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 one component unit presented in the fiduciary fund statements, Redmond Community Facilities District (CFD), 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. The CFD is reported as a component unity of the City of Redmond because the CFD was formed by the City for the sole purpose of levying special assessments to finance the construction of the pedestrian bridge that, upon completion, will be transferred to the City of Redmond. In addition, three members of the Redmond City Council serve on the District's five-member Board of Supervisors, and the City's Finance Director serves as the District's Treasurer. Accounting and reporting services are provided by the City's Finance Department. 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, 2015. (See Note 13 - 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.

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.

Interfund 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.

Pensions

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

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 two items that qualify for reporting in this category. Deferred charges on debt refunding result from the difference in the carrying value of refunded debt and the reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows related to pension plans are discussed in detail in Note 7: Pension Plans.

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. The City has one item that qualifies for reporting in this category. Deferred inflows related to pension plans are discussed in detail in Note 7: Pension Plans.

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:
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	$	(58,530,000)
Unamortized bond premiums		(3,139,732)
Deferred outflows on refunding		2,323,243
Loans payable		(1,511,212)
Accrued interest payable		(199,821)
Compensated absences		(4,196,442)
Other post-employment benefits		(4,032,222)
		(69,286,186)

The net pension asset, net pension liability, and deferred inflows and deferred outlfows are reported in the government-wide statement of net position but not in the governmental balance sheet

Net pension asset	$	11,084,335
Deferred outflows of resources		3,918,492
Net pension liability		(19,554,736)
Deferred inflows of resources		(6,157,844)
		(10,709,753)

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	$	1,155,936
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position-governmental activities	$	1,155,936

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	$	12,530,000
Public Works Trust Fund Loans repayment		166,336
Amortization of debt premiums		190,951
Amortization of deferred loss on refunding		(70,780)
Proceeds from long-term debt issuance		(9,996,063)
Deferred outflows from long-term debt issuance		951,425
Net adjustment to decrease net change in fund balances-governmental funds to arrive at change in net position-governmental activities	$	3,771,869

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	$	26,223
Change in compensated absences payable		(350,354)
Change in other post-employment benefits payable		(543,483)
Net adjustment to decrease net change in fund balances-governmental funds to arrive at change in net position-governmental activities	$	(867,614)

NOTE 3:
Deposits and Investments

Deposits

As of December 31, 2015 the carrying amount of the City's cash demand deposits with Key Bank was $3,743,770 and the in-transit items were $263,096. The carrying amount and bank balance of the City's cash demand deposits at U.S. Bank at December 31, 2015 was $600,392. $2,000,000 was held at Opus Bank certificate of deposit and $8,049,410 was held in a public funds money market account. $929,920 retained from contractors pending acceptance of City construction projects was held in escrow or savings accounts at various banks. $142,055 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 invested in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. Accordingly, participants' balances in the LGIP are subject to minimal 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, 2015, the City had the following investments and maturities:

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years
Federal Farm Credit Bank	32,137,890	4,999,030	27,138,860
Federal Home Loan Bank	38,014,394	10,988,150	27,026,244
Federal Home Loan Mortgage Corporation	45,823,390	9,003,630	36,819,760
Federal National Mortgage Association	25,326,703	2,996,160	22,330,543
Local Gov't Bonds	7,025,528	5,584,010	1,441,518
Treasury Notes	13,934,320	-	13,934,320
Subtotal	162,262,225	33,570,980	128,691,245
Investments reported as cash equivalents:			
Money Market (Opus)	8,049,410	8,049,410	
Certificate of Deposit (Opus)	2,000,000	2,000,000	
Local Government Investment Pool	14,444,315	14,444,315	
Subtotal	24,493,725	24,493,725	
Total	186,755,950	58,064,705	128,691,245

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, 2015 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, 2015 more than five percent of the City's investments were held in Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds.

