

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 significant accounting policies are described in the following notes. The City's Comprehensive Annual Financial Report is prepared in accordance with Governmental Accounting Standards Board Statements.

Reporting Entity

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

Basic Financial Statements

The City's basic financial statements consist of government-wide statements, including a statement of net assets 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund 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 segment 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Financial Statement Presentation

The City reports the following major governmental funds:

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

The **Capital Improvements Program Fund** accounts for financial resources to be used for the acquisition, construction, and preservation of major capital facilities other than those financed by proprietary funds.

The City reports the following major proprietary funds:

The **Water/Wastewater Fund** accounts for the activities of providing water and sewer services to its citizens.

The **UPD Water/Wastewater Fund** accounts for the activities of providing water and sewer services to an urban planned development outside the City limits. Both of these utilities' operations are self-supported through user charges.

The **Stormwater Management Fund** accounts for the operation, construction, and maintenance of the City's stormwater management system. The utility's operations are self-supported through fees.

Additionally, the City reports the following fund types:

Internal Service Funds account for fleet maintenance, information technology, and insurance services provided to other departments of the City on a cost reimbursement basis, and for the activities of Redmond Community Properties, a blended component unit of the City.

Agency Funds account for assets held by the City as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City has three Agency Funds: Intergovernmental Custodial, Municipal Employees Benefit Trust, and Contractor's Deposits.

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

Special Revenue Funds are used to account for specific revenues that are restricted to or reserved for expenditures for particular purposes.

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

The City does not have any permanent funds.

The City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure. Governments have the option of following subsequent private-sector guidance for their business-type and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund 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 reported in this report.

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

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

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

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

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

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

It is the City's policy to invest temporary cash surpluses. These investments are reported on the statement of net assets 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 pool), and mutual funds used specifically for debt issues related to arbitrage.

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

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

Receivables

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

Property Taxes

Uncollected property taxes levied for the current year are reported as receivable at year-end. 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. 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 assets, 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 interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund 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 Assets.

Restricted Assets

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

Deferred Charges

Deferred charges in the Water/Wastewater Fund are amortized under guidance provided by FASB 71 and consist of a water comprehensive plan and a sewer comprehensive plan which will be amortized and charged to expense over a five-year period, and the Tolt Pipeline project and the Tolt Meter project with the City of Seattle. Issuance costs for the 2008 revenue bonds are also being amortized. Deferred charges in the governmental activities consist of issuance costs for the two bond offerings in 2008.

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 assets 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 assets 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 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, transportation and utility infrastructure, regardless of their 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:

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

Compensated Absences

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

Other Post-Employment Benefits

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Fund Equity

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

NOTE 2:
Stewardship, Compliance and Accountability

During 2010, there have been no material violations of finance-related legal or contractual provisions.

NOTE 3:
Reconciliation of Government-Wide and Fund Financial Statements

Explanation of aggregated differences between the governmental fund balance sheet and the government-wide statement of net assets

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

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

Investment interest accrued beyond the City's 60 day measurable	\$	92,845
Deferred charge for bond issue costs		194,933
Net adjustment to increase fund balance - total governmental funds		
To arrive at net assets – governmental activities	\$	<u>287,778</u>

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	\$	(67,540,000)
Unamortized bond premiums		(1,152,560)
Loans payable		(828,117)
Accrued interest payable		(130,814)
Compensated absences		(3,634,961)
Other post-employment benefits		(1,811,511)
Net adjustment to reduce fund balance - total governmental funds		
To arrive at net assets – governmental activities	\$	<u>(75,097,963)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets 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	\$	2,095,729
Change in investment interest receivable due beyond the City's 60 day measurable and available period		(194,930)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets- governmental activities	\$	<u>1,900,799</u>

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

Principal repayments:		
General obligation bonds	\$	2,500,000
LID Bonds repayment		170,000
Public Works Trust Fund Loans repayment		333,611
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets- governmental activities	\$	<u>3,003,611</u>

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

Change in accrued interest payable	\$	14,157
Amortization of debt issue costs		(13,197)
Amortization of debt discounts and premiums		69,936
Change in compensated absences payable		(462,762)
Change in other post-employment benefits payable		(328,861)
Loss on sale of capital assets		(76,074)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets- governmental activities	\$	<u>(796,801)</u>

NOTE 4:

Cash and Investments

The City of Redmond's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). The FDIC insures the first \$250,000 of the City's deposits. The deposit balances over \$250,000 are 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.

