



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: City of Redmond

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2019 through December 31, 2019 – see draft report.
- Financial statement audit for January 1, 2019 through December 31, 2019 – see draft report.
- Comprehensive Annual Financial Report opinion letter – see letter.

Audit Highlights

Due to the current pandemic, the entire audit was performed remotely. This was an unprecedented but necessary approach and we worked closely with the City to find the most successful route through these changes. We recognize the significant impact on City operations while responding to COVID-19 and appreciate the City's efforts to respond to our questions and requests timely while balancing other concerns.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Communications required by audit standards

In relation to our financial statement audit report, we would like to bring to your attention:

- Uncorrected misstatements in the audited financial statements are summarized on the attached schedule. We agree with management's representation that these misstatements are immaterial to the fair presentation of the financial statements.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal/>.

Management Representation Letter

We have included a copy of representations received from management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$96,850. During the audit, we communicated to the City the revised estimate of \$102,505 due to additional work required as a result of the financial statement recommendations discussed and actual audit costs will approximate that amount.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in May 2021 and will cover the following general areas:

- Accountability for Public Resources
- Financial Statement including Comprehensive Annual Financial Report Opinion Letter
- Federal Programs

The estimated cost for the next audit based on current rates is \$115,900 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through the Budget, Accounting, and Reporting System (BARS) and annual online filing technical assistance, provides accounting, reporting and BARS training. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions, updated BARS manuals, access to resources and recorded trainings, and additional accounting and reporting resources. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation of the Office of the Washington State Auditor offers services designed to help you, help the residents you serve at no additional cost to your government. What does this mean? They provide expert advice in areas like building a Lean culture to help local governments find ways to be more efficient, effective and transparent. The Center also provides financial management technical advice and best practices and resources. These can be accessed from the “Improving Government” tab of our SAO website and help you act on accounting standard changes, comply with regulations, protect public resources, minimize your

cybersecurity risk and respond to recommendations in your audit. The Center also offers the Financial Intelligence Tool, better known as FIT, to help you assess and monitor your finances and compare your financial operations to other local governments like you. You can email the Center for a personal training session to learn all the benefits using the FIT tool can provide. The Center understands that time is your most precious commodity as a public servant, and wants to help you do more with the limited hours you have. If you are interested in learning how the Center can help you maximize your effect in government, call them at (564) 999-0818 or email them at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Wendy Choy, Program Manager, (425) 502-7067, Wendy.Choy@sao.wa.gov

Lorraine Nitta, Assistant Audit Manager, (425) 679-6674, Lorraine.Nitta@sao.wa.gov

Kim Nguyen, CFE, Audit Lead, (425) 502-7067, Ngan.Nguyen@sao.wa.gov

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Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Redmond

For the period January 1, 2019 through December 31, 2019

Published (Inserted by OS)

Report No. (Inserted by OS)





**Office of the Washington State Auditor
Pat McCarthy**

Issue Date – (Inserted by OS)

Mayor and City Council
City of Redmond
Redmond, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government’s stewardship of public resources.

Attached is our independent audit report on the City’s compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff, and we value your cooperation during the audit.

Sincerely,

Signature Here (Please do not remove this line)

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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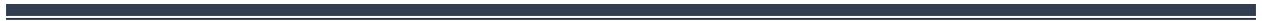
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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the City of Redmond from January 1, 2019 through December 31, 2019.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Self-insurance – review of compliance with health and wellness, unemployment compensation, and workers compensation programs
- Contracts and agreements – review of policies and procedures related to leased property and lease agreements
- Conflicts of interest and ethics – review of processes over conflict of interest identification and disclosure
- Financial condition – review of fiscal sustainability

Electronic funds transfers (EFT) – review of processes and testing for wire and automated clearing house (ACH) transfers

RELATED REPORTS

Financial

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

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INFORMATION ABOUT THE CITY

Redmond is the seventh most populous city in King County and the sixteenth most populous city in the State of Washington, with a residential population of approximately 65,860 in 2019. It encompasses an area of over 17.25 square miles and is located less than 20 miles east of downtown Seattle at the north end of Lake Sammamish. The City provides services including fire, police, water/sewer/storm utilities, public works, community development and parks and recreation.

Redmond has a non-partisan mayor-council form of government, with the mayor and seven council members elected at large for staggered four-year terms. The City Council adopts the City budget, establishes law and policy, approves appropriations and contracts, levies taxes and grants franchises. The Council appoints management to oversee the City’s daily operations as well as its approximately 712 full-and part-time employees. For the 2019-2020 biennium, the City operates on a budget of approximately \$797.7 million.