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

Cash & Investments by Type	
Opus Bank-certificate of deposit	$ 2,000,000
Opus Bank-money market	8,049,410
State Investment Pool (LGIP)	14,444,315
Key Bank Public Checking	3,743,770
Deposit in Transit less payments posted Jan 2016	77,337
Outstanding Checks at 12/31/2015	(3,643,084)
U.S. Bank	600,392
Petty Cash/Advance Travel	35,770
Wells Fargo Trust Account RCP	142,055
Contractor's Retainage Money Market	929,920
City of Bellevue - outside agency	10,000
Federal Home Loan Bank	38,014,394
Federal Farm Credit Bank	32,137,890
Federal Home Loan Mortgage Corporation	45,823,390
Federal National Mortgage Association	25,326,703
Local Gov't Bonds	7,025,528
US Treasury Notes	13,934,320
Grand Total Cash & Investments by Type	$188,652,110

	Cash & Equivalents*	**Restricted Cash**	**Rate Stabilization Fund**	**Investments**	**Restricted Investments**
Governmental Funds					
General Fund	$ 4,259,863	$ 454,814	$ -	$ 26,904,646	$ 4,691,232
Capital Investments Program Fund	3,551,935	-	-	22,343,246	11,695
Other Governmental Funds	1,341,070	72,042	-	8,830,474	335
Proprietary Funds					
Water/Wastewater	4,620,052	16,373	4,177,811	23,827,136	1,175,500
UPD Water/Wastewater	2,548,024	32,000	1,929,266	14,308,710	-
Stormwater Management	3,938,409	7,308	-	23,198,924	1,634,409
Internal Service Funds	2,605,159	-	-	16,396,174	-
Fiduciary Funds					
Firefighter's Pension Fund	197,645	-	-	-	1,405,555
Agency Funds	2,745,189	-	-	-	11,427,114
	$ 25,807,346	$ 582,537	$ 6,107,077	$135,809,310	$ 20,345,840
				Grand Total Cash & Investments by Statements	$188,652,110

NOTE 4:
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	$	1,273,492
Cable access		1,014,487
Capital projects		18,383,684
Debt service		1,065,607
Fire		2,018,375
Parks		618,017
Planning-transportation		731,630
Police		4,468,315
Reserves		454,814
Solid waste recycling		660,952
Tourism		579,883
Total	$	31,269,256
Committed For:		
Arts	$	172,925
Capital equipment replacement		3,074,935
Development Review		662,619
Fire equipment		5,000,076
Parks maintenance		1,165,336
Police		8,500
Recreation activities		774,608
Travel		20,000
Total	$	10,878,999
Assigned For:		
Capital assets	$	12,109,050
Community events		39,946
Maintenance		1,353,939
Human services fund		25,640
Parks		16,253
Real Property Fund		13,247
Reserves		6,576,638
Transportation		2,653,580
Business tax		340,037
Total	$	23,128,330

NOTE 5:
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 $15,887,420,578 for the City in 2015.

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 $1.49 per $1,000 of assessed value for general governmental services and no additional voter-approved excess tax levy.

NOTE 6:
Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government				
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	$ 100,567,769	$ 27,578,450	$ (1,681,919)	$ 126,464,300
Construction in Progress	20,013,290	20,529,488	(22,917,016)	17,625,762
Art	549,078	-	(200)	548,878
Total capital assets, not being depreciated	$ 121,130,137	$ 48,107,938	$ (24,599,135)	$ 144,638,940
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	$ 75,668,934	$ 526,775	$ -	$ 76,195,709
Improvements Other than Buildings	30,883,565	2,412,918	-	33,296,483
Machinery and Equipment	28,260,486	2,304,591	(1,596,553)	28,968,524
Infrastructure	241,125,830	20,201,396	(660,260)	260,666,966
Total capital assets, being depreciated	$ 375,938,815	$ 25,445,680	$ (2,256,813)	$ 399,127,682
Less Accumulated Depreciation for:				
Buildings/Building Improvements	$ (19,594,062)	$ (1,580,560)	$ -	$ (21,174,622)
Improvements Other than Buildings	(12,329,578)	(1,071,824)	-	(13,401,402)
Machinery and Equipment	(17,916,784)	(2,071,539)	1,454,893	(18,533,430)
Infrastructure	(89,936,886)	(5,324,162)		(95,261,048)
Total accumulated depreciation	$ (139,777,310)	$ (10,048,085)	$ 1,454,893	$ (148,370,502)
Total capital assets, being depreciated, net	$ 236,161,505	$ 15,397,595	$ (801,920)	$ 250,757,180
Governmental activities capital assets, net	$ 357,291,642	$ 63,505,533	$ (25,401,055)	$ 395,396,120

