# NOTES TO FINANCIAL STATEMENTS
## DECEMBER 31, 2006

NOTES PAGE


1 Summary of Significant Accounting Policies ..... 40
Reporting Entity ..... 40
Basic Financial Statements ..... 40
Measurement Focus and Basis of Accounting ..... 40
Financial Statement Presentation ..... 41
Budgets and Budgetary Accounting ..... 42
Assets, Liabilities and Net Assets or Equities ..... 43
Cash and Investments ..... 43
Receivables ..... 43
Interfund Transactions. ..... 44
Inventories ..... 44
Restricted Assets ..... 44
Deferred Charges ..... 44
Capital Assets ..... 44
Compensated Absences ..... 44
Other Post-Employment Benefits ..... 45
Long Term Obligations ..... 45
Fund Equity ..... 45
2 Stewardship, Compliance and Accountability ..... 45
3 Reconciliation of Government-wide and Fund Financial Statements. ..... 46
4 Budget to GAAP Reconciliation ..... 48
5 Cash and Investments ..... 49
6 Receivables ..... 51
7 Interfund Receivables and Payables ..... 51
8 Capital Assets ..... 52
9 Pension Plans ..... 54
Public Employees Retirement System (PERS) ..... 54
Law Enforcement Officers and Fire Fighters (LEOFF) ..... 55
Public Safety Employees' Retirement System (PSERS) ..... 57
Firemen's Pension Plan ..... 58
Municipal Employees Benefit Trust ..... 61
10 Other Postemployment Benefits ..... 62
11 Construction Commitments ..... 64
12 Interfund Transfers ..... 64
13 Long-Term Obligations ..... 65
14 Capital Leases ..... 70
15 Prior Period Adjustment ..... 70
16 Blended Component Units Included in Reporting Entity ..... 70
17 Joint Ventures ..... 71
18 Contingencies and Litigation ..... 72
19 Subsequent Events ..... 72
20 Risk Management ..... 72
Required Supplementary Information – Firemen's Pension Plan ..... 75
Required Supplementary Information – LEOFF I Retiree Medical Benefits ..... 76

# 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. The City Council is composed of seven members elected at large to four-year terms. The City provides what are considered 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, which conform to generally accepted accounting principles for governments, are regulated by the Washington State Auditor's Office, Division of Municipal Corporations.

The City's significant accounting policies are described in the following notes.

## 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 16 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 1. 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 **Advanced Life Support Fund** that accounts for monies spent to provide advanced life support services to the East King County Advanced Life Support Consortium made up of the Cities of Duvall, Kirkland, Redmond, Woodinville and surrounding unincorporated areas. Funding is provided by King County.

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.

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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

## 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 the CAFR.

The biennial budget is proposed by the Mayor and adopted by the City Council with legal budgetary control at the fund level, i.e. expenditures and other financing uses may not exceed budgeted appropriations at the fund level. The Mayor may authorize transfers within funds, however, the City Council must approve by ordinance any additional appropriations which increase the total for the fund. 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.

The City prepares biennial budgets on the modified accrual basis which conforms to generally accepted accounting principles. The CAFR includes budgetary comparisons for the general, special revenue, debt service, 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 follows the procedures outlined below in the year preceding the first year of the two year budget to establish its biennial budget:

- In spring, the Mayor meets with department heads to prepare for the upcoming budget process. The Mayor develops and submits a budget calendar to the City Council for approval.
- Throughout the summer, City staff 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 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 all 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 (2a7-like), 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 5).

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 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**
Sales taxes collected for November and December but not remitted by the state to the City until January and February of the following year 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.

**Special Assessments**
Special assessments are levied against certain property owners and become liens against the property benefited by the improvement. Special assessments receivable in the governmental fund statements consist of current assessments which are due within 60 days, delinquent assessments remaining unpaid after the due date, and deferred, uncollected assessments which have been levied, but are not due within 60 days. Special assessments receivable in the statement

of net assets include all uncollected assessments regardless of due date.

**Accounts Receivable**
Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided. 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 of Redmond uses the following policies in valuing and recording inventory items:

> In proprietary funds a perpetual inventory is maintained, in which the cost is capitalized 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.

## Restricted Assets

Restricted assets include those monies reserved for customer's deposits.

## Deferred Charges

Deferred charges in the Water/Wastewater Fund are amortized under guidance provided by FASB 71 and consist of a water comprehensive plan which will be amortized and charged to expense over a five year period; and the Tolt Pipeline project with the City of Seattle which will be amortized over a period of twenty years.

Deferred charges in the governmental activities consist of issuance costs for the 1994 GO bond refundings amortized over a twenty year period.

