessed amounts. Upon completion of construction in 2020, ownership of the improvements will be transferred to the City of Redmond.

The District's Board of Supervisors consists of three members of the Redmond City Council and two representatives nominated by the petitioner. The City Finance Director is the Treasurer for the District, and City staff provides fiduciary, accounting and reporting services to the District. Because the City cannot use the resources of the CFD to support its programs, bears no financial obligations related to the CFD or its projects, and does not have the ability to impose its will on the CFD, the City acts in a fiduciary capacity only. Therefore, the District is reported in the fiduciary fund statements in the City of Redmond's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2014.

## NOTE 15:
## 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 $1,444,584 with a net book value of $633,955. The city reimbursed the City of Bellevue $14,639 for its share of operating costs in 2014.

Budget monitoring information can be obtained from the City of Bellevue Budget Department, 450 – 110th Avenue NE, Bellevue, WA 98004.

**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 2014 were $580,781. The City of Redmond also paid the Alliance $2,155,795 in 2014 for Regional Capital Facilities Charges (RCFCs) 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's 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.

**Eastside Narcotics Task Force (ENTF)**

The Eastside Narcotics Task Force (ENTF) was formed by the Cities of Redmond, Bellevue, Kirkland, Mercer Island, and Issaquah in 1981 for the purpose of mutual support in the fight against drug crimes. In 1990, ENTF engaged the support services of King County Prosecutor's Office. The King County Sheriff's Office joined ENTF in 2002 to also provide support in the fight against drug crimes. On May 3rd, 2010, the ENTF amended the Interlocal Cooperative Agreement to include the Washington State Patrol. As of October of 2009, Issaquah permanently withdrew its ENTF membership. The US Postal Service joined ENTF on October 1st, 2013. Mercer Island and the King County Sheriff's Office are no longer members.

The Task Force is governed by an Executive Board whose members are composed of the Chief Law Enforcement Officer, or his/her designee, from each participating jurisdiction. The Board is responsible for formulating policy, establishing annual budgets, adding members, appointing the Administering Agency, and acquiring, holding, and disposing of real and personal property, and has final approval of expenditures and disbursements of revenues (seized and forfeited assets). A Commander, who is an officer from the Bellevue Police Department with a rank of Captain or higher, is responsible for the operation and the accomplishment of the goals and objectives of the Task Force.

The City of Redmond's financial responsibility is to provide an officer, a vehicle, and to pay for the officer's ENTF travel, if required. Sometime in 2015, the City of Redmond will be providing another officer to the Task Force, which will be funded 100% by the Task Force.

Upon termination of the Task Force, equipments and proceeds will be divided equitably as determined by the board. Member agencies share in the costs and proceeds of the operation of the Task Force on a percentage basis. As of 12/31/2014, the forfeiture balance of the ENTF was $363,180. In the event of dissolution of the Task Force, the balance due to Redmond would be $35,955, or 9.9% of the ENTF's total forfeiture reserve balance.

Budget monitoring information can be obtained from Eastside Narcotics Task Force, c/o Carl Krikorian, Police Fiscal Manager, Bellevue Police Department, 450 – 110th Avenue NE, Bellevue, WA 98004 or P.O. Box 90012, Bellevue, WA 98009.

**A Regional Coalition For Housing (ARCH)**

In November 1992, the City of Redmond joined the Cities of Kirkland, Bellevue, and King County to establish A Regional Coalition For Housing (ARCH). The agreement was recently amended in 2010. Since its inception, King County, the Cities of Redmond, Bellevue, Kirkland, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Mercer Island, Newcastle, Sammamish, Woodinville, Yarrow Point, and Beaux Arts Village joined ARCH.

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

ARCH is governed by an Executive Board composed of a Chief Executive Officer from each member. The Executive Board is responsible for review and approval of all budgetary, financial, policy and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board.

Each member city contributes operating revenues as specified in the annual budget for ARCH. Contributions from the member cities are based on each member's population. Contributions by member agencies are held in the ARCH Housing Trust Fund Account and dispersed by the Administering Agency for approved projects. In 2014 the city contributed $65,120 for operations or 10.817% of the total contributions for operations by all members. The City has accumulated $349,947 in the Trust Fund for funding affordable housing projects.