NET INVESTMENT IN CAPITAL ASSETS

Governmental Activities	
Capital assets not being depreciated	$ 144,638,940
Capital assets being depreciated	399,127,682
Less accumulated depreciation	(148,370,502)
Less GO Bonds	(58,530,000)
Less bond premium	(3,139,732)
Less Public Works Trust Fund loans	(1,511,212)
Plus deferred outflow on refunding bonds	2,323,243
Governmental Activities, net investment in capital assets	$ 334,538,419

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

Governmental Activities		
General Government	$	1,323,654
Security		1,168,502
Physical Environment		22,116
Transportation, Including Depreciation of General Infrastructure Assets		6,326,135
Economic Environment		70,823
Culture and Recreation		1,136,855
Total Depreciation Expense – Governmental Activities	$	10,048,085

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated:				
Land	$ 22,148,078	$ 3,472,196	$ -	$ 25,620,274
Construction In Progress	39,095,842	20,028,891	(48,128,279)	10,996,454
Total Capital Assets, Not Being Depreciated	61,243,920	23,501,087	(48,128,279)	36,616,728
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	37,958,924	-	-	37,958,924
Improvements Other Than Buildings	297,614,622	49,728,814	(598,768)	346,744,668
Machinery and Equipment	860,925	746,342	(149,342)	1,457,925
Total Capital Assets, Being Depreciated	336,434,471	50,475,156	(748,110)	386,161,517
Less Accumulated Depreciation for:				
Buildings/Building Improvements	(6,873,430)	(759,179)	-	(7,632,609)
Improvements Other Than Buildings	(71,854,691)	(6,175,428)	280,626	(77,749,493)
Machinery and Equipment	(593,359)	(37,206)	93,137	(537,428)
Total Accumulated Depreciation	(79,321,480)	(6,971,813)	373,763	(85,919,530)
Total Capital Assets, Being Depreciated, Net	257,112,991	43,503,343	(374,347)	300,241,987
Business-Type Activities Capital Assets, Net	$ 318,356,911	$ 67,004,430	$ (48,502,626)	$ 336,858,715

NET INVESTMENT IN CAPITAL ASSETS

Business-Type Activities		
Capital assets not being depreciated	$	36,616,728
Capital assets being depreciated		386,161,517
Less accumulated depreciation		(85,919,530)
Less Revenue bonds		(29,170,000)
Less bond premium		(3,194,707)
Unspent bond proceeds		-
Business-Type Activities, net investment in capital assets	$	304,494,008

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

Business-Type Activities		
Water/Wastewater	$	3,921,509
UPD Water/Wastewater		1,357,549
Stormwater		1,692,755
Total Depreciation Expense – Business-type Activities	$	6,971,813

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

Note 7:
Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans		
Pension liabilities	$	27,006,967
Pension assets	$	11,084,335
Deferred outflows of resources	$	4,827,859
Deferred inflows of resources	$	7,297,288
Pension expense/expenditures	$	2,555,672

State Sponsored Pension Plans

Substantially all of the City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

<u>Contributions</u>

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The City's actual contributions to the plan were $1,420,634 for the year ended December 31, 2015.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The City's actual contributions to the plan were $1,793,969 for the year ended December 31, 2015.

Public Safety Employees' Retirement System (PSERS)

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

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

PSERS membership includes:

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

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

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

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	**Employer**	**Employee**
January through June 2015	10.54%	6.36%
July through December 2015	11.54%	6.59%

The City's actual contributions to the plan were $15,556 for the year ended December 31, 2015.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	**Employer**	**Employee**
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions to the plan were $1,345,836 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed $58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 17,658,350	$ 14,503,747	$ 11,791,078
PERS 2/3	36,510,478	12,486,262	(5,908,179)
PSERS 2	128,855	16,958	(62,640)
LEOFF 1	(472,727)	(738,921)	(965,802)
LEOFF 2	9,319,560	(9,306,205)	(23,322,800)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the City reported a total pension liability of $27,006,967 for its proportionate share of the net pension liabilities and a total pension asset of $10,045,126 for its proportionate share of the net pension assets as follows:

	Liability or (Asset)
PERS 1	$ 14,503,747
PERS 2/3	$ 12,486,262
PSERS 2	$ 16,958
LEOFF 1	($ 738,921)
LEOFF 2	($ 9,306,205)