## 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 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 vehicles, 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 is depreciated using the straight line method over the following estimated useful lives:

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

## Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time in lieu of overtime, and sick leave benefits. Twenty-five percent of unused sick leave is payable at retirement or death. Any outstanding sick leave is lost at resignation; therefore, outstanding sick leave at year end is not accrued because

the payment cannot be deemed probable nor can the amount be reasonably estimated. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

### Other Post-Employment Benefits

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF) 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 2006 no funds exceeded their authorized appropriations at the fund level.

# 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 a 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:

| | |
|---|---|
| Unearned special assessment revenue due beyond the City's 60 day measurable and available period | $ 498,186 |
| Excess payments to pension plan | 333,476 |
| Investment interest accrued beyond the City's 60 day measurable and available period | 585,788 |
| Deferred charge for bond issue costs | 13,026 |
| Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities | $ 1,430,476 |

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 | $ (42,504,603) |
| Less: Issuance discounts | 25,024 |
| Special assessment bonds payable | (780,000) |
| Loans payable | (2,238,774) |
| Accrued interest payable | (61,396) |
| Compensated absences | (2,609,137) |
| Other post-employment benefits | (437,092) |
| Due to business-type activities – charges by internal service funds in excess of cost | (174,090) |
| Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities | $ (48,780,068) |

**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 a 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 | $ | 4,624,260 |
| Change in unearned special assessment revenue | | (218,491) |
| Change in investment interest receivable due beyond the City's 60 day measurable and available period | | 145,691 |
| Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets - governmental activities | $ | 4,551,460 |

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:

| | | |
|---|---|---|
| General obligation bonds repayment | $ | 950,276 |
| LID bonds repayment | | 265,000 |
| Public Works Trust Fund loans repayment | | 371,717 |
| Contract Payable repayment | | 270,182 |
| Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental activities | $ | 1,857,175 |

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 | $ | 21,948 |
| Amortization of debt issue costs | | (1,860) |
| Amortization of debt discount | | (3,576) |
| Change in compensated absences payable | | (49,136) |
| Change in other post-employment benefits payable | | (437,092) |
| Loss on vehicle sale | | (52,318) |
| Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets of governmental funds | $ | (522,034) |

## NOTE 4:
## BUDGET TO GAAP RECONCILIATION

| | General Fund | Advanced Life Support Fund |
|---|---|---|
| REVENUES AND OTHER SOURCES: | | |
| Budget and Actual Statement 2005/2006 Biennium | $ 114,592,702 | $ 8,636,499 |
| Less: 2005 Revenues and other sources | 53,750,517 | 3,870,258 |
| Statement of Revenues and Expenditures | $ 60,842,185 | $ 4,766,241 |
| EXPENDITURES AND OTHER USES: | | |
| Budget and Actual Statement 2005/2006 Biennium | $ 110,565,136 | $ 8,636,499 |
| Less: 2005 Expenditures and other uses | 52,576,447 | 3,870,258 |
| Statement of Revenues and Expenditures | $ 57,988,689 | $ 4,766,241 |

# NOTE 5:
# 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 $100,000 of the City's deposits. The deposit balances over $100,000 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, 2006 the carrying amount of the City's cash demand deposits with Bank of America (B of A) was $2,567,880 and the bank balance was $1,809,359. Seized cash on deposit at B of A awaiting court decisions totaled $19,351. The carrying amount and bank balance of the City's cash demand deposits at U.S. Bank at December 31, 2006 was $417,994. $438,437 retained from contractors pending acceptance of City construction projects was held in escrow or savings accounts at various banks. $130,317 is held by Redmond Community Properties, a blended component unit of the City. Petty cash totaled $23,500, of which $23,440 was allocated to various City offices and $60 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 held $33,184,991 in certificates of deposit at various banks.

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 90 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.

As of December 31, 2006, the City had the following investments and maturities:

| | | Investment Maturities (In Years) | |
|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1 to 5 |
| Federal Home Loan Bank | $ 26,944,924 | $ 9,975,340 | $ 16,969,584 |
| Federal Farm Credit Bank | 2,990,296 | 999,060 | 1,991,236 |
| Federal National Mortgage Association | 20,882,040 | 10,923,580 | 9,958,460 |
| Federal Home Loan Mortgage Corporation | 15,929,945 | 8,982,215 | 6,947,730 |
| U.S. Treasury Notes | 1,991,330 | 992,270 | 999,060 |
| State Investment Pool | 9,590,811 | 9,590,811 | - |
| Mutual Bond Fund | 155,689 | 155,689 | - |
| Total | $ 78,485,035 | $ 41,618,965 | $ 36,866,070 |

**Interest Rate Risk.** As a means of limiting its exposure to interest rate risk, the City 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, 2006 the City held no investments in commercial paper or local government bonds.