Contact information related to this report	
Address:	City of Redmond Accounts Payable MS: 3SFN PO Box 97010 Redmond, WA 98073-9710
Contact:	Julie Elsom, Accounting Manager
Telephone:	(425) 556-2181
Website:	www.redmond.gov

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Redmond at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR’S OFFICE

The State Auditor’s Office is established in the state’s Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor’s Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor’s Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

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Financial Statements Audit Report City of Redmond

For the period January 1, 2019 through December 31, 2019

Published (Inserted by OS)

Report No. 1027556





**Office of the Washington State Auditor
Pat McCarthy**

Issue Date – (Inserted by OS)

Mayor and City Council
City of Redmond
Redmond, Washington

Report on Financial Statements

Please find attached our report on the City of Redmond's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Redmond

January 1, 2019 through December 31, 2019

2019-001 The City's internal controls over accounting and financial statement preparation were not adequate to ensure accurate and complete financial reporting.

Background

The City Council, the Mayor, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. City management is responsible for designing, implementing, and maintaining internal controls to ensure financial statements are prepared and fairly presented in accordance with generally accepted accounting principles (GAAP).

The audit identified deficiencies in internal control that could affect the City's ability to produce reliable financial statements. When taken together, the deficiencies represent a significant deficiency. *Governmental Auditing Standards* requires the auditor to communicate significant deficiencies, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

Historically, the City has had strong internal controls over the financial statement preparation process. However, during the preparation of the 2019 financial statements, the control processes did not ensure the financial statements were accurate. We noted the following:

- The City's review process relied on past practice to assess whether a sale of land was appropriately reported when preparing the government-wide financial statements which was not effective.
- The City's controls over evaluating revenue recognition did not ensure that revenue earned in 2020 was reported in the correct fiscal year.

Cause of Condition

The City did not dedicate the time and resources to the year-end financial statement preparation and review process to ensure the financial statements, notes, and supplementary schedules were accurate and complete.

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Effect of Condition

The City's control deficiencies led to the following:

- General Government expense was overstated by \$10,013,812 in the Governmental Activities and Contributions/Disposals from Capital Assets was overstated by the same amount. The amount represents the value of land that was sold in 2019, which does not affect expenses. Instead, the City should have reported a Loss on the Sale of Capital Asset of \$1,732,716. The City subsequently corrected the errors.
- License and permit revenues was overstated by \$1,236,918 in the Aggregate Remaining Fund. The amount represents first quarter 2020 revenue that was reported in fiscal year 2019.

Recommendation

We recommend the City strengthen its controls over the financial statement review process, implementation of new accounting standards as well as its evaluation of revenue recognition by dedicating sufficient resources, such as staff time and training, to ensure the financial statements are accurately prepared in accordance with GAAP.

City's Response

The City disagrees with the findings of this audit. The City has a long history of accurate financial reporting and a many pronged approach to make sure the financial statements are a true and correct representation of its financial standing and takes the accuracy of its financial reporting very seriously. We have a proved track record that our internal controls and management oversight is adequate. Our approach includes the following:

- *Accounting staff prepares the financial statements*
- *The Financial Planning Division reviews the statements for accuracy*
- *The Accounting Manager reviews the statements against best practices.*
- *The Deputy Finance Director and then the Director also review the statements*

Recording of Capital Assets

Consistent with past practice and historical audited transactions, the City recorded the sale of the land correctly in the Fund Statements and the General Ledger. The overstatement in the Governmental Activities and Contributions/Disposals from Capital Assets affected both revenues and expenditures, therefore the City's net

position was accurate and would not mislead a user of the financial statements. The \$1.7 million loss on the sale of the property was also recorded accurately and it also did not affect the net position. A reasonable person relying on the City's financial statements would not be misled and/or influenced by the inclusion or correction of this item. The amount of the overstatement is also immaterial given the size of the City's portfolio.

Licenses and Permit Revenue

The City agrees with the auditor's statement that license and permit revenues were overstated by \$1,236,918. At the developer's request the City billed the company early for the next development agreement payment due on the developer's \$17 million contract and the City inadvertently billed the developer on 12/31/2019 for revenue due in 2020. The error was a timing issue and is not significant given the magnitude of the development agreement. The amount (\$1.2 million) reflects only 6% of the total governmental funds license and permit revenue and less than 1% of the City's total governmental fund revenue. The City's process for entering and billing customers includes management review prior to posting. The incorrect posting of the revenue was merely an oversight, not an internal control issue and does not rise to the level of a finding.

None of the transactions recorded above meet the materiality threshold according to GAAP standards, therefore the City concludes the findings should be removed from the audit documentation.

Auditor's Remarks

Government Audit Standards require auditors to communicate control deficiencies identified and the effects noted that, when taken together, represent a significant deficiency. City management is responsible for the proper presentation of financial statements in accordance with the City's chosen basis of accounting. We reaffirm the finding.

We appreciate the communication with the City and encourage the City to dedicate sufficient resources to strengthen its control structure over financial accounting and reporting.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting, and Reporting System* (BARS) manual, 3.1.3, Internal Control, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Redmond
January 1, 2019 through December 31, 2019**

Mayor and City Council
City of Redmond
Redmond, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Redmond, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated October 29, 2020.