The amount of the asset reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	Asset
LEOFF 2 – employer's proportionate share	$ (9,306,205)
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	$ (6,153,272)
TOTAL	$ (15,459,477)

At December 31, the City's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.279429%	0.277269%	-0.002160%
PERS 2/3	0.344517%	0.349456%	0.004939%
PSERS 2	0.090607%	0.092909%	0.002302%
LEOFF 1	0.058235%	0.061310%	0.003075%
LEOFF 2	0.863922%	0.905449%	0.041527%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the City recognized pension expense as follows:

	Pension Expense
PERS 1	$ 724,178
PERS 2/3	$ 1,524,068
PSERS 2	$ 20,238
LEOFF 1	$ (169,600)
LEOFF 2	$ 495,003
TOTAL	$ 2,593,887

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 793,513
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 782,882	$ -
TOTAL	$ 782,882	$ 793,513

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,327,293	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 3,333,241
Changes of assumptions	$ 20,118	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 158,920	$ -
Contributions subsequent to the measurement date	$ 1,004,273	$ -
TOTAL	$ 2,510,604	$ 3,333,241

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 15,887	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 8,411
Changes of assumptions	$ 105	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 7,253	$ -
TOTAL	$ 23,245	$ 8,411

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 124,744
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ -	$ -
TOTAL	$ -	$ 124,744

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 814,913	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 2,819,731
Changes of assumptions	$ 24,547	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ 217,648
Contributions subsequent to the measurement date	$ 671,668	$ -
TOTAL	$ 1,511,128	$ 3,037,379

TOTAL OF ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,158,093	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 7,079,640
Changes of assumptions	$ 44,770	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 158,920	$ 217,648
Contributions subsequent to the measurement date	$ 2,466,076	$ -
TOTAL	$ 4,827,859	$ 7,297,288

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2	Total
2016	(307,538)	(858,249)	(691)	(48,405)	(982,698)	(2,197,581)
2017	(307,538)	(858,249)	(691)	(48,405)	(982,698)	(2,197,581)
2018	(307,538)	(858,250)	(692)	(48,405)	(982,707)	(2,197,592)
2019	129,101	747,839	4,326	20,471	606,682	1,508,419
2020			2,666		119,587	122,253
2021			2,663		23,915	26,578
Total	**(793,513)**	**(1,826,909)**	**7,581**	**(124,744)**	**(2,197,919)**	**(4,935,504)**

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.

At December 31, 2015, 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 pension 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 2015 was $146,358, which was sufficient to pay the 2015 Firefighter's Pension Plan expenses of $33,966.

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.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Firefighters' Pension Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Net Pension Liability

The Net Pension Liability for the Firefighters' Pension Plan was measured as of January 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the City's net pension liability (asset) for the Firefighters' Pension Plan at December 31, 2015 are as follows:

Total pension liability	$	567,121
Less: Plan fiduciary net position		1,606,330
City's net pension liability (asset)	$	(1,039,209)
Plan fiduciary net position as a percentage of the total pension liability		283.24%

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

Firefighters' Pension Plan	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 1/1/2015	$ 483,433	$ 1,484,427	$ (1,000,994)
Changes for the year:			-
Service Cost	-	-	-
Interest	15,014	-	15,014
Changes in benefit terms	-	-	-
Differences between expected and actual experience	97,140	-	97,140
Changes of assumptions	-	-	-
Contributions – employer	-	146,358	(146,358)
Contributions – employees	-	-	-
Net investment income	-	9,511	(9,511)
Benefit payments, including refunds of contributions	(28,466)	(28,466)	-
Administrative expense	-	(5,500)	5,500
Other changes	-	-	-
Net changes	83,688	121,903	(38,215)
Balance at 12/31/2015	567,121	1,606,330	(1,039,209)

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 2015, the money-weighted rate of return for the Firefighter's Pension Plan investments was 0.62%. 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%.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Firefighters' Pension Plan, calculated using the discount rate of 3.2%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.2%) or 1-percentage-point higher (4.2%) than the current rate:

	1% Decrease (2.2%)	**Current Discount Rate (3.2%)**	**1% Increase (4.2%)**
City's net pension liability (asset)	$ (971,153)	(1,039,209)	$(1,100,774)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increases (inflation only)	3.5%
Investment earnings	3.2%
Growth in membership	0.0%
Postretirement benefit increases	
Related to salaries	3.5%
Related to Consumer Price Index	2.5%
Actuarial Cost Method	Entry Age Normal
Valuation of Assets	Market value basis

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.