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

**Credit Quality Distribution for Securities**
**With Credit Exposure as a Percentage of Total Investments**
**(total investments include certificates of deposit, not represented in this table)**

| Investment Type | Standard and Poor's Rating | Percentage of Portfolio |
|---|---|---|
| Federal Home Loan Bank | AAA | 24% |
| Federal Farm Credit Bank | AAA | 3% |
| Federal National Mortgage Association | AAA | 19% |
| Federal Home Loan Mortgage Corporation | AAA | 14% |
| U.S. Treasury Notes | AAA | 2% |
| Mutual Bond Fund | AAAm | 0.10% |
| State Investment Pool | Not Rated | 9% |

**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, 2006 more than five percent of the City's investments were in the Federal Home Loan Bank, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.

# 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.

Under Washington State law a city may levy property taxes up to $3.60 per $1,000 of assessed valuation.

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, 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 taxes to one percent of assessed valuation or $10 per $1,000 of value. 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 $1.20765 per $1,000 of assessed value for general governmental services, and an additional $0.02953 per $1,000 of assessed value for voter approved excess tax levy, for a combined total of $1.23718 per $1,000 of assessed value.

# NOTE 7:
# INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund receivables and payables as of December 31, 2006 is as follows:

| | Due to | Due From |
|---|---|---|
| Operating Reserves Fund | $ 958,538 | $ - |
| Advanced Life Support Fund | - | 958,538 |

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

Capital asset activity for the year ended December 31, 2006 was as follows:

## Primary Government

| | BEGINNING BALANCE (RESTATED)* | INCREASES | DECREASES | ENDING BALANCE |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | $ 45,546,424 | $ 4,044,693 | $ - | $ 49,591,117 |
| Construction In Progress | 12,958,713 | 10,000,577 | (8,432,882) | 14,526,408 |
| Art | 295,624 | 2,482 | - | 298,106 |
| Total Capital Assets, Not Being Depreciated | 58,800,761 | 14,047,752 | (8,432,882) | 64,415,631 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings/Building Improvements | 62,205,163 | 355,454 | - | 62,560,617 |
| Improvements Other than Buildings | 20,280,613 | 1,633,213 | - | 21,913,826 |
| Machinery and Equipment | 19,857,884 | 2,962,053 | (1,530,547) | 21,289,390 |
| Infrastructure | 153,963,222 | 7,912,832 | - | 161,876,054 |
| Total Capital Assets, Being Depreciated | 256,306,882 | 12,863,552 | (1,530,547) | 267,639,887 |
| Less Accumulated Depreciation for: | | | | |
| Buildings/Building Improvements | 7,050,343 | 1,287,908 | - | 8,338,251 |
| Improvements Other Than Buildings | 3,946,911 | 823,752 | - | 4,770,663 |
| Machinery and Equipment | 10,491,048 | 1,700,291 | (1,460,349) | 10,730,990 |
| Infrastructure | 49,925,983 | 3,565,343 | - | 53,491,326 |
| Total Accumulated Depreciation | 71,414,285 | 7,377,294 | (1,460,349) | 77,331,230 |
| Total Captial Assets, Being Depreciated, Net | 184,892,597 | 5,486,258 | (70,198) | 190,308,657 |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET | $ 243,693,358 | $ 19,534,010 | $ (8,503,080) | $ 254,724,288 |

| | BEGINNING BALANCE (RESTATED)* | INCREASES | DECREASES | ENDING BALANCE |
|---|---|---|---|---|
| **Business-type Activities:** | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | $ 4,995,515 | $ 1,762,332 | $ - | $ 6,757,847 |
| Construction In Progress | 12,440,525 | 9,940,339 | (13,741,285) | 8,639,579 |
| Total Capital Assets, Not Being Depreciated | 17,436,040 | 11,702,671 | (13,741,285) | 15,397,426 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings/Building Improvements | 15,130,557 | 4,449,336 | - | 19,579,893 |
| Improvements Other Than Buildings | 172,258,063 | 18,530,646 | (2,171,428) | 188,617,281 |
| Machinery and Equipment | 701,342 | 40,391 | - | 741,733 |
| Total Capital Assets, Being Depreciated | 188,089,962 | 23,020,373 | (2,171,428) | 208,938,907 |
| Less Accumulated Depreciation for: | | | | |
| Buildings/Building Improvements | 1,418,966 | 386,908 | - | 1,805,874 |
| Improvements Other Than Buildings | 31,702,696 | 3,631,593 | (2,171,428) | 33,162,861 |
| Machinery and Equipment | 318,939 | 83,717 | - | 402,656 |
| Total Accumulated Depreciation | 33,440,601 | 4,102,218 | (2,171,428) | 35,371,391 |
| Total Capital Assets, Being Depreciated, Net | 154,649,361 | 18,918,155 | - | 173,567,516 |
| BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET | $ 172,085,401 | $ 30,620,826 | $ (13,741,285) | $ 188,964,942 |

* Construction in progress increased $1,536,661 in the governmental activities and decreased by the same amount in the business-type activities (see Note 15).