As discussed in Note 20 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management’s plans in response to this matter are also described in Note 20. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

material misstatement of City’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of the City’s compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY’S RESPONSE TO FINDINGS

The City’s response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this

report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy
State Auditor
Olympia, WA

October 29, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Redmond January 1, 2019 through December 31, 2019

Mayor and City Council
City of Redmond
Redmond, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Redmond, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Redmond, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 20 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management’s plans in response to this matter are also described in Note 20. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and required supplementary information listed on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

October 29, 2020

FINANCIAL SECTION

City of Redmond January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Balance Sheet – Governmental Funds – 2019

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2019

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – 2019

Statement of Cash Flows – Proprietary Funds – 2019

Notes to the Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2019

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, PSERS, LEOFF 1, LEOFF 2 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS, LEOFF 2 – 2019

Schedule of Changes in Total Pension Liability and Related Ratios – Firefighter's Pension Plan – 2019

Schedule of Changes in Total OPEB Liability and Related Ratios – OPEB Plan – LEOFF 1 Retiree Medical Benefits – 2019

Notes to the Required Supplementary Information – 2019

Management's Discussion and Analysis

The management discussion and analysis section of the City of Redmond's Comprehensive Annual Financial Report provides an overview of the City's financial activities for the year ending December 31, 2019. The purpose is to highlight significant financial issues, major financial activities and resulting changes in the financial position and economic factors affecting the City. Readers are encouraged to consider the information presented here in conjunction with the information furnished in the letter of transmittal, the City's financial statements and the accompanying notes following the financial information.

Financial Highlights

Backed by a strong economy in 2019, the City continued to focus on its vision of two vibrant urban centers and connected neighborhoods as evidenced by the work in the downtown corridor, development activities in the Overlake area, construction of the new light rail system in partnership with Sound Transit, redevelopment of the Microsoft campus in conjunction with Microsoft and maintaining our vibrant and well established neighborhoods.

As shown below, the City continues its legacy of prudent financial management.

- The assets and deferred outflows of resources of the City of Redmond exceeded its liabilities and deferred inflows at fiscal year-end by \$1.0 billion (net position), an increase of \$41.8 million or 4.1% over 2018. Of this amount, a majority (\$774.4 million) is a net investment in capital assets. The unrestricted net position totals \$153.4 million and may be used to meet the city's ongoing obligations to citizens and creditors. In addition, the restricted net position totals \$123.0 million and is earmarked for debt service, capital projects and special revenue funds.
- Net position decreased \$4.7 million due to a prior period adjustment. In prior fiscal years the city reported a total of \$2.6 million as part of the City's Capital Improvement Projects. In 2019, it was determined that the related Projects would not be owned by the City. In addition, the city determined that in 2017 and 2018 the Firefighters' Pension Plan was misclassified resulting in a prior period adjustment of \$2.0 million in 2019.
- At December 31, 2019, the City's governmental activities reported combined ending net position of \$591.4 million, an increase of \$24.0 million over 2018. Approximately 7.9% of this amount (\$46.8 million) is available for spending at the City's discretion (*unrestricted* net position).
- The City of Redmond's net investment in capital assets increased by \$5.9 million during the fiscal year. The increase is primarily due to transportation improvements needed to support light rail, specifically the State Route 520, 40th Street and 51st Street Ramp and Pedestrian Improvements (\$1.7), and a grade separation at 40th street, improving the environment (\$1 million); includes, the rehabilitation of Mackey Creek and restoring sites around the 95th Street Bridge; and improving non-motorized transportation through safe routes to school projects and adding bike lanes (\$3.4 million); specifically, NE 31st street improvements, 134th avenue northeast and Redwood Road at 109th street. In addition to the more significant projects, the City continues encouraging a greener Redmond through replacement of the heat pumps at the Public Safety Building and LED streetlight replacements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Redmond's basic financial statements, which are comprised of three components: 1) government wide financial statements, 2) fund financial statements and 3) notes to the financial statements. Other

supplementary information, intended to furnish additional detail to support the basic financial statements, is also contained in the report.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Redmond's finances, in a manner similar to a private-sector business.

The **Statement of Net Position** presents financial information on all of the City of Redmond's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Redmond is improving or deteriorating.

The **Statement of Activities** presents information designed to show how the City's net position changed during the year. The statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show the degree to which each function supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as (but not limited to) uncollected taxes, unpaid vendor invoices for goods or services received during the year and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

The government-wide financial statements distinguish functions of the City of Redmond that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Redmond include general government (finance, executive and human resources), security (police and fire), economic environment, transportation, and culture and recreation. The City's business-type activities are limited to water/wastewater and stormwater utilities. Governmental activities are primarily supported by taxes, charges for services, and grants. Business-type activities are primarily self-supporting through user fees and charges.

Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City of Redmond, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions as are reported as governmental activities in the government-wide financial statements. These reports use a different "basis of accounting" than that used in government-wide financial statements. The governmental fund statements focus on near-term revenues/financial resources and expenditures while the government-wide financial statements include both near-term and long-term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the City's near-term financing requirements and immediate fiscal health. Comparing the governmental fund statements with the government-wide statements can help the

reader better understand the long-term impact of the City's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances.