Members may withdraw from the ARCH agreement by giving one year's written notice to the Executive Board, by December 31st of any year, of its intention to terminate, effective December 31st of the following year. Members remain legally and financially responsible for any obligation incurred while a member of ARCH. Upon dissolution, the agreement provides for distribution of all property and assets among the members based on the percentage of the total annual contributions during the period of the agreement paid by each member. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16225 NE 87th Street, A-3, Redmond, WA 98052.

**EPSCA**

The Eastside Public Safety Communications Agency (EPSCA), an emergency regional radio access service provider operation, was established on May 26, 1992, by an interlocal agreement among the Cities of Redmond, Bellevue, Kirkland, and Mercer Island. The Agreement was amended in 1993, to include the City of Issaquah as an additional Principal. EPSCA began principal operations of the 800 MHz radio system in December 1995.

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

An Operations Committee, composed of the Chief of Police and Fire Chief of each Principal, reports to the Board and oversees budget preparation, rates, revenues, expenditures, policies and other operational issues. The Committee also includes representation from non-Principal EPSCA user agencies.
EPSCA has developed an Eastside radio communications system which is integrated with a regional radio communications network. Its capital funding derives from a September 15th, 1992 voter-approved King County excess property tax levy of $57,016,764. EPSCA's portion of the levy was $10,004,469.

Operating revenues derive from fees charged to the Principals for communications services and from subscriber fees for communications services. The City of Redmond paid $178,901 to EPSCA in 2014. These fees would change when the access fee rate change or when radios are added or removed from the system.

The interlocal agreement among the Eastside cities provides for a weighted vote according to the proportion of each Principal's system radios in relation to the total number of system radios used by all Principals.

As of December 31st, 2014, the weighted vote percentage was shown as follows**:**

| | |
|---|---|
| Redmond | 23.966% |
| Bellevue | 48.780% |
| Kirkland | 16.013% |
| Mercer Island | 5.992% |
| Issaquah | 5.250% |

These percentages are reviewed and adjusted annually at January 1st, based on the number of radios on the system in use by current Principals as of December 31st of the preceding year. Upon dissolution, the interlocal agreement provides for distribution of assets among the Principals based on weighted voting percentages in force at the time of dissolution.

Budget monitoring and compiled financial statements for EPSCA can be obtained from EPSCA, c/o Jessie Morgan, MS PSEPS, P.O. Box 97010, Redmond, WA 98073-9710.

**Hazardous Materials Unit and Response Team (HazMat)**

In January 1984, the City of Redmond joined the Cities of Bellevue, Kirkland, Bothell, and King County Fire Protection Districts 16 and 36 to form a Hazardous Materials Unit and Response Team (HazMat). The agreement was recently modified on July 13th, 2004. Current members are the Cities of Redmond, Bellevue, Kirkland, Bothell, Snoqualmie, along with Eastside Fire & Rescue, Woodinville Fire & Life Safety District, and King County Fire Districts 27 & 45.

The purpose of the HazMat agreement is to provide equipment and personnel for improving the quality of emergency services through development of the cooperative HazMat unit as a normal function of fire protection services.

The HazMat team is governed by a Joint Board which is composed of the Fire Chiefs of the member agencies plus one member from the HazMat team. The Joint Board is responsible for formulating policy, establishing annual budgets, and acquiring, holding, and disposing of real and personal property. With the exception of the member from the HazMat team, each representative on the Joint Board has a vote on all matters. The City of Bellevue has the administrative authority for operations conducted pursuant to the agreement and provides administrative and secretarial support to the Joint Board.

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of assets among the members based on the percentage of the total annual charges paid by each member during the period of the agreement.

The HazMat team has no outstanding debt or leases in 2014. Operating revenues are provided by an annual charge assessed each member based on each member’s property values and number of emergency incidents.

Budget monitoring information can be obtained from Eastside Hazardous Materials Joint Board, c/o Babette Bechtold, Bellevue Fire Department, P.O. Box 90012, Bellevue, WA 98004.