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

| | |
|---|---|
| **Governmental Activities:** | |
| General Government | $ 1,177,829 |
| Security | 903,637 |
| Physical Environment | 9,285 |
| Transportation, Including Depreciation of General Infrastructure Assets | 3,566,586 |
| Economic Environment | 80,102 |
| Culture and Recreation | 800,479 |
| Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on Their Usage of the Assets | 839,376 |
| Total Depreciation Expense – Governmental Activities | $ 7,377,294 |
| Business-type Activities: | |
| Water/Wastewater | $ 2,385,143 |
| UPD Water/Wastewater | 905,454 |
| Stormwater | 811,621 |
| Total Depreciation Expense – Business-type Activities | $ 4,102,218 |

# NOTE 9:
# PENSION PLANS

In accordance with GASB Statement No. 27, the following pension plan information is provided. All City full-time employees and part-time employees meeting required eligibility hours participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems. Employees of both plans must work a minimum of 70 hours per month.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for each plan. A copy of this report may be obtained at:

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

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

The State Legislature established PERS in 1947 under Chapter 41.40 of the Revised Code of Washington (RCW).

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 combination defined benefit/defined contribution plan. 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 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. PERS 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.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 participants are eligible to retire at age 55 with 25 years of service, age 60 with 5 years of service, or at any age with 30 years of service. The annual pension benefit is 2% of the average final compensation times the number of years of service, based on the highest consecutive two-year period. Benefits may be paid to the participant for their lifetime or a reduced benefit may be paid to the participant with their surviving beneficiary receiving the same reduced benefit for the beneficiary's lifetime. Retirement benefits may not exceed 60% of final average compensation. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at 3% annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 participants are eligible to retire at age 65 with 5 years of service or at age 55 with 20 years of service, receiving a reduced benefit. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The total annual pension benefit is 2% of the average final compensation times the number of years of service, based on the highest consecutive five-year period. Average final compensation does not include severance pay such as lump sum deferred sick pay or vacation pay. There is no cap on years of service credit. Retirement benefits are indexed to the Seattle consumer price index with a maximum of 3% increase annually.

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 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members became eligible for retirement if they had at least ten years of service; or five years including twelve months that were earned after age 44; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements 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 3 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.

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% 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. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. 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. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of September 30, 2005:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 68,609 |
| Terminated Plan Members Entitled To But Not Yet Receiving Benefits | 22,567 |
| Active Plan Members Vested | 104,574 |
| Active Plan Members Nonvested | 51,004 |
| **Total** | **246,754** |

## 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 officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established 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 benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes 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 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 final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes 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 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 376 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 8,723 |
| Terminated Plan Members Entitled To But Not Yet Receiving Benefits | 577 |
| Active Plan Members Vested | 12,348 |
| Active Plan Members Nonvested | 3,543 |
| **Total** | **25,191** |

## PERS and LEOFF Plan Information

| | PERS | | | LEOFF | |
|---|---|---|---|---|---|
| | PLAN 1 | PLAN 2 | PLAN 3 | PLAN 1 | PLAN 2 |
| Employee contribution rate as a percentage of covered payroll as of December 31, 2006 | 6.00% | 3.50% | ** | - | 7.85% |
| Employer contribution rate as a percentage of covered payroll as of December 31, 2006* | 3.69% | 3.69% | 3.69%*** | 0.18% | 4.90% |
| State of Washington contribution rates as of December 31, 2006 | - | - | - | - | 3.13% |

* Includes Administrative cost rate currently set at 0.18%.
** Variable from 5.0% minimum to 15.0% maximum based on rate selected by PERS 3 member.
***Plan 3 defined benefit portion only.

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

| | PERS 1 | PERS 2 | PERS 3 | LEOFF 1 | LEOFF 2 |
|---|---|---|---|---|---|
| 2006 | $ 53,902 | $555,010 | $149,232 | $ 1,135 | $ 723,205 |
| 2005 | $ 43,271 | $334,823 | $ 86,957 | $ 1,379 | $ 585,695 |
| 2004 | $ 35,214 | $234,850 | $ 54,929 | - | $ 506,533 |

## Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

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

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 who 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, 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.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service and attains the age of 65. 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 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation 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 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age of retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

The first actuarial valuation of the PSERS system was effective as of September, 2006 and will be reported in the year 2007.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. 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, 2006, were as follows:

| | PSERS Plan 2 |
|---|---|
| Employer* | 6.76% |
| Employee | 6.57% |

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

Both the City and the employees made the required contributions. The City's required contributions for the year ended December 31, 2006 were as follows:

| | PSERS Plan 2 |
|---|---|
| 2006 | $3,070 |

## 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. The actuary has determined that no City contribution is required. The fire insurance premium for 2006 was $98,572, which was sufficient to pay the 2006 Firemen's Pension Fund expenses of $5,968.