The City of Redmond maintains thirteen individual governmental funds. The City's two major governmental funds – the general fund and the capital investments program fund – are presented separately in the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The remaining governmental funds are combined in this statement into a single column labeled other governmental funds. Individual fund data for each of the other governmental funds can be found in combining statements later in this report.

The City maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level for all funds in accordance with state law. All budgetary comparison schedules are included following the other governmental funds' combining statements in this report.

Following is a brief analysis of each of the City's major governmental funds:

The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. At the end of 2019, the fund balance of the General Fund was \$67.3 million, which represents an increase from the prior year of \$13.8 million.

General Fund revenues increased by \$4.2 million (3.7%) in 2019. The key elements of this increase are as follows:

- Taxes increased by \$3.0 million primarily due to increased sales tax revenue of \$1,710,000. Sales tax sectors that contributed the most to this increase in revenue were information, electronics and appliances and service sectors. Property tax growth in 2019 was 3.4% or \$869,000 this includes the 1% levy increase allowed by law and a rise in new construction.
- Electric, garbage and gas utility taxes decreased by \$123,000. Cable and telephone utility taxes decreased by \$36,000.
- Intergovernmental revenues increased by \$1.7 million due to an increase in state grant revenue.
- License and permits revenue decreased by \$1.6 million due to the delay of two large development projects.

General Fund expenditures increased \$5.5 million (5.2%) over 2018, primarily due to an increase in capital outlay from a one-time purchase of property to support affordable housing. Other expenditure increases include the typical rise in salary and benefits which average roughly 5% to 6% per year due to negotiated contracts with unions, state retirement costs and medical benefit increases.

The Capital Investments Program Fund (CIP 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. At the end of 2019, the fund balance of the Capital Investments Program Fund was \$30.9 million, which represents an increase from the prior year of \$1,504,000.

- Capital Investment Program Fund revenues decreased by \$8.4 million (45.8%) in 2019. Contributing factors include a decrease of \$1.3 million in miscellaneous revenue related to special assessment revenues, \$4.6 million in charges for services (impact fee revenue) and \$2.6 million in intergovernmental grant revenues. These decreases were offset by an increase in investment income of \$159,000.

- Capital Investment Program Fund expenditures decreased by \$4.5 million (27.0%) in 2019, due to the completion of major capital projects in 2018; including, construction of Downtown Park and converting the Downtown one-way streets to two-way.
- Capital Investments Program Fund net transfers between other funds increased by \$4.7 million primarily due to transfers from the CIP Fund to the utility funds for projects funded by Community Facilities District 2016-1 and between the capital construction funds and the major maintenance funds in the general fund.

Proprietary funds are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Redmond has two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens and the community. Internal service funds are used to account for goods and services provided internally to various City departments. The same basis of accounting is used for proprietary funds in both the government-wide statements and the individual fund statements.

Enterprise funds of the City are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the City's water/wastewater utility, an Urban Planned Development (UPD) water/wastewater utility outside the City limits, and the City's stormwater utility.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, insurance premiums and claims, medical self-insurance, worker's compensation self-insurance program, and information technology. Internal service fund activities are predominantly governmental and have been included in the governmental activities' columns of the government-wide Statement of Net Position and Statement of Activities.

Notes to the financial statements

The notes to the financial statements provide additional information that is important for a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits, and lifetime medical benefits to uniformed personnel hired before October 1, 1977. Required supplementary information may be found immediately following the notes to the financial statements.

The combining statements for other governmental funds and internal service funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Statement of Net Position

The Statement of Net Position can serve as a useful indicator of the City's financial position. The City of Redmond's net position at December 31, 2018 and 2019 total \$1.0 billion and \$1.1 billion respectively. The City's overall net position increased \$41.8 million (4.1%) from the prior fiscal

year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

By far, the largest portion of the City's net position (\$774.4 million; 73.7%) reflects net investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are not available for future spending. Although investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position (\$123.0 million or 11.7%) represents resources that are subject to external restrictions on how they may be used. The largest portion of these funds is restricted for capital projects (\$83.4 million), net pension asset (\$21.0 million), and public safety (\$6.0 million). The remaining balance of \$153.4 million (14.6%) is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

Following is a condensed version of the government-wide Statement of Net Position for 2019 compared to 2018.