Mortality rates were based on the RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members).

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 808 permanent and 281 temporary participants with account balances at December 31, 2015.

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 2015 was $54,978,760. Employee contributions were $3,465,753. City contributions were $3,465,753. The City's total payroll was $60,951,259.

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 8:
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 $4,032,224 is included as a noncurrent liability on the Statement of Net Position.

	Fiscal Year Ending 12/31/2013	Fiscal Year Ending 12/31/2014	Fiscal Year Ending 12/31/2015
Determination of Annual Required Contribution:			
1-Annual Normal Cost (BOY)	$ 57,908	$ 57,908	$ 40,376
2-Amortization of UAAL (BOY)	849,114	849,114	1,024,563
3-Interest to EOY [(1) + (2)] x *(i)**	36,281	36,281	37,273
4-ARC at EOY [(1)+(2)+(3)]	$ 943,303	$ 943,303	$ 1,102,212
5-Interest on Net OPEB Obligation	$ 107,472	$ 124,607	$ 122,106
6-Adjustment to ARC	161,640	191,739	209,907
7-Annual OPEB Cost [(4)+(5)-(6)]	$ 889,135	$ 876,171	$ 1,014,411
8-Employer Contributions	460,757	502,601	470,928
9-Change in Net OPEB Obligation [(7) – (8)]	428,378	373,570	543,483
10-Net OPEB Obligation-BOY [(11) prior year]	$ 2,686,793	$ 3,115,171	$ 3,488,741
Net OPEB Obligation-end of year [(9) + (10)]	$ 3,115,171	$ 3,488,741	$ 4,032,224

** 'i' is the assumed interest rate that year: 4.0% in 2013, 4.0% in 2014, 4.0% in 2015.*

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2013	$ 889,135	52%	$ 3,115,171
12/31/2014	$ 876,171	57%	$ 3,488,741
12/31/2015	$ 1,014,411	46%	$ 4,032,224

As of January 1, 2015, 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 2015 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, 2006	-	8,512,284	8,512,284	0	764,518	1,113%
Dec. 31, 2007	-	8,512,284	8,512,284	0	557,587	1,527
Dec. 31, 2008	-	8,512,284	8,512,284	0	446,200	1,908
Dec. 31, 2009	-	9,290,267	9,290,267	0	442,308	2,100
Dec. 31, 2010	-	9,430,652	9,430,652	0	461,106	2,045
Dec. 31, 2011	-	9,549,490	9,549,490	0	480,703	1,987
Dec. 31, 2012	-	14,420,000	14,420,000	0	262,000	5,504
Dec. 31, 2013	-	14,664,000	14,664,000	0	249,000	5,889
Dec. 31, 2014	-	14,893,000	14,893,000	0	249,000	5,981
Dec. 31, 2015	-	17,029,000	17,029,000	0	23,000	74,039

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, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included a 3.50% 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 7.4% in 2015, grading down to an ultimate rate of 4.1%, 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, 2015 was 24 years.

Note 9:
Construction Commitments

At December 31, 2015 the City had significant contractual obligations on construction projects:

(In thousands)	
Transportation Projects	$1,825
Transportation Maintenance	139
General Government	4,539
Parks	49
Utilities Projects	554
Total	$7,106

Note 10:
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, 2015 were as follows:

		Transfer from				
		General Fund	Capital Investments Program Fund	Other Governmental Funds	Internal Service Funds	**Total**
Transfer to	General Fund	$ -	$ 2,961,300	$ 137,863	$ 135,638	**$ 3,234,801**
	Capital Investments Program Fund	2,462,356	-	7,947,283	-	**10,409,639**
	Other Governmental Funds	5,696,007	85,000	-	-	**5,781,007**
	Total	**$ 8,158,363**	**$ 3,046,300**	**$ 8,085,146**	**$ 135,638**	**$ 19,425,447**

Note 11:
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 $1,373,629 is reported as a deferred outflow in the statement of net position.