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.

## Schedule of Funding Progress

The Schedule of Funding Progress is included in the Required Supplementary Information section at the end of the Notes to the Financial Statements.

## Schedule of Employer Contributions

| Fiscal Year Ending | Total Employer Contributions | Annual Required Contribution (ARC) | Percentage of ARC Contributed |
|---|---|---|---|
| December 31, 2000 | $ 41,581 | $ 30,148 | 137.9% |
| December 31, 2001 | $ 48,217 | $ 30,148 | 159.9% |
| December 31, 2002 | $ 51,484 | $ 15,456 | 333.1% |
| December 31, 2003 | $ 59,483 | $ 15,456 | 384.9% |
| December 31, 2004 | $ 68,912 | $ 12,010 | 573.8% |
| December 31, 2005 | $ 87,431 | $ 12,010 | 727.99% |
| December 31, 2006 | $ 98,572 | $ 606 | 16,266.00% |

## Three-Year Trend Information

| Fiscal Year Ending | Annual Pension Cost | Contribution as a Percentage of APC | Net Pension Obligation (NPO) |
|---|---|---|---|
| December 31, 2004 | $ 12,992 | 530.4% | $ (164,681) |
| December 31, 2005 | $ 13,866 | 630.53% | $ (238,246) |
| December 31, 2006 | $ 3,342 | 2,949.49% | $ (333,476) |

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

| | |
|---|---|
| Valuation date: | January 1, 2006 |
| Actuarial cost method for GASB purposes: | Entry Age Normal Cost Method |
| Amortization method: | Level Percentage of Projected Payroll Closed |
| Remaining amortization period: | 24 years |
| Asset valuation method: | Market Value |

Actuarial Assumptions:

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

## Annual Pension Cost and Net Pension Obligation

| | | Year Ending 12/31/04 | Year Ending 12/31/05 | Year Ending 12/31/06 |
|---|---|---|---|---|
| 1. | Annual Normal Cost, beginning of year | $ - | $ - | $ - |
| 2. | Amortization of UAL, beginning of year | 11,224 | 11,390 | 566 |
| 3. | Interest to end of year | 786 | 797 | 40 |
| 4. | Annual required contribution at end of year (1 + 2 + 3) | $ 12,010 | $ 12,187 | $ 606 |
| 5. | Interest on net pension obligation | $ (7,613) | $ (11,528) | $ (16,677) |
| 6. | Adjustment to annual required contribution | 8,595 | 13,207 | 19,413 |
| 7. | Annual pension cost (4 + 5 + 6) | $ 12,992 | $ 13,866 | $ 3,342 |
| 8. | Employer Contributions | $ (68,912) | $ (87,431) | $ (98,572) |
| 9. | Change in net pension obligation (7 + 8) | $ (55,920) | $ (73,565) | $ (95,230) |
| 10. | Net pension obligation at beginning of year | $ (108,761) | $ (164,681) | $ (238,246) |
| 11. | Net pension obligation at end of year (9 + 10) | $ (164,681) | $ (238,246) | $ (333,476) |

The negative net pension obligation has been recorded as a receivable on the City's government-wide statement of net assets.

## 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 1040 or more hours per year are eligible but not required to participate in the plan. Temporary employees working less than 1040 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 650 permanent and 222 temporary participants with account balances at December 31, 2006.

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. City payroll for participating employees in 2006 was $42,319,697. Employee contributions were $3,262,712. City contributions were $2,632,050. The City's total payroll was $42,403,401.

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, 2006. 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 $437,092 is included as a noncurrent liability on the Statement of Net Assets.

| | Year Ending 12/31/06 |
|---|---|
| **Determination of Annual Required Contribution:** | |
| Normal Cost at year end | $ 71,001 |
| Amortization of UAAL* | 585,691 |
| Annual Required Contribution | $656,692 |
| | |
| **Determination of Net OPEB Obligation:** | |
| Annual Required Contribution | $656,692 |
| Interest on prior year Net OPEB Obligation | - |
| Adjustment to ARC | - |
| Annual OPEB Cost | 656,692 |
| Contributions made | 219,600 |
| Increase in Net OPEB Obligation | $437,092 |
| | |
| Net OPEB Obligation-beginning of year | $ - |
| Net OPEB Obligation-end of year | $437,092 |

*Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2006 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 12/31/2006 | $656,692 | 33.4% | $437,092 |

Funded Status and Funding Progress

As of January 1, 2006, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $8,512,284 and the actuarial value of the assets was $0 resulting in a UAAL of $8,512,284.

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, 2006 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included a 5.50% 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 9%, graded to 6% over three years was used along with a long term care inflation rate of 4.5%.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2006 was 30 years.