**Community Connectivity Consortium**

The Community Connectivity Consortium is a public corporation organized pursuant to the ordinances and approvals of the Consortium members and RCW 35.21.730 through 35.21.759 and RCW 39.34. The Consortium was created in 2011 and is governed by sixteen public agencies who are voting members: cities of Redmond, Bellevue, Kirkland, Renton, Auburn, Kent, Tukwila, Lake Washington School District, University of Washington, Bellevue College, Bellevue School District, Evergreen Hospital, Renton School District, Valley Communication Center, NORCOM, and King County. The Consortium sets the terms and conditions for sharing fiber optic installation projects, outlines how the parties will work together on fiber projects and establishes the original backbone of the Fiber Consortium network through contributions of budget, fiber assets, conduit, right of way and staff expertise. It has built over 35 miles of fiber optic cable, creating strategic connection points along the way. The partners use the fiber network to connect schools and universities to enhance learning; to connect hospitals, medical facilities and clinics to improve health care; connect government facilities for public safety, transportation and other needs; and to provide an open access network to serve the public with wireless and broadband access.

The City of Redmond petitioned to join the Consortium as a non-voting member on May 14th, 2012, and became a voting member at the following year. As a member, Redmond paid $3,570 for its annual due payments in 2014 and has the option to participate in fiber projects that will have project agreement that documents scope, roles and responsibilities, ownership, share of the overall project cost, etc. If the City decides to leave the Consortium, the assets Redmond acquired under any project agreements remains Redmond's.

For additional information, please contact Brenda Cooper, Board Chair, CIO City of Kirkland, bcooper@kirklandwa.gov.

**NORCOM**

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

Operating revenues are provided by user fees charged to each member based on average call volume. The City of Redmond paid $559,535 to NORCOM for calls for services and $38,838 for subscriber's fees in 2014.

Additional financial information can be obtained from NORCOM, c/o Gwen Pilo, Finance Manager, P.O. Box 50911, Bellevue. WA 98015-0911.

## NOTE 16:
## Contingencies and Litigation

As of December 31, 2014, 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 17:
## 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.

**Property and Liability Claims Program:**

The self-insured portion of the Insurance Claims and Reserve Fund provides coverage up to a maximum of $25,000 per occurrence for related claims and expenses. There were no claims that settled in 2014 above the City's self-insurance limit, two (2) claims in 2013, and no claims in 2012. 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 at least 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.

The City's current approach to risk management stems from 2010 when 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 deductible amounts in 2014, two (2) claims in 2013, and no claims in 2012.

Property insurance coverage has remained with Travelers since September 1, 2013.

**Medical Self Insurance Program:**

For 2014 the Medical Self-Insurance Fund provided coverage up to a maximum of $150,000 per person per calendar year with the Excess Insurance covering an Unlimited Major Medical Maximum. There were three (3) claimants who exceeded the per-person limit in 2014; in 2013 there was one (1) claimant who exceeded the per-person limit; in 2012 there was one (1) claimant who exceeded the per-person limit. 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 2014 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 2014, 2013, or 2012 exceeded the City's self-insurance coverage. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2014, the City had reserves of $1,119,430 in the Insurance Fund, $9,374,884 in the Medical Self-Insurance Fund, and $119,447 in the Workers' Compensation Fund to provide against risk of future loss. Claims liabilities of $1,205,600 have been reported in the Medical Self-Insurance Fund and $38,878 in the Workers' 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 2013 and 2014 were:

| | Insurance Fund | Medical Insurance Fund | Workers' Compensation Fund |
|---|---|---|---|
| December 31, 2013: | | | |
| Unpaid claims, beginning of fiscal year | $ - | $ 1,101,172 | $ 113,822 |
| Claims incurred (including IBNRs) | 276,040 | 8,442,244 | 691,085 |
| Claims payments | (276,040) | (8,187,816) | (724,390) |
| Unpaid claims-December 31, 2013: | $ - | $ 1,355,600 | $ 80,517 |
| December 31, 2014: | | | |
| Unpaid claims, beginning of fiscal year | $ - | $ 1,355,600 | $ 80,517 |
| Claims incurred (including IBNRs) | 182,304 | 6,774,892 | 390,160 |
| Claims payments | (182,304) | (6,924,892) | (431,799) |
| Unpaid claims-December 31, 2014: | $ - | $ 1,205,600 | $ 38,878 |