City of Redmond's Net Position (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 198,871	\$ 175,345	\$ 119,144	\$ 107,666	\$ 318,015	\$ 283,011
Net pension asset	20,959	20,000	-	-	20,959	20,000
Capital assets, net of accumulated depreciation	478,588	481,580	369,781	366,689	848,369	848,269
Total assets	\$ 698,418	\$ 676,925	\$ 488,925	\$ 474,355	\$ 1,187,343	\$ 1,151,280
Deferred outflows:						
Debt refunding	2,865	3,077	-	-	2,865	3,077
Pensions	6,075	4,954	697	579	6,772	5,533
OPEB	212	186	-	-	212	186
Total assets and deferred outflows	\$ 707,570	\$ 685,142	\$ 489,622	\$ 474,934	\$ 1,197,192	\$ 1,160,076
Long-term liabilities	\$ 57,798	\$ 62,497	\$ 25,386	\$ 26,522	\$ 83,184	\$ 89,019
Net pension liability	11,893	14,934	2,620	3,456	14,513	18,390
OPEB liability	15,274	15,298	-	-	15,274	15,298
Other liabilities	17,757	12,884	769	2,116	18,526	15,000
Total liabilities	\$ 102,722	\$ 105,613	\$ 28,775	\$ 32,094	\$ 131,497	\$ 137,707
Deferred inflows - Pensions	13,463	12,148	1,536	1,371	14,999	13,519
Total liabilities and deferred inflows	\$ 116,185	\$ 117,761	\$ 30,311	\$ 33,465	\$ 146,496	\$ 151,226
Net Position						
Net investment in capital assets	\$ 429,308	\$ 427,662	\$ 345,048	\$ 340,757	\$ 774,356	\$ 768,419
Restricted	115,240	108,418	7,742	7,742	122,982	116,160
Unrestricted	46,837	31,301	106,521	92,970	153,358	124,271
Total net position	\$ 591,385	\$ 567,381	\$ 459,311	\$ 441,469	\$ 1,050,696	\$ 1,008,850

Changes in net position

The change in net position table illustrates the increases or decreases in net position of the City resulting from its operating activities. Following is a condensed version of the City's changes in net position. The table shows the revenues, expenses, and related changes in net position in

tabular form for the governmental activities separate from the business-type activities for 2019 and 2018.

City of Redmond's Changes in Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 52,805	\$ 53,340	\$ 58,618	\$ 58,783	\$ 111,423	\$ 112,123
Operating grants and contributions	5,738	5,282	1,878	5,039	7,616	10,321
Capital grants and contributions	980	3,549	5,339	8,366	6,319	11,915
General revenues:						
Property taxes	26,747	25,878	-	-	26,747	25,878
Sales taxes	40,698	38,906	-	-	40,698	38,906
Other taxes	26,900	26,455	-	-	26,900	26,455
Investment interest	4,090	2,621	2,908	1,837	6,998	4,458
Miscellaneous	7,961	11,466	489	1,856	8,450	13,322
Total revenues	\$ 165,919	\$ 167,497	\$ 69,232	\$ 75,881	\$ 235,151	\$ 243,378
Expenses:						
General government	\$ 25,889	\$ 23,179	\$ -	\$ -	\$ 25,889	\$ 23,179
Security	58,614	50,584	-	-	58,614	50,584
Economic environment	12,179	10,415	-	-	12,179	10,415
Transportation	20,619	16,006	-	-	20,619	16,006
Culture and recreation	15,641	13,136	-	-	15,641	13,136
Interest on long term debt	2,263	2,397	-	-	2,263	2,397
Water/Wastewater	-	-	33,285	36,623	33,285	36,623
UPD Water/Wastewater	-	-	6,970	7,018	6,970	7,018
Stormwater	-	-	11,463	10,764	11,463	10,764
Total expenses	\$ 135,205	\$ 115,717	\$ 51,718	\$ 54,405	\$ 186,923	\$ 170,122
Increase/(Decrease) in net position						
Before special item and transfers	30,714	51,780	17,514	21,476	48,228	73,256
Special Item - loss on sale of land	(1,733)	-	-	-	(1,733)	-
Transfers, internal activities	(327)	(1,662)	327	1,662	-	-
Increase (decrease in net position)	28,654	50,118	17,841	23,138	46,495	73,256
Net position - beginning						
Prior period adjustments	567,381	527,426	441,469	418,332	1,008,850	945,758
Changes in accounting principles - GASB 75	(4,649)	-	-	-	(4,649)	-
Net position - ending	\$ 591,386	\$ 567,380	\$ 459,310	\$ 441,470	\$ 1,050,696	\$ 1,008,850