## NOTE 11:
## CONSTRUCTION COMMITMENTS

At December 31, 2006 the City had significant contractual obligations on construction projects.

| | |
|---|---|
| Police Projects | $ 38,976 |
| Parks Projects | 55,715 |
| Street Projects | 2,455,485 |
| Utilities Projects | 5,670,089 |
| | $ 8,220,265 |

## NOTE 12:
## INTERFUND TRANSFERS

| FUND | TRANSFER IN | TRANSFER OUT |
|---|---|---|
| General Fund | $ 19,000 | $ 5,918,080 |
| Advanced Life Support Fund | - | 15,718 |
| Capital Improvements Program Fund | 13,251,299 | 1,118,286 |
| Non-Major Governmental Funds | 4,064,744 | 10,244,804 |
| Water/Wastewater Fund | - | 29,137 |
| Internal service Funds | 93,977 | 38,155 |
| TOTAL TRANSFERS | $17,429,020 | $17,364,180 |

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 funds collecting the receipts to a debt service fund as debt service payments become due, to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and to transfer the cost of vehicles purchased by other funds to an internal service fund.

The $64,840 excess of transfers in over transfers out is due to vehicles recorded as expenditures in the General Fund and transfers into the Fleet Maintenance Fund.

# 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.

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

**1994 Unlimited Tax General Obligation and Refunding Bonds:** 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.

**2003 Limited Tax General Obligation Bonds:** Two LTGO bonds were issued in 2003 to provide funds for park development and renovation. A bond in the amount of $2,048,472 was issued to renovate tennis courts and softball fields at Grasslawn Park and carry out capital improvements in other parks. A bond in the amount of $1,650,000 was issued to pay the costs of developing Perrigo Park.

**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 a 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.

| | Issue Date | Maturity Date | Interest Rate | Amount Issued | Redemptions to Date | Outstanding 12/31/2006 |
|---|---|---|---|---|---|---|
| 1994 GO/Refunding* | 3/1/1994 | 12/1/2013 | 4.0% - 5.65% | $ 9,310,000 | $ 7,575,000 | $ 1,735,000 |
| 2003 LTGO Bonds | 6/26/2003 | 6/1/2008 | 3.45% | 3,698,472 | 2,158,869 | 1,539,603 |
| 2004 LTGO Lease-Revenue Bonds | 4/1/2004 | 12/1/2035 | 2.0% - 5.25% | 39,230,000 | - | 39,230,000 |
| Total General Obligation Bonds | | | | $ 52,238,472 | $ 9,733,869 | $ 42,504,603 |

*$5,510,000 are refunding and $3,800,000 are new debt.

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

| | Governmental Activities | |
|---|---|---|
| Year | Principal | Interest |
| 2007 | $ 1,973,219 | $ 1,958,233 |
| 2008 | 2,021,384 | 1,899,633 |
| 2009 | 1,280,000 | 1,849,326 |
| 2010 | 1,325,000 | 1,804,254 |
| 2011 | 1,390,000 | 1,697,597 |
| 2012-2016 | 7,140,000 | 7,647,100 |
| 2017-2021 | 7,570,000 | 5,657,042 |
| 2022-2026 | 5,695,000 | 4,206,379 |
| 2027-2031 | 7,090,000 | 2,809,064 |
| 2032-2035 | 7,020,000 | 898,334 |
| | $ 42,504,603 | $ 30,426,962 |

The 1994 refunding bond issue is presented in the statement of net assets net of discounts. The gross bonds payable and discount is as follows:

| | 1994 Refunding Bonds |
|---|---|
| Bonds Outstanding | $ 1,735,000 |
| Less Unamortized Bond Discount | (25,024) |
| Bonds Outstanding, Net | $ 1,709,976 |

## Special Assessment Debt with Governmental Commitment

Special Assessment Bonds are not a direct responsibility of the City, but are funded from the collection of special assessment payments. Debt service principal and interest costs are paid from the LID Control Fund. The City is obligated for special assessment debt to the extent that it is required to establish a guaranty fund, for the purpose of guaranteeing the payment of local improvement bonds and warrants, in the event there are insufficient funds in the LID Control Fund. The Guaranty Fund is funded from interest income and surplus from the LID Control Fund, and is maintained at approximately 10% of the total original bond issue amounts. Delinquent special assessments receivable totaled $175,125 in principal and $130,264 in interest at the close of 2006. The fund balance in the LID Guaranty Fund stood at $919,679.