In November, 2015, the City Council of the City of Redmond adopted ordinance 2809, providing for the issuance of two series of Limited Tax General Obligation and Refunding Bonds in the aggregate principal amount of not to exceed $31,000,000 to provide funds to finance the costs of transportation improvements, to refund certain outstanding limited tax general obligations of the City, and to finance costs of issuance of each series of bonds. In December, 2015, the City issued $9,280,000 in limited tax general obligation refunding bonds with an interest rate of 3.00% to advance refund $8,940,000 of outstanding 2008 Limited Tax General Obligation Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $951,425. This amount is being charged to operations through the year 2035 using the straight-line method. The remaining balance of $949,614 is reported as a deferred outflow in the statement of net position.

As discussed in Note 19 – Subsequent Events, the City issued an additional $17,630,000 in Limited Tax General Obligation and Refunding Bonds in January 2016.

General obligation bonds outstanding at December 31, 2015 are as follows:

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2015
2008 LTGO Bonds	9/4/2008	12/1/2028	4.0% - 5.0%	$ 33,935,000	$ 17,695,000	$ 16,240,000
2011 LTGO Bonds	3/16/2011	12/1/2021	2.0% - 4.5%	8,035,000	3,345,000	4,690,000
2013 LTGO Refunding Bonds	9/12/2013	12/1/2035	1.75% - 5.0%	33,085,000	4,765,000	28,320,000
2015 LTGO Refunding Bonds	12/15/2015	12/1/2028	3.0%	9,280,000	0	9,280,000
Total General Obligation Bonds				$ 84,335,000	$ 25,805,000	$ 58,530,000

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

Governmental Activities		
Year Ending December 31	Principal	Interest
2016	3,720,000	2,387,648
2017	3,850,000	2,275,638
2018	3,970,000	2,153,438
2019	4,095,000	2,027,038
2020	4,290,000	1,833,825
2021-2025	16,805,000	6,606,088
2026-2030	13,575,000	3,144,269
2031-2035	8,225,000	1,140,444
	$ 58,530,000	$ 21,568,388

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 12/31/2015
2008 Water/ Wastewater Bonds	12/3/2008	12/1/2023	4.0% - 5.0%	$ 11,755,000	$ 4,500,000	$ 7,255,000
2014 Stormwater Bonds	7/24/2014	12/1/2034	3.26% - 4.25%	$ 22,950,000	$ 1,035,000	$ 21,915,000
Total Revenue Bonds				$ 34,705,000	$ 5,535,000	$ 29,170,000

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

Business-type Activities		
Year Ending December 31	Principal	Interest
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	1,795,000	1,087,535
2021-2025	8,125,000	4,153,650
2026-2030	6,395,000	2,461,550
2031-2035	6,365,000	719,490
	$ 29,170,000	$ 13,430,167

Public Works Trust Fund Loans

The City's governmental activities currently have two State of Washington Public Works Trust Fund Loans with principal outstanding of $1,511,212. 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.

The City's business type activities currently have one on State of Washington Public Works Trust Fund Loan outstanding. In 2012 the City Council of the City of Redmond adopted the Resolution #1371 in 2012 accepting a Washington State Department of Ecology (DOE) loan for funding towards the Redmond Way Water Quality Facility. The loan amount of $4,412,000 was drawn down on September 2, 2015. The loan bears 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 from the City's utility funds in equal installments semiannually over a term of twenty years.

Public Works Trust Fund Loans outstanding at December 31, 2015 are as follows:

	Governmental Activities		Business Type Activities	
Year Ending	Principal	Interest	Principal	Interest
2016	$ 94,451	$ 3,778	$ 140,338	$ 152,356
2017	94,451	3,542	182,210	110,483
2018	94,451	3,306	187,005	105,689
2019	94,451	3,070	191,925	100,769
2020	94,451	2,834	196,975	95,719
2021-2025	472,254	10,626	1,065,399	398,070
2026-2030	472,254	4,723	1,213,136	250,332
2031-2035	94,449	236	1,235,012	82,109
	$1,511,212	$ 32,115	$4,412,000	$1,295,527