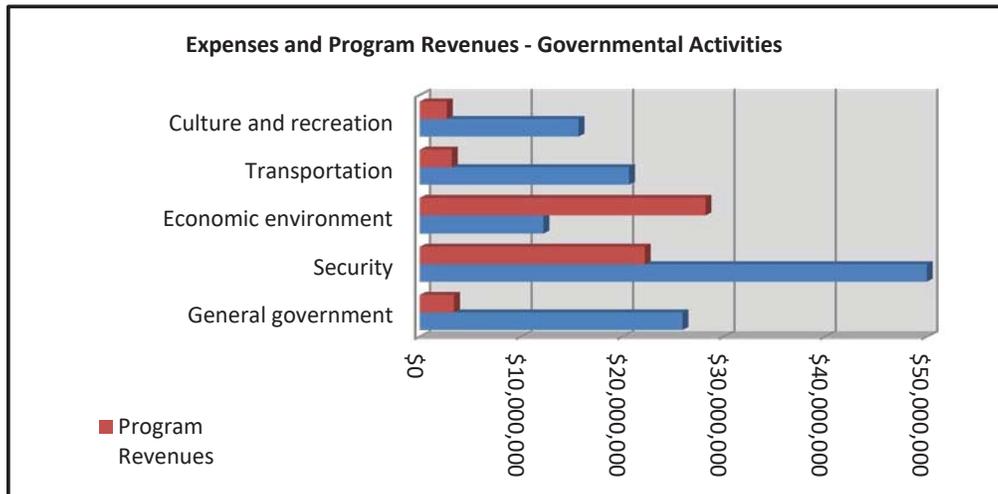
Governmental activities

During the 2019 fiscal year, net position for governmental activities increased \$24.0 million (4.2%), compared to \$40.0 million (7.6%) in 2018. Key elements of the increase are as follows:

- Total assets and deferred outflows from Governmental activities increased by \$22.4 million (3.3%).
 - Cash and investments increased \$22.3 (15.7%) million from 2018 to 2019.
 - Due from other governments decreased \$489,217 (10.1%) in 2019 due to grants received in 2018 for capital projects such as Downtown Park.
 - Investment in capital assets decreased by \$5.6 million (1.8%), which is consistent with the City's plans for investments in infrastructure and technology and includes assets contributed by developers as a result of the City's development surge.
 - Net pension asset increased \$958,407, and deferred outflows for pensions increased \$1.1 million. See Note 7 – Pensions for additional information.
- Total liabilities and deferred inflows from Governmental activities decreased by \$1.6 million (1.3%).
 - Debt decreased by \$4.8 million due to principal payments on debt previously held by the City. See Note 11 – Long-Term Obligations for more information.

- Net pension liability (including total pension liability for the fire fighter pension plan) decreased by \$3.0 million and deferred inflows for pensions increased \$1.3 million. See Note 7 – Pensions for additional information.
- Claims increased \$2.2 million and payments due to other governments increase by \$1.9 million.
- Total revenue decreased between 2018 and 2019 by \$1.9 million or 1.2%.
 - Total tax revenues increased by \$3.1 million (3.4%) compared to 2018, due to an increase in sales tax revenue of \$1.8 million and an increase in property taxes of \$869,000.
 - Program revenues decreased by \$2.6 million (4.3%) due to decreased revenue of \$2.6 million related to economic environment and a decrease in grant revenues of \$2.1 million related to capital projects; this was offset by increased revenue of \$1.9 million related to security.
 - Miscellaneous revenue increased \$1.1 million primarily due to higher special assessments revenues in 2018 as compared to 2019 for Redmond Community Facilities District 2016-1.
 - Total expenses increased by \$19.5 million (16.8%), primarily attributable to increase in general government and security expenditures, investment in capital outlay to further goals of the City’s Capital Investment Strategy, an increase in principal debt payments and use of reserves to establish and fund a health reimbursement arrangement voluntary employees’ beneficiary association for eligible employees.

The graph that follows compares program revenues to program expenses from the Statement of Activities and illustrates the impact of various city functions on net position from operations before taxes, for the governmental activities for 2019.



General Fund Budgetary Highlights

The City of Redmond budgets on a biennial basis and in comparing the original budget to the final budget for 2019, several changes took place including:

- Recognizing the difference between budgeted and actual beginning fund balances.
- Recognizing revenue and expenses related to departmental reorganizations.
- Recognizing awarded grant revenue.
- Increasing a transfer and related expenditure for a real property purchase.

Total actual revenues came in over budget by \$5.03 million (5%) including fund balances. When comparing budget to actuals, some notable differences occurred, including:

- Sales and use tax came in \$10.1 million or 37% over budgeted levels. The increase is primarily as a result of sales tax from the construction of significant projects such as light rail and represents the bulk of the difference between budgeted and actual revenues.
- Permit revenue declined slightly from \$12.1 million in collections compared to budgeted levels of \$12.3 million primarily due to a slower start of two large development projects.
- Interest revenue increased significantly to approximately \$1 million, a 113% increase from budgeted interest revenue of \$500,000.
- Utility taxes declined slightly from \$10.4 million in collections compared to budgeted levels of \$12.3 million primarily due to forecasted telephone taxes coming in lower than anticipated. The decline in telephone taxes is due to reduced count in landlines. Utility taxes from electric utilities also decreased due to a major employer purchasing electrical power through a wholesale distributor which decreased taxable revenues.

Total actual expenditures are below the annual budget by \$3.6 million in the General Fund due to:

- Approximately, \$2.6 million of professional services was spent in 2019 on projects such as the North/South Corridor Study, update urban street design standards. However, some projects are budgeted over the biennium, so a large part of the costs will occur in 2020.
- Outside repairs and maintenance were \$463,050 below the budget as some projects had a slow start including but not limited to tree trimming project and some of these costs may occur in year 2020.
- Overtime salaries were approximately \$484,086 over budget due to vacancies in the public safety departments.
- Cost increases were offset by salary savings of \$4.17 million as a result of the City's policies to budget for full salary and benefits for each position.