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%/$100,000 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 | $20,000,000 | $10,000 |
| (excess of general liability, auto, law enforcement liability) | | |
| 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 | $500,000 |
| Excess medical insurance | unlimited | $150,000 |

## NOTE 18:
## Budget to GAAP Reconciliation

Differences Between 2013-2014 Biennium Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

| | General Fund |
|---|---|
| REVENUES AND OTHER SOURCES: | |
| Budget and Actual Statement 2013/2014 Biennium | $ 178,179,631 |
| Less: 2013 Revenues and other sources | (91,080,254) |
| Statement of Revenues and Expenditures | $ 87,099,377 |
| | |
| EXPENDITURES AND OTHER USES: | |
| Budget and Actual Statement 2013/2014 Biennium | $ 182,164,038 |
| Less: 2013 Expenditures and other uses | (92,646,304) |
| Statement of Revenues and Expenditures | $ 89,517,734 |

## NOTE 19:
## Accounting and Reporting Changes

### GASB 67 Implementation

The City implemented GASB 67, "Financial Reporting for Pension Plans", for the year ended December 31, 2014. The requirements of this Statement provide enhanced note disclosures and schedules of required supplementary information for pension plans, such as the Firefighter's Pension Plan. The financial statements for the Firefighter's Pension Plan are presented in the Statement of Net Position – Fiduciary Funds and the Statement of Changes in Net Position – Fiduciary Funds. The enhanced note disclosures for the Firefighter's Pension Plan are included in Note 9: Pension Plans. The required supplementary information following the notes to the financial statements includes a Statement of Changes in Net Pension Liability, Schedule of Contributions, and Schedule of Investment Returns for the last 10 years.

### Net Pension Liability (Asset)

Although the City administers the Firefighter's Pension Plan, it is funded 100% by a percentage of the tax on fire insurance premiums which is received from the state annually. Based on legal counsel and Washington State Attorney General opinion, it has been determined that the plan assets do not belong to the City, and upon the dissolution of the plan the remaining balance will not revert to the City. Therefore, the City of Redmond had previously determined that no net pension asset should be included in the City's Statement of Net Position. Based on GASB Statement No. 27 requirements that the net pension liability (asset) be reported in the government-wide statement of net position, as well as State Auditor's Office opinion that while the net pension asset will not revert to the City, it does, in effect, reduce the amount that the City must pay into the Plan in the future, the City has decided to report the net pension asset (currently $1,000,994) in the City's Statement of Net Position beginning in 2014. Because the amount is immaterial, current year expenditures for Security were reduced by this amount in the City's Statement of Activities. The fund financial statements are not affected.

## NOTE 20:
## Subsequent Events

The City settled 2013-2015 contract negotiations with the Redmond Firefighters Union #2829, I.A.F.F. in January 2015. The contract includes a salary increase of 3.5% that was effective January 1, 2013, resulting in $1,093,062 in retroactive salary payments on January 25, 2015. Of this amount, $542,772 was applicable to 2013 and $550,290 to 2014. The contract also includes a 2.2% increase that became effective January 1, 2015.

The City Council of the City of Redmond adopted the Resolution #1371 in 2012 accepting a Washington State Department of Ecology (DOE) loan funding towards the Redmond Way Water Quality Facility. The estimated loan amount is $4,412,000. There was no outstanding loan as of 12/31/2014. The full amount is expected to be drawn down in 2015. When the project completion date has occurred, DOE and the City will execute an amendment to the loan agreement which details the final loan amount and DOE will prepare a final loan repayment schedule. The estimated loan will bear interest at the rate of 2.6% per annum, calculated on the basis of a 365 day year. The final loan amount will be repaid in equal installment semiannually over a term of twenty years.