## Bonds, Issuances, Redemptions and Balances Outstanding

| LID | Issue Date | Maturity Date | Interest Rate | Original Amount Issued | Redemptions to Date | Bonds Outstanding 12/31/06 |
|---|---|---|---|---|---|---|
| 1995 | 2/15/1995 | 2/15/2007 | 5.25% - 6.8% | $ 1,515,830 | $ 1,515,830 | $ - |
| 1998 | 3/1/1998 | 3/1/2010 | 4.0% - 5.0% | 1,241,036 | 656,036 | 585,000 |
| 1999 | 7/15/1999 | 7/15/2011 | 4.1% - 5.5% | 2,355,410 | 2,160,410 | 195,000 |
| Total Special Assessment Bonds: | | | | $ 5,112,276 | $ 4,332,276 | $ 780,000 |

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

| | Governmental Activities | |
|---|---|---|
| Year | Principal | Interest |
| 2007 | $ - | $ 38,835 |
| 2008 | - | 38,835 |
| 2009 | - | 38,835 |
| 2010 | 585,000 | 38,835 |
| 2011 | 195,000 | 10,725 |
| | $ 780,000 | $ 166,065 |

## Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Redmond currently has nine such loans. Six loans with an outstanding principal balance of $2,238,775 are being repaid from General Fund revenues which are transferred to the Capital Improvements Program Fund where the loan payments are recorded. Three loans with an outstanding principal balance of $279,337 are being repaid from water and wastewater revenues.

| | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| Year | Principal | Interest | Principal | Interest |
| 2007 | $ 371,717 | $ 41,430 | $ 108,625 | $ 4,470 |
| 2008 | 371,717 | 34,720 | 85,356 | 2,515 |
| 2009 | 333,611 | 28,011 | 85,356 | 1,257 |
| 2010 | 333,611 | 22,063 | - | - |
| 2011 | 279,430 | 16,115 | - | - |
| 2012-2015 | 548,689 | 18,941 | - | - |
| | $ 2,238,775 | $ 161,280 | $ 279,337 | $ 8,242 |

## Water Pollution Control Revolving Fund Loan

The State of Washington Water Pollution Control Revolving Fund Loan with the Department of Ecology (DOE) is a direct responsibility of the City. The principal balance of $330,140 will be repaid from stormwater revenues.

| | Business-Type Activities | |
|---|---|---|
| Year | Principal | Interest |
| 2007 | $ 35,467 | $ 1,782 |
| 2008 | 73,117 | 1,382 |
| 2009 | 73,483 | 1,016 |
| 2010 | 73,851 | 648 |
| 2011 | 74,222 | 279 |
| | $ 330,140 | $ 5,107 |

## Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Bonds Payable: | | | | | |
| General obligation bonds | $ 43,454,879 | $ - | $ (950,276) | $ 42,504,603 | $ 1,973,219 |
| Special assessment debt with government commitment | 1,045,000 | - | (265,000) | 780,000 | - |
| Less deffered amounts: | | | | | |
| For issuance discounts | (28,600) | - | 3,576 | (25,024) | - |
| Total bonds payable | 44,471,279 | - | (1,211,700) | 43,259,579 | 1,973,219 |
| PWTF loans | $ 2,610,492 | $ - | $ (371,717) | $ 2,238,775 | $ 371,717 |
| Contract payable | 270,181 | - | (270,181) | - | - |
| Other post-employment benefits payable | - | 437,092 | - | 437,092 | - |
| Compensated absences | 2,720,568 | 1,883,277 | (1,824,794) | 2,779,051 | 2,223,241 |
| Governmental activity long-term liabilities | $ 50,072,520 | $ 2,320,369 | $ (3,678,392) | $ 48,714,497 | $ 4,568,177 |
| **Business-Type Activities:** | | | | | |
| LID Assessment | $ 97,796 | $ - | $ (32,599) | $ 65,197 | $ 32,599 |
| PWTF loans | 387,962 | - | (108,625) | 279,337 | 108,625 |
| DOE loan | - | 330,140 | - | 330,140 | 35,467 |
| Compensated absences | 368,933 | 363,518 | (290,174) | 442,277 | 353,822 |
| Business-type activity long-term liabilities | $ 854,691 | $ 693,658 | $ (431,398) | $ 1,116,951 | $ 530,513 |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $169,914 of internal service funds compensated absences are included in the above amounts. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid. Governmental funds typically used to liquidate compensated absences are the General Fund, Recreation Activities Fund, Arts Activity Fund, Parks Maintenance and Operation Fund, Advanced Life Support Fund, and the Recycling Fund.

## NOTE 14:
## 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 $39,230,000 in bonds dated April 1, 2004 on behalf of the City of Redmond. Proceeds of the bonds were used for construction of the City Hall and parking garage. 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:
## PRIOR PERIOD ADJUSTMENTS

Construction costs of $1,536,661 and contributed capital of $330,500 for the street portion of a joint street and stormwater utility project were recorded in error to the City's Stormwater Utility Fund in 2005. Construction in progress was overstated and cash understated in the Stormwater Fund and construction in progress was understated and cash overstated in the General Government column of the Statement of Net Assets by $1,536,661. Capital grants and contributions were understated by $330,500 in the Governmental Activities section of the Statement of Activities and overstated by $330,500 in the Business-type Activities section.