As of December 31, 2010 the carrying amount of the City's cash demand deposits with Bank of America (B of A) was \$4,243,955 and the in-transit items were \$20,792. Seized cash on deposit at B of A awaiting court decisions totaled \$9,561. The carrying amount and bank balance of the City's cash demand deposits at U.S. Bank at December 31, 2010 was \$368,000. \$1,060,415 retained from contractors pending acceptance of City construction projects was held in escrow or savings accounts at various banks. \$435,250 is held by Redmond Community Properties, a blended component unit of the City. Petty cash totaled \$38,500, of which \$33,070 was allocated to various City offices and \$5,430 was unallocated and remains in the City's demand deposit account at Bank of America. \$10,000 is held by the City of Bellevue for use by the Eastside Narcotics Task Force. The City maintains a separate account at B of A for proceeds from the 2008 Revenue Bond issuance. The money is transferred to the City's primary cash account as funds are spent. The balance at December 31, 2010 was \$0. The City held \$3,000,000 in a negotiable order of withdrawal account at Sterling Savings Bank.

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

As of December 31, 2010, the City had the following investments and maturities:

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years
Bankers Acceptances	7,495,915	7,495,915	-
Certificates of Deposit	10,603,412	10,603,412	-
Federal Home Loan Bank	16,554,145	3,011,670	13,542,475
Federal Home Loan Mortgage Corporation	14,951,710	-	14,951,710
Federal National Mortgage Association	43,768,042	1,905,592	41,862,450
US Treasury Note	2,005,700	2,005,700	-
Local Gov't Bonds	6,915,764	1,034,670	5,881,094
Subtotal	102,294,688	26,056,959	76,237,729
Local Government Investment Pool	38,698,096	38,698,096	-
Total	140,992,784	64,755,055	76,237,729

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, 2010 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, 2010 more than five percent of the City's investments were in the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and Bankers Acceptances issued by Bank of America.

**NOTE 5:
Budget to GAAP Reconciliation**

Differences Between 2009-2010 Biennium Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund
REVENUES AND OTHER SOURCES:	
Budget and Actual Statement 2009/2010 Biennium	\$ 131,466,129
Less: 2009 Revenues and other sources	<u>(65,195,281)</u>
Statement of Revenues and Expenditures	<u><u>66,270,848</u></u>
 EXPENDITURES AND OTHER USES:	
Budget and Actual Statement 2009/2010 Biennium	\$ 143,139,610
Less: 2009 Expenditures and other uses	<u>(74,883,106)</u>
Statement of Revenues and Expenditures	<u><u>68,256,504</u></u>

**NOTE 6:
Receivables**

Property Taxes

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

Property Tax Calendar

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

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. 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 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 \$1.55865 per \$1,000 of assessed value for general governmental services, and an additional \$0.02188 per \$1,000 of assessed value for a voter-approved excess tax levy, for a combined total of \$1.58053 per \$1,000 of assessed value.

**NOTE 7:
Interfund Receivables and Payables**

The composition of interfund receivables and payables as of December 31, 2010 is as follows:

	Due To	Due From
Operating Reserves Fund	\$ 1,070,195	\$ -
Advanced Life Support Fund	-	1,070,195
	\$ 1,070,195	\$ 1,070,195

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

**NOTE 8:
Capital Assets**

The City had two instances of a decrease in Construction in Progress not resulting in an increase in another asset.

The first was a bridge over State Route 520. This multi-year project was accounted for in the CIP section of the City's Statement of Activities. Upon completion, this asset was transferred to the State of

Washington as required for all bridges over state-owned roadways. The total for this project was \$26,680,231.

Second, the City was maintaining records management system costs within the CIP section of the City's Statement of Activities. After analyzing the project to date, the decision was made not to capitalize these costs. The total for this project was \$637,336.

Capital asset activity for the year ended December 31, 2010 was as follows:

Primary Government	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated:				
Land	\$ 73,707,419	\$ 10,955,843	\$ -	\$ 84,663,262
Construction In Progress	23,508,459	32,353,079	(44,273,593)	11,587,945
Art	<u>328,365</u>	<u>-</u>	<u>-</u>	<u>328,365</u>
Total Capital Assets, Not Being Depreciated	<u>97,544,243</u>	<u>43,308,922</u>	<u>(44,273,593)</u>	<u>96,579,572</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	68,332,288	712	-	68,333,000
Improvements Other than Buildings	26,534,057	918,466	-	27,452,523
Machinery and Equipment	26,178,647	3,815,799	(1,755,042)	28,239,405
Infrastructure	<u>205,877,874</u>	<u>7,260,237</u>	<u>-</u>	<u>213,138,111</u>
Total Capital Assets, Being Depreciated	<u>326,922,866</u>	<u>11,995,214</u>	<u>(1,755,042)</u>	<u>337,163,038</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	12,119,259	1,437,800	-	13,557,059
Improvements Other Than Buildings	7,321,223	981,949	-	8,303,172
Machinery and Equipment	14,081,192	2,412,151	(1,526,943)	14,966,400
Infrastructure	<u>65,037,743</u>	<u>4,695,036</u>	<u>-</u>	<u>69,732,779</u>
Total Accumulated Depreciation	<u>98,559,417</u>	<u>9,526,936</u>	<u>(1,526,943)</u>	<u>106,559,410</u>
Total Capital Assets, Being Depreciated, Net	<u>228,363,449</u>	<u>2,468,278</u>	<u>(228,099)</u>	<u>230,603,628</u>
Governmental Activities Capital Assets, Net	\$ <u>325,907,692</u>	\$ <u>45,777,200</u>	\$ <u>(44,501,692)</u>	\$ <u>327,183,200</u>
Government Type Activities				
Capital assets not being depreciated	\$ 96,579,572			
Capital assets being depreciated	337,163,038			
Less accumulated depreciation	(106,559,410)			
Less GO bonds	(67,540,000)			
Less bond premium	(1,152,560)			
Unspent bond proceeds	-			
Less Public Works Trust Fund loans	<u>(828,118)</u>			
Governmental Net Assets, invested in Capital Assets net of related debt	\$ <u>257,662,522</u>			

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated:				
Land	\$ 9,814,971	\$ 1,027,614	\$ -	\$ 10,842,585
Construction In Progress	<u>6,322,004</u>	<u>8,113,983</u>	<u>(3,506,754)</u>	<u>10,929,233</u>
Total Capital Assets, Not Being Depreciated	<u>16,136,975</u>	<u>9,141,597</u>	<u>(3,506,754)</u>	<u>21,771,818</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	34,805,515	361,780	(300,649)	34,866,645
Improvements Other Than Buildings	243,741,621	7,888,049	(23,223)	251,606,448
Machinery and Equipment	<u>709,860</u>	<u>8,870</u>	<u>(12,439)</u>	<u>706,291</u>
Total Capital Assets, Being Depreciated	<u>279,256,996</u>	<u>8,258,699</u>	<u>(336,311)</u>	<u>287,179,384</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	3,442,436	695,943	(191,134)	3,947,245
Improvements Other Than Buildings	45,928,226	4,926,036	(23,222)	50,831,040
Machinery and Equipment	<u>422,076</u>	<u>60,221</u>	<u>(18,982)</u>	<u>463,315</u>
Total Accumulated Depreciation	<u>49,792,738</u>	<u>5,682,200</u>	<u>(233,338)</u>	<u>55,241,600</u>
Total Capital Assets, Being Depreciated, Net	<u>229,464,258</u>	<u>2,576,499</u>	<u>(102,973)</u>	<u>231,937,785</u>
Business-Type Activities Capital Assets, Net	<u>\$ 245,601,233</u>	<u>\$ 11,718,096</u>	<u>\$ (3,609,727)</u>	<u>\$ 253,709,602</u>

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

Business-Type Activities

Capital assets not being depreciated	\$ 21,771,818
Capital assets being depreciated	287,179,384
Less accumulated depreciation	(55,241,600)
Less Revenue bonds	(10,600,000)
Less bond premium	(311,497)
Unspent bond proceeds	<u>-</u>

Business-Type Net Assets, invested in

Capital Assets net of related debt	<u>\$ 242,798,105</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

The Business-Type Activities also had \$143,604 in amortization expense that is included with depreciation expense in the financial statements.

GOVERNMENTAL ACTIVITIES:

General Government	\$	1,591,906
Security		1,064,095
Physical Environment		6,653
Transportation, Including Depreciation of General Infrastructure Assets		5,749,080
Economic Environment		77,824
Culture and Recreation		1,037,378
Total Depreciation Expense – Governmental Activities	\$	9,526,936

BUSINESS-TYPE ACTIVITIES

Water/Wastewater	\$	3,411,360
UPD Water/Wastewater		1,145,585
Stormwater		1,125,255
Total Depreciation Expense – Business-type Activities	\$	5,682,200

**NOTE 9:
Pension Plans**

Substantially all City 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, the under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia WA 98504-8380

It may also be obtained by downloading it from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; employees of community and technical colleges; college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased three percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. The AFC is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with ten years of service. PERS Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of

service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	53,896
Total	262,166

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31% **	5.31% **	5.31% ***
Employee	6.00%****	3.90%****	*****

- * The employer rates include the employer administrative expense fee currently set at 0.16%.
- ** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plans 2 and 3.
- *** Plan 3 defined benefit portion only.
- **** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.
- ***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	\$ 73,971	\$ 1,182,081	\$ 341,287
2009	\$ 82,158	\$ 1,478,106	\$ 429,341
2008	\$ 81,108	\$ 1,522,727	\$ 427,579
2007	\$ 77,085	\$ 1,103,783	\$ 285,675

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

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

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

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. The FAS is based on the highest consecutive

60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. 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. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Non-vested	3,944
Total	27,435

Funding policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, were as follows:

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

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for ports and universities is 8.62%.