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
G.O. Bonds	$ 61,780,000	$ 9,280,000	$ (12,530,000)	$ 58,530,000	$ 3,720,000
Premiums	2,614,620	716,063	(190,951)	3,139,732	-
Total bonds payable	64,394,620	9,996,063	(12,720,951)	61,669,732	3,720,000
PWTF loans	1,677,548	-	(166,336)	1,511,212	94,451
Other post-employment benefits payable	3,488,739	543,483	-	4,032,222	-
Compensated absences	4,060,049	4,255,491	(3,860,007)	4,455,533	3,564,425
Net pension liability	-	21,885,095	-	21,885,095	-
Governmental activity long-term liabilities	$ 73,620,956	$ 36,680,132	$ (16,747,294)	$ 93,553,794	$ 7,378,876

Business-Type Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	$ 30,660,000	$ -	$ (1,490,000)	$ 29,170,000	$ 1,540,000
For issuance premiums	3,380,461	-	(185,755)	3,194,706	-
Total Bonds Payable	34,040,461	-	(1,675,755)	32,364,706	1,540,000
PWTF loans	-	4,412,000	-	4,412,000	-
Compensated absences	540,377	356,802	(333,684)	563,495	450,796
Net pension liability	-	5,121,872	-	5,121,872	-
Business-type activity long-term liabilities	$ 34,580,838	$ 9,890,674	$ (2,009,439)	$ 42,462,073	$ 1,990,796

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 $2,330,359 of internal service funds net pension liability and $259,087 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 2015.

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 12:
Leases

Operating Leases:

Copier Leases
Operating lease obligations are primarily for rental of copy machines. Total expenditures for leases were $11,543 for the year ended December 31, 2015.

The future minimum lease payments are as follows:

Year Ending December 31		Amount
2016	$	11,543
2017		11,543
2018		11,543
2019		8,174
Total	$	42,803

Note 13:
Component Units

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 CFD is reported as a component unity of the City of Redmond because the CFD was formed by the City for the sole purpose of levying special assessments to finance the construction of the pedestrian bridge that, upon completion, 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, 2015.

Questions concerning the CFD or requests for financial statements may be addressed to Redmond Community Facilities District Treasurer, c/o Director of Finance & Information Services, City of Redmond, PO Box 97010, Redmond, WA 98073-9710.

NOTE 14:
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 $1,529,804 with a net book value of $548,735. The city reimbursed the City of Bellevue $36,430 for its share of operating costs in 2015.

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 2015 were $573,763. The City of Redmond also paid the Alliance $1,981,650 in 2015 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 Cascade Water Alliance, 520 - 112th Avenue NE, Suite 400, 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. Redmond had one detective embedded in the ENTF in 2015 due to its financial position and continues to provide one detective to the ENTF in 2016. Dissolution of the Task Force is scheduled to occur on June 30th, 2016, due to lack of funding resulting from the legalization of marijuana.

Member agencies share in the costs and proceeds of the operation of the Task Force on a percentage basis. Redmond's estimated share at 12/31/2015 is 10.3%. As of 12/31/2015, the forfeiture balance of the ENTF was $281,848. However, there are significant expenses that ENTF has to incur prior to dissolution, which could result in a negative reserve balance. If the ENTF's reserves were negative, each member of the Task Force would need to restore that 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 for low and moderate-income households by combining public funding with private-sector resources. ARCH assists member governments in developing housing policies, strategies, programs, and development regulations; 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 provides operating funding and 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 2015 the city contributed $70,461 for operations or 11.113% of the total contributions for operations by all members. The City has also contributed $150,000 to the housing trust fund. $497,891 out of the balance has been committed to projects which leaves the remaining $24,509 as uncommitted balance in the Trust Fund in 2015.

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 $166,327 to EPSCA in 2015. 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, 2015, the weighted vote percentage was shown as follows:

Redmond	24.620%
Bellevue	46.529%
Kirkland	17.516%
Mercer Island	6.236%
Issaquah	5.100%

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 2015. 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 approximately $4,000 for its annual dues in 2015. Redmond has the option to participate in fiber projects with project agreement that documents scope, roles and responsibilities, ownership, share of the overall project cost, etc. The Board can recommend new projects or services with increased dues and all members get to vote on the recommended budget each May. Besides getting the connectivity any member needs, members with similar interests may share the cost of new projects with one another. 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.

North King County Regional Public Safety Commuincation Agency (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 to the public for emergency medical services, fire and police.