Transportation expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds Capital Improvements Program Fund column were understated by $1,536,661 and contributions were understated by $330,500. Transportation expenditures of $1,420,434 incurred in a prior year were paid in 2006. The beginning fund balance in the Capital Improvements Program Fund has been restated by ($2,656,595) to reflect these corrections.

The 2005 balances in three tables in the Management Discussion and Analysis have been restated to incorporate these changes. The three tables are the City of Redmond's Net Assets, the City of Redmond's Changes in Net Assets, and the City of Redmond's Capital Assets (net of depreciation). Adjustments have been made to the beginning balances in Note 8, Capital Assets.

## NOTE 16:
## 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 Porperties (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 17:
## JOINT VENTURES

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'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. Accumulated depreciation totals $762,823 with a net book value of $1,315,716. The City reimbursed the City of Bellevue $10,125 for its share of operating costs in 2006. The joint venture does not issue separate financial statements.

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 Alliance collected membership dues for 2006 totaling $715,781, of which Redmond's share was $121,695. Redmond also paid the Alliance $999,583 in 2006 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, 11400 SE 8th Street, Suite 440, Bellevue, WA 98004.

## NOTE 18:
## CONTINGENCIES AND LITIGATION

As of December 31, 2006, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, 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 19:
## SUBSEQUENT EVENTS

In March 2007 the City entered into an agreement with the Microsoft Corporation to provide accelerated construction permit application and inspection services to enable Microsoft to expand its world headquarters in Redmond by at least 3.1 million square feet within three years. Microsoft will pay the City approximately $6.1 million over the three-year period to provide sufficient staff and resources to handle the extra workload.

## NOTE 20:
## 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. Two claims in the past three years exceeded the City's insurance coverage. None of the current claims or

lawsuits made or expected to be made against the City appear to have any reasonable likelihood of significantly affecting the City's financial situation for 2006. Reserves for open claims are established by an independent claims adjusting firm on a case reserve basis based on the assessment of the settlement potential and costs specifically associated with a particular claim given the information available at the time. Cases are reviewed no less than monthly and are subject to periodic audits. Lawsuits are reviewed and handled directly by the City Attorney or the excess insurer's appointed legal counsel. Reserves are established for estimated ultimate loss costs and related loss adjustment expenses.

The 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 was one claim in excess of the per person limit in 2006, two claims in 2005, and one claim in excess in 2004. 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 Consumer Price Index increases.

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 2006, 2005, or 2004 exceeded the City's self insurance coverage. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2006, the City had reserves of $672,275 in the Insurance Fund, $2,226,549 in the Medical Self-Insurance Fund, and $45,748 in the Workman's Compensation Fund to provide against risk of future loss. Claims liabilities of $993,602 have been reported in the Medical Self-Insurance Fund and $79,538 in the Workman's Compensation Fund based on estimates provided by the City's third party administrators. Historically claims liabilities for IBNR in the Insurance Claims and Reserve Fund average 15% to 20% of paid claims for the year. At the end of 2006, there is a reasonable possibility the City is liable for insurance claims in the range of $20,000 to $30,000. This claims liability has not been accrued due to the uncertain outcome of the claims outstanding. 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 2005 and 2006 were:

| | Beginning of Year Liability | Current Year Claims & Changes in Estimates | Claims Payments | End of Year Liability |
|---|---|---|---|---|
| Insurance Fund | | | | |
| 2005 | $ - | $ 135,624 | $ 135,624 | $ - |
| 2006 | $ - | $ 209,383 | $ 209,383 | $ - |
| Medical Insurance Fund | | | | |
| 2005 | $ 618,981 | $4,685,719 | $4,397,749 | $ 906,951 |
| 2006 | $ 906,951 | $4,535,657 | $4,449,006 | $ 993,602 |
| Workman's Compensation Fund | | | | |
| 2005 | $ 20,475 | $ 498,469 | $ 421,966 | $ 96,978 |
| 2006 | $ 96,978 | $ 455,101 | $ 472,541 | $ 79,538 |

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

| | Coverage | Self-Insured Retention |
|---|---|---|
| Blanket building and personal property | $50,000,000 | $100,000 except earthquake at 3% of values at risk subject to a $100,000 minimum per location |
| Law enforcement | $21,000,000 | $100,000 |
| Errors and omissions liability | $21,000,000 | $100,000 |
| Employment related practices | $ 5,000,000 | $100,000 |
| General and automobile liability coverage | $21,000,000 | $100,000 |
| Blanket fidelity (employee dishonesty) | $ 1,000,000 | $ 10,000 deductible |
| Excess Workers Compensation | statutory | $350,000; $500,000 Police and Fire |
| Excess Medical Insurance | $ 1,000,000 | $120,000 |
| Underground storage tank pollution liability | $ 1,000,000 | $ 5,000 deductible |