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

	LEOFF Plan 1	LEOFF Plan 2
2010	\$ 762	\$ 1,174,424
2009	\$ 756	\$ 1,285,519
2008	\$ 714	\$ 1,060,013

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 Legislature and became effective July 1, 2006.

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

A **covered employer** is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections, Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washington State cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

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

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire 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, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 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. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	2
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-
Active Plan Members Vested	-
Active Plan Members Non-vested	4,340
Total	4.342

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, were as follows:

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

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

	PSERS Plan 2
2010	\$ 21,213
2009	\$ 22,213
2008	\$ 21,482

Firemen's Pension Plan

The City is the administrator of the Firemen's Pension Plan (FPP), a closed, single-employer defined benefit pension plan established in conformance with Revised Code of Washington (RCW) 41.18. The costs of administering the Plan are paid from the Firemen's Pension Fund. The Plan provided retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature. Membership is limited to firefighters employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the FPP for covered firefighters who retire after March 1, 1970. Benefits and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan. Membership in the FPP consists of one deceased and four retired firefighters, one of whom is currently receiving benefits.

The benefits provided by the Plan are potentially in excess of the State's LEOFF plan. For funding purposes and accruing costs, the benefits are measured by a modified aggregate projected benefit method, with the annual cost spread over the period ending December 31, 2010. Under this method, the required contribution is the portion of the actuarial present value of benefits allocated to a valuation year. The actuarial accrued liability is equal to the actuarial value of assets. This cost method is not appropriate for GASB Statements 25 and 27 purposes though it is still recommended for funding purposes. For GASB purposes, the entry age normal cost method is used. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the

Actuarial Liability minus the actuarial value of the fund assets. The UAAL will be amortized over a closed 30 year period beginning December 31, 2000. The Plan is a closed off plan and GASB disclosures make no special provision for reporting the cost for this type of plan. Therefore, the minimum actuarial required contribution (ARC) disclosed for GASB purposes has no relationship to the City's funding policy for the Plan.

Under State law, the FPP is provided an allocation of 25% of all 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 pensions obligations. These on behalf tax revenues were recognized in the general fund and expensed out to the Firemen's Pension Fund. The actuary has determined that no City contribution is required. The fire insurance premium for 2010 was \$133,868 which was sufficient to pay the 2010 Firemen's Pension Fund expenses of \$20,912. It also increased the negative Net Pension Obligation to (\$789,978).

The financial activity of the Firemen's Pension Fund is included in this document, the Comprehensive Annual Financial Report of the City of Redmond. No separate stand-alone financial report is issued for the Firemen's Pension Fund.

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2010, the most recent actuarial valuation date, is as follows:

(\$ In Thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
January 1, 2010	\$ 856	\$ 654	\$ (202)	131%	\$ 0	N/A

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

Schedule of Employer Contributions

(\$ In Thousands)

Fiscal Year Ending	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC contributed
December 31, 2001	\$ 48	\$ 30	159.9%
December 31, 2002	\$ 51	\$ 15	333.1%
December 31, 2003	\$ 59	\$ 15	384.9%
December 31, 2004	\$ 69	\$ 12	573.8%
December 31, 2005	\$ 87	\$ 12	728.0%
December 31, 2006	\$ 99	\$ 1	16,266.0%
December 31, 2007	\$ 107	\$ 1	17,611.9%
December 31, 2008	\$ 122	\$ -	N/A
December 31, 2009	\$ 117	\$ (16)	N/A
December 31, 2010	\$ 125	\$ (14)	N/A

Three-Year Trend Information

(In whole dollars)

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2008	\$ 6,308	1,931.39%	\$ (550,816)
December 31, 2009	\$ (7,027)	N/A	\$ (674,447)
December 31, 2010	\$ 9,330	1,338%	\$ (789,978)

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

Valuation date:	January 1, 2010
Actuarial cost method for GASB purposes:	Entry Age Normal
Amortization method:	30-Year, closed as of January 1, 2000
Remaining amortization period:	20 years
Asset valuation method:	Fair Market Value

Actuarial Assumptions:

Inflation rate:	4%	Projected salary increases:	5%
Investment rate of return:	7%	Cost of living adjustments:	4%

Annual Pension Cost and Net Pension Obligation

	<u>Year Ending 12/31/08</u>	<u>Year Ending 12/31/09</u>	<u>Year Ending 12/31/10</u>
1. Annual Normal Cost, beginning of year	\$ -	\$ -	\$ -
2. Amortization of UAL, beginning of year	(14,934)	(14,934)	(13,403)
3. Interest to end of year	<u>(1,045)</u>	<u>(1,045)</u>	<u>(429)</u>
4. Annual required contribution at end of year (1+2+3), not less than zero in 2008	-	(15,979)	(13,832)
5. Interest on net pension obligation	(30,470)	(38,557)	(21,582)
6. Adjustment to annual required contribution	<u>(36,778)</u>	<u>(47,509)</u>	<u>(44,744)</u>
7. Annual pension cost (4+5-6)	6,308	(7,027)	9,330
8. Employer Contributions	<u>121,832</u>	<u>116,604</u>	<u>124,861</u>
9. Change in net pension obligation (7-8)	<u>(115,524)</u>	<u>(123,631)</u>	<u>(115,531)</u>
10. Net pension obligation at beginning of year	<u>(435,292)</u>	<u>(550,816)</u>	<u>(674,447)</u>
11. Net pension obligation at end of year (9+10)	\$ <u><u>(550,816)</u></u>	\$ <u><u>(674,447)</u></u>	\$ <u><u>(789,978)</u></u>

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 628 permanent and 187 temporary participants with account balances at December 31, 2010.

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 2010 was \$53,759,855. Employee contributions were \$3,200,891. City contributions were \$3,274,282. The City's total payroll was \$53,890,792.

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

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

NOTE 10: Other Postemployment Benefits

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2010. 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 \$1,811,511 is included as a noncurrent liability on the Statement of Net Assets.

	Fiscal Year Ending 12/31/2008	Fiscal Year Ending 12/31/2009	Fiscal Year Ending 12/31/2010
Determination of Annual Required Contribution:			
1-Annual Normal Cost (BOY)	\$ 67,300	\$ 25,966	\$ 27,070
2-Amortization of UAAL* (BOY)	555,157	545,784	545,784
3-Interest to EOY [1 + 2] x (i)**	34,235	25,729	25,778
4-Annual Required Contribution [1 + 2 + 3]	<u>656,692</u>	<u>597,479</u>	<u>598,632</u>
Determination of Net OPEB Obligation:			
4-Annual Required Contribution	656,692	597,479	598,632
5-Interest on Net OPEB Obligation	45,965	54,296	66,719
6-Adjustment to ARC	56,097	70,883	87,103
7-Annual OPEB Cost [4 + 5 -6]	<u>646,560</u>	<u>580,892</u>	<u>578,248</u>
8-Employer Contributions	275,723	304,811	249,387
9-Change in Net OPEB Obligation [7 - 8]	<u>370,837</u>	<u>276,081</u>	<u>328,860</u>
10-Net OPEB Obligation-BOY [11 from prior year]	835,733	1,206,570	1,482,651
Net OPEB Obligation-end of year [9 + 10]	<u>\$ 1,206,570</u>	<u>\$ 1,482,651</u>	<u>\$ 1,811,511</u>

*Unfunded Actuarial Accrued Liability (UAAL)

** (i) is the assumed interest rate that year: 5.5% in 2008, 4.5% in 2009, 4.5% in 2010

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2008	\$ 646,560	42.6%	\$ 1,206,570
12/31/2009	\$ 580,892	52.5%	\$ 1,482,651
12/31/2010	\$ 578,248	43.1%	\$ 1,811,511

As of January 1, 2009, 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 2010 and preceding years were as follows:

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

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, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included a 4.50% 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 8.00%, graded to 6.50% over three years, was used along with a long-term care inflation rate of 5.00%.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2009 was 30 years.

**Note 11:
Construction Commitments**

At December 31, 2010 the City had significant contractual obligations on construction projects:

(In thousands)

Street Projects		\$5,496
Fire Projects		5,004
Utilities Projects		<u>2,404</u>
Total		<u><u>\$12,904</u></u>

**Note 12:
Interfund Transfers**

(In whole dollars)

Fund	Transfer In	Transfer Out
General Fund	\$ 1,635,556	\$ 6,771,577
Capital Improvements Program Fund	12,186,076	470,000
Other Governmental Funds	5,713,988	12,305,033
Internal Service Funds		60,911
Total Transfers	<u>\$ 19,535,620</u>	<u>\$ 19,607,521</u>

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.