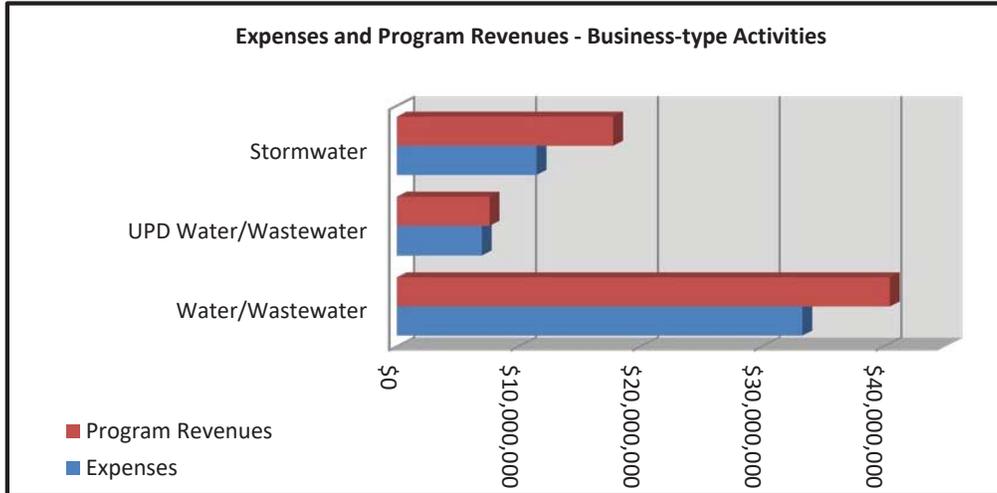
Business-type Activities

Business-type activities account for 43.7% of the City's net position. Business-type activities of the City's utilities increased the City of Redmond's net position by \$17.8 million (4.0%).

Key elements of this increase are as follows:

- Net investment in capital assets increased \$4.3 million or 1.3% between 2018 and 2019.
- The Water/Wastewater utility showed operating income of \$3.7 million in 2019 compared to \$0.55 million in 2018, while the Novelty Hill Water/Wastewater utilities showed an operating income of \$0.4 million compared to \$1.0 million in 2018. This is primarily related to a higher level of development activities as well as the continued build out of the Novelty Hill infrastructure. When non-operating income and capital contributions are included, the change in net position is \$8.7 million for the Water/Wastewater utility and \$1.4 million for the UPD Water/Wastewater utility.
- The Storm water utility showed operating income of \$3.6 million in 2019 compared to \$3.8 million in 2018, due to slight decreases in both operating revenues and expenses. When non-operating income and capital contributions are included, the change in net position is \$7.7 million, compared to \$11.2 million in 2018. This is primarily due to transfer of excess fund balance from operations and the growth of depreciation due to investments in regional stormwater facilities in the Overlake area.

The graph that follows compares program revenues to program expenses from the Statement of Activities and illustrates the revenues by source separately for the business-type activities for 2019:



City of Redmond's Capital Assets (net of depreciation)

The City of Redmond's investment in capital assets for its governmental and business-type activities (not including investment in joint ventures) as of December 31, 2019, amounts to \$848.4 million (net of accumulated depreciation) an increase of \$103,000 from 2018. Investment in capital assets includes land, art and construction in progress, which are not subject to depreciation. The other capital assets, buildings and building improvements, improvements other than buildings, machinery and equipment, and infrastructure are subject to depreciation.

Governmental type capital assets (net of depreciation) totaled \$478.6 million in 2019, a decrease of \$3.0 million from 2018. Business-type capital assets (net of depreciation) totaled \$369.8 million, an increase of \$3.1 million from 2018. In addition to the effects of depreciation, these increases are the result of land acquisitions, improvements to buildings, contributed capital, and construction in progress. More information on the City's Capital Assets can be found in Note 6 – Capital Assets, in the notes to the financial statements.

City of Redmond's Capital Assets
(net of depreciation)
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land & Land Rights	\$ 156,461	\$ 157,948	\$ 25,528	\$ 26,814	\$ 181,989	\$ 184,762
Intangibles	-	-	838	838	838	838
Buildings/ Bldg. Improvements	62,852	64,803	27,290	28,049	90,142	92,852
Improvements other than Buildings	32,826	33,849	295,868	289,332	328,694	323,181
Machinery and Equipment	15,233	15,787	866	819	16,099	16,606
Construction in Progress	16,119	12,067	19,391	20,836	35,510	32,903
Infrastructure	194,524	196,570	-	-	194,524	196,570
Art	573	554	-	-	573	554
Total	\$ 478,588	\$ 481,578	\$ 369,781	\$ 366,688	\$ 848,369	\$ 848,266

City of Redmond's Outstanding Debt

At the end of 2019, the City of Redmond had total bonded debt outstanding of \$48.5 million. Of this amount, \$47.4 million is general obligation bonds (City Hall, Bear Creek Parkway, transportation and parks) and \$1.1 million is a Public Works Trust Fund Loan for the 161st NE Extension project.

City of Redmond's Long-term Debt
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 47,420	\$ 51,870	\$ -	\$ -	\$ 47,420	\$ 51,870
G.O. bond premiums	3,591	3,896	-	-	3,591	3,896
Revenue bonds	-	-	18,665	19,510	18,665	19,510
Revenue bond issuance premiums	-	-	2,357	2,519	2,357	2,519
Public Works Trust Fund loans	1,133	1,228	3,711	3,902	4,844	5,130
Total	\$ 52,144	\$ 56,994	\$ 24,733	\$ 25,931	\$ 76,877	\$ 82,925

From a historical perspective, in 2013 the City issued \$33.1 million in limited tax general obligation refunding bonds to advance refund \$32.8 million of outstanding 2004 Limited Tax General Obligation Lease Revenue Bonds for City Hall and the parking garage. The refunding resulted in deferred outflows of \$1.5 million. In December 2015, the City issued \$9.3 million in limited tax general obligation refunding bonds with an interest rate of 3.00% to advance refund \$8.9 million of outstanding 2008 Limited Tax General Obligation Bonds. The refunding resulted in deferred outflows of \$1.0 million. In January 2016, the City issued \$11.6 million in limited tax general obligation refunding bonds with an interest rate of 2.0%-5.0% to advance refund \$11.7 million of outstanding 2008 Limited Tax General Obligation Bonds. The refunding resulted in deferred outflows of \$1.4 million.

In 2016, the City also issued \$6,000,000 in new limited tax general obligation bonds with an interest rate of 2.0%-5.0% to provide funds to finance the costs of transportation improvements.

For further details related to the outstanding debt please refer to note 11 – Long-term Obligations, in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

The City of Redmond budget is an important part of Redmond's Long-Range Financial Strategy that encourages a deeper understanding of Redmond's service commitments to the community and a plan to meet those commitments in a sustainable and responsible manner. Such a strategy makes it possible to focus on Redmond's vision to realize the future as a City with two vibrant urban centers with connected neighbors and to provide high quality responsive services in partnership with an engaged community. Through innovation and efficiencies, Redmond continues to provide quality services that meet or exceed the expectations of our community members. Strong financial stewardship and quality customer service is a hallmark of Redmond city government and is evidenced by the City's AAA bond rating.

The City's infrastructure investments reinforce the urban centers, Downtown, Overlake and Marymoor Village, as the primary growth areas and preserve the character of Redmond's residential neighborhoods. Light rail will be arriving at stations in the Overlake and Downtown Urban Centers in 2023 and 2024, respectively, generating additional growth. Also anchored by a new light rail station, the new Marymoor Village is further anticipated to add over 1,400 dwelling units and one million square feet of new office space by 2030.

Development of the Downtown urban center is progressing, with thousands of new housing units having come online and many hundreds more programmed over the next several years, complemented by strategic investments in the new Downtown Park and transportation infrastructure that promotes mobility choices. Planning efforts continue to refine design standards, zoning district regulations, parking management, and wellhead protection in the Downtown.

Overlake is thoughtfully evolving into the envisioned urban center. The redevelopment of the Microsoft campus will generate new opportunities and new challenges for the city's infrastructure and services as more than 8,000 new jobs are located in the area. Other large projects like Esterra Park, for example, have seen this largely suburban area start to take on a more urban feel, replete with needs for large-scale infrastructure investments much like the completed regional stormwater vaults and the proposed pedestrian bridge over State Route 520. These improvements are in addition to major infrastructure investments by other entities, like Microsoft and Sound Transit.

In 2019, General Fund revenue ended the year over expectations primarily due to the increase in sales tax on construction and growth in development review as a result of a more robust economy, a development surge in the region and some significant infrastructure projects in the City. Departments successfully managed their expenditures, and as a result, General Fund expenditures were approximately 3% below the authorized budget (excluding ending fund balances). Redmond will continue to make progress on its infrastructure goals by continuing work in Downtown, Overlake and SE Redmond related to the light rail stations and pedestrian friendly amenities. In conjunction with mobility choices, the City will improve on housing choices by partnering with regional and private organizations to create transit oriented housing developments that support affordable and workforce housing. Lastly, the City will continue to maintain existing infrastructure through replacing aging pump stations and force mains, renovating facilities and preserving transportation facilities.

As a part of a technologically forward-thinking community, Redmond will invest in replacing outdated technology systems through implementation of a new workforce management system to allow for the efficient data capture of employee information from hire to retirement, improving its existing records management system to effectively manage the responses to the large volume of records requests organization wide and make progress toward updating the foundational finance enterprise resource planning (ERP). At the same time, the City will continue its ongoing efforts toward customer service, process improvement and organizational development.

Requests for Information

This financial report is designed to provide a general overview of the City of Redmond's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Director of Finance, City of Redmond, PO Box 97010, Redmond, WA 98073-9710.

CITY OF