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 $601,427 to NORCOM for calls for services and $39,838 for subscriber's fees in 2015. Redmond will become a principal agency on January 1st, 2017.

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

NOTE 15:
Contingencies and Litigation

As of December 31, 2015, 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 16:
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 2015 which exceeded the City's self-insurance limit; in 2014 there were no claims which exceeded the city's self-insurance limit; in 2013 there were two (2) claims which exceeded the city's self-insurance limit. Reserves for open claims are established by an independent claims adjusting firm on a case reserve basis based on the assessment of the settlement potential and costs specifically associated with a particular claim, given the information available at the time. Cases are reviewed 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 applies to any judgment or settlement. The liability limits were extended to $20 million for general liability as described in the table below. There were no claims which settled in excess of deductible amounts in 2015; in 2014 there were no claims which exceeded the deductible amounts; in 2013 there were two (2) claims which exceeded the deductible amounts.

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

Medical Self Insurance Program:

For 2015 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 six (6) claimants who exceeded the per-person limit in 2015; in 2014 there were three (3) claimants who exceeded the per-person limit; in 2013 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 2015 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 2015, 2014, or 2013 exceeded the City's self-insurance coverage. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2015, the City had reserves of $1,041,486 in the Insurance Fund, $9,674,102 in the Medical Self-Insurance Fund, and $490,214 in the Workers' Compensation Fund to provide against risk of future loss. Claims liabilities of $990,274 have been reported in the Medical Self-Insurance Fund and $41,486 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 2014 and 2015 were:

	Insurance Fund	Medical Insurance Fund	Workers' Compensation Fund
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
December 31, 2015:			
Unpaid claims, beginning of fiscal year	$ -	$ 1,205,600	$ 38,878
Claims incurred (including IBNRs)	296,689	8,313,432	397,015
Claims payments	(296,689)	(8,528,758)	(394,407)
Unpaid claims-December 31, 2015:	$ -	$ 990,274	$ 41,486

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 17:
Accounting and Reporting Changes

GASB Statements 68 and 71 Implementation

The City implemented GASB Statement 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, and GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement 68, in 2015. These Statements address accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

As discussed in detail in Note 7: Pension Plans, the City participates in several statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution plans.

Statement 68 requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. Statement 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

Implementation of GASB Statements 68 and 71 resulted in changes in the Statement of Net Position including an increase in net pension liabilities of $27,006,967, an increase in net pension assets of $10,083,341, an increase in deferred outflows of resources of $4,827,859 and an increase in deferred inflows of resources of $7,297,284. Changes impacting the Statement of Activities resulted in a decrease in pension expense of $2,859,605, and decreases in net assets of $16,827,489 for governmental activities and $5,463,386 for business type activities due to changes in accounting principles. In addition, the Required Supplementary Information section includes Schedules of Proportionate Share of the Net Pension Liability and Schedules of Employer Contributions for each pension plan.

NOTE 18:
Subsequent Events

In January 2016, the City issued $6,000,000 in limited tax general obligation bonds and $11,630,000 in limited tax general obligation refunding bonds with interest rates of between 2% and 5% to advance refund $11,675,000 of outstanding 2008 Limited Tax General Obligation Bonds and to provide the funds to finance the costs of transportation improvements.

The City has brought a condemnation action in order to acquire three easements necessary to complete the City's Cleveland Street Couplet street project. There was disagreement on the value of one of the parcels, with the City's appraiser valuing the property at $190,000 and the property owner's appraiser valuing the property at $897,341. As a result of mediation, an agreement was reached on May 4, 2016, in the amount of $550,000. The City has budgeted funds for the acquisition that are sufficient to cover this amount.

NOTE 19:
Prior Period Adjustments

Contributed Intangible Land Rights

Adjustments were made to recognize $22,779,557 in intangible land rights contributed to the City between 2010 and 2014 that were not previously reported.

Intergovernmental Revenues

In 2015, payments from previous years totaling $570,166 were returned to the Washington State Department of Transportation (WSDOT). The repayment was due to a deficiency resulting from use of the incorrect consultant agreement on the Redmond Central Connector Phase 1, 148th Seismic and 156th Overlay projects which was identified during the Project Management Review done by WSDOT. The City was allowed to rebill for these funds using 2014 construction expenditures, and $335,000 was rebilled.