The \$71,901 excess of transfers out over transfers in is due to a vehicle transferred from general government to fleet in lieu of charges for replacement.

**Note 13:
Long-Term Obligations**

General Obligation Bonds

General obligation bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service on the 1994 and 2003 bonds is paid from debt service funds. Debt service on the 2004 bonds is paid from the Capital Improvements Program fund. Debt service for unlimited tax voter-approved issues is funded by special property tax levies. These bonds are subject to federal arbitrage rules.

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

1994 Unlimited Tax General Obligation and Refunding Bonds and Refunded Debt in

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

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

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

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

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

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Issued</u>	<u>Redemptions to Date</u>	<u>Outstanding 12/31/2010</u>
2004 LTGO Lease-Revenue Bonds	4/1/2004	12/1/2035	2.0% - 5.25%	\$ 39,230,000	\$ 4,150,000	\$ 35,080,000
2008 GO/Refunding	9/4/2008	6/1/2013	3.50%	1,315,000	500,000	815,000
2008 LTGO Bonds	9/4/2008	12/1/2028	3.5% - 5.0%	33,935,000	2,290,000	31,645,000
Total General Obligation Bonds				\$ <u>74,480,000</u>	\$ <u>6,940,000</u>	\$ <u>67,540,000</u>

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

Governmental Activities		
Year Ending December 31,	Principal	Interest
2011	\$ 2,600,000	\$ 3,165,744
2012	2,710,000	3,057,706
2013	2,820,000	2,944,831
2014	2,645,000	2,832,281
2015	2,760,000	2,720,056
2016-2020	15,965,000	11,439,381
2021-2025	15,455,000	7,694,887
2026-2030	14,015,000	3,837,025
2031-2035	8,570,000	1,327,250
	<u>\$ 67,540,000</u>	<u>\$ 39,019,161</u>

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

	2008 Refunding Bonds	2008 General Obligation Bonds
Bonds Outstanding	\$ 815,000	\$ 31,645,000
Plus Unamortized Bond Premium	16,280	1,136,280
Bonds Outstanding, Net	<u>\$ 831,280</u>	<u>\$ 32,781,280</u>

Revenue Bonds

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

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

Revenue bonds outstanding at year end are as follows:

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2010
2008 Water/ Wastewater Bonds	12/3/2008	12/1/2023	4.0% - 5.0%	\$ 11,755,000	\$ 1,155,000	\$ 10,600,000
Total Revenue Bonds				<u>\$ 11,755,000</u>	<u>\$ 1,155,000</u>	<u>\$ 10,600,000</u>

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

Business-type Activities		
Year Ending December 31,	Principal	Interest
2011	\$ 615,000	\$ 89,288
2012	640,000	464,687
2013	665,000	439,088
2014	700,000	406,588
2015	725,000	378,588
2016-2020	4,155,000	1,365,975
2019-2023	3,100,000	315,000
	<u>\$ 10,600,000</u>	<u>\$ 3,859,214</u>

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

	2008 Revenue Bonds	
Bonds Outstanding	\$	10,600,000
Plus Unamortized Bond Premium		311,497
Bonds Outstanding, Net	<u>\$</u>	<u>10,911,497</u>

Special Assessment Debt with Governmental Commitment

Special Assessment Bonds were not a direct responsibility of the City but were funded from the collection of special assessment payments. Debt service principal and interest costs were paid in full from the LID Control Fund in 2010. The LID Control Fund and LID Guarantee Fund were closed into the General Fund in 2010.

Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Redmond had five such loans in 2010 with one being paid in full. The remaining loans with an outstanding principal balance of \$828,117 are being repaid from General Fund revenues which are transferred to the Capital Improvements Program Fund where the loan payments are recorded. The water/wastewater loans are paid in full.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 279,431	\$ 16,115	\$ -	\$ -
2012	202,457	10,710	-	-
2013	202,457	6,074	-	-
2014	71,886	1,438	-	-
2015	71,887	719	-	-
	<u>\$ 828,118</u>	<u>\$ 35,056</u>	<u>\$ -</u>	<u>\$ -</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General obligation bonds	\$ 70,040,000	\$ -	\$ (2,500,000)	\$ 67,540,000	\$ 2,600,000
Special assessment debt with government commitment	170,000	-	(170,000)	-	-
Less deferred amounts:					
For issuance (Discounts)/Premiums	1,222,496	-	(69,936)	1,152,560	-
Total bonds payable	71,432,496	-	(2,739,936)	68,692,560	2,600,000
PWTF loans	\$ 1,161,729	\$ -	\$ (333,611)	\$ 828,118	\$ 279,431
Other post-employment benefits payable	1,482,650	328,861	-	1,811,511	-
Compensated absences	3,377,145	3,764,953	(3,301,875)	3,840,223	3,072,179
Governmental activity long-term liabilities	<u>\$ 77,454,020</u>	<u>\$ 4,093,813</u>	<u>\$ (6,375,403)</u>	<u>\$ 75,172,412</u>	<u>\$ 5,951,610</u>
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 11,190,000	\$ -	\$ (590,000)	\$ 10,600,000	\$ 615,000
Plus Deferred Amounts:					
For issuance premiums	335,612	-	(24,115)	311,497	-
Total Bonds Payable	11,525,612	-	(614,115)	10,911,497	615,000
PWTF loans	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated absences	494,841	463,115	(450,253)	507,703	406,162
Business-type activity long-term liabilities	<u>\$ 12,020,453</u>	<u>\$ 463,115</u>	<u>\$ (1,064,368)</u>	<u>\$ 11,419,200</u>	<u>\$ 1,021,162</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. 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, Arts Activity Fund, Parks Maintenance and Operation Fund, Advanced Life Support Fund, and the Recycling Fund.

NOTE 14:
Leases

Operating Leases:

Copier Leases

Operating lease obligations are primarily for rental of copy machines. Total expenditures for leases were \$48,775 for the year ended December 31, 2010. The future minimum lease payments include the estimated cost for copy usage and are as follows:

<u>Year Ending December 31</u>		<u>Amount</u>
2011	\$	27,002
2012		27,002
2013		27,002
2014		<u>16,728</u>
Total	\$	<u>97,734</u>

Capital Leases:

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

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

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

NOTE 15:
Blended Component Units Included in Reporting Entity

Two blended component units are included in the City's reporting entity, the Redmond Public Corporation and Redmond Community Properties (RCP).

The RCW 39.84.100 grants cities the authority to establish Industrial Development Corporations. In 1982, the City of Redmond created the Redmond Public Corporation. This is a public corporation whose purpose is to issue tax-exempt non recourse revenue bonds to finance industrial development within City limits. The corporation may construct and maintain industrial facilities, which it then leases or sells to

industrial users. Revenue bonds issued by the corporation are payable from revenues of the industrial development facility funded by the revenue bonds.

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

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

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

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

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

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

NOTE 16: Joint Ventures and Operations

Water Storage and Pumping Facility

In February 1990, the City of Redmond joined with the City of Bellevue to construct, operate, and maintain a joint-use water storage and pumping facility located on the common boundary of the two cities. The City of Redmond has an undivided interest in the facility of 44%, and the City of Bellevue has an undivided interest of 56%. The City of Redmond's share of costs to construct the joint-use facility totaled \$2,078,539 and is reported on the business-type activity financial statements as improvements other than buildings. The City recognizes depreciation expense annually. Accumulated depreciation totals \$1,103,704 with a net book value of \$974,835. The City reimbursed the City of Bellevue \$15,077 for its share of operating costs in 2010.

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 2010 were \$248,924. The City of Redmond also paid the Alliance \$1,023,853 in 2010 for Regional Capital Facilities Charges for new hookups to the water system that Redmond collected from new customers.

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

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

NOTE 17: Contingencies and Litigation

As of December 31, 2010, 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 or lawsuits, would affect materially the financial condition of the City.

NOTE 18: Risk Management

The City is exposed to various risks of loss such as: theft and damage and destruction of assets, errors and 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 self-insured losses. Most funds of the City participate in the self-insurance programs and make payments to the self-insurance funds based on estimates of the amounts needed to pay excess insurance and related risk management and service costs, prior and current year claims paid in the current year, and to maintain adequate reserves for catastrophic losses in a given year.

The claims payment portion of the Insurance Claims and Reserve Fund provides coverage up to a maximum of \$100,000 per occurrence for insurance-related claims and expenses. There were no claims that settled in 2010 above the City's self-insurance limit. Reserves for open claims are established by an independent claims adjusting firm on a case reserve basis based on the assessment of the settlement potential and costs specifically associated with a particular claim, given the information available at the time. Cases are reviewed no less than monthly and are subject to periodic audits. Lawsuits are reviewed and handled directly by the City Attorney or the excess insurer's appointed legal counsel. Reserves are established for estimated ultimate loss costs and related loss adjustment expenses.

From January to November, the City of Redmond was an associate member of the Cities Insurance Association of Washington (CIAW). Effective 12/1 the City revised the risk program. See "Revised Risk Program" below for more information. Chapter 48.62 RCW authorizes the governing body of any one or

more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed in September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The CIAW has 95 member cities and 161 associate members. The City of Redmond is an associate member.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials' Liability is on a "claims made basis." All other coverages are on an "occurrence basis." The pool provides the following forms of group-purchased insurance coverage for its members: property, general liability, law enforcement liability, automobile liability, employment practices liability, boiler and machinery, bonds of various types, and public officials liability. The City of Redmond purchases all forms of insurance except property insurance from CIAW. Affiliated FM provides property insurance.

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. As an associate member, the City can access the insurance coverage of the pool without being responsible for any financial shortfalls should the pool experience financial difficulties. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool, however, purchases a Stop Loss Policy in the amount of \$5,500,000 to eliminate any risk to members, and funds the stop loss in the budget.

Property insurance is subject to a per-location deductible of \$100,000.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$5,000. The City is responsible for the deductible amount of each claim.

Each new member now pays the pool an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 before terminating participation the following September 1. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member remains responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees are paid by CIAW to the third party administrator under this arrangement.

A governing board is selected by the membership and is responsible for conducting the business affairs of the pool. The Board of Directors has contracted with Canfield & Associates to perform day-to-day administration of the pool. This pool has no employees. Copies of the pool's annual report may be obtained by writing to 451 Diamond Drive, Ephrata, WA 98823.

Revised Risk Program:

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.

Medical Self Insurance Program:

The Medical Self-Insurance Fund provides coverage up to a maximum of \$120,000 per person per calendar year with the excess insurance covering up to a lifetime major medical maximum of \$1,000,000. There were five claims in excess of the per-person limit in 2010 and zero claims in 2009 and 2008. All funds of the City from which employee wages are paid make premium payments to the Medical Self-Insurance Fund based on health insurance rates derived from actual fund experience and historical and market trend rates.

Council authorized the City to self-insure workers' compensation benefits effective January 1, 1998 for employee injuries and illnesses. The City self-insures \$350,000 of each accident or illness (\$500,000 for Police and Fire) and purchases excess insurance above that, up to the statutory requirements. No reported claim for 2010, 2009, or 2008 exceeded the City's self insurance coverage. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2010, the City had reserves of \$1,493,277 in the Insurance Fund, \$4,112,812 in the Medical Self-Insurance Fund, and \$769,044 in the Workman's Compensation Fund to provide against risk of future loss. Claims liabilities of \$1,006,400 have been reported in the Medical Self-Insurance Fund and \$72,159 in the Workman's Compensation Fund based on estimates provided by the City's third party administrators. Historical claims liabilities for 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 2009 and 2010 were:

	Beginning of Year Liability		Current Year Claims & Changes in Estimates		Claims Payments		End of Year Liability
Insurance Fund							
2009	\$ -	\$	135,463	\$	135,463	\$	-
2010	\$ -	\$	268,243	\$	268,243	\$	-
Medical Insurance Fund							
2009	\$ 751,000	\$	3,933,126	\$	5,640,226	\$	956,100
2010	\$ 956,000	\$	5,671,121	\$	7,633,621	\$	1,006,400
Workman's Compensation Fund							
2009	\$ 116,724	\$	254,449	\$	438,941	\$	67,768
2010	\$ 67,768	\$	129,170	\$	267,734	\$	72,159

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

	<u>Coverage</u>	<u>Self-Insured Retention</u>
Property Policy Limit	\$150,000,000	\$100,000
Earth Movement	\$50,000,000	3%/\$100,00 minimum per location
Flood	\$50,000,000	\$100,000
Employee Theft	\$1,000,000	\$10,000
General Liability – Per Occurrence	\$1,000,000	\$25,000
General Liability – Aggregate	\$2,000,000	
Law Enforcement	\$1,000,000	\$25,000
Employment Related Practices	\$1,000,000	\$25,000
Auto Liability	\$1,000,000	\$25,000
Umbrella Excess Liability (Excess of General Liability, Auto, Law Enforcement Liability)	\$20,000,000	\$10,000
Employment-Related Practices Excess	\$9,000,000	
Underground Storage Tank Liability	\$1,000,000	\$5,000
Blanket fidelity (employee dishonesty)	\$1,000,000	\$10,000 deductible
Excess Worker’s Compensation	statutory	\$350,000; \$500,000 Police & Fire
Excess Medical Insurance	\$1,000,000	\$120,000

**NOTE 19:
Subsequent Events**

In March 2011, the City issued \$8,035,000 limited tax general obligation bonds which mature 12/1/2021. These bonds were sold at a premium, netting the City \$608,290. Debt service will be structured with annual principal payments and semi-annual interest payments. Proceeds from the limited tax general obligation bonds will be used for a new Downtown Park and other park capital projects in the City’s Capital Improvement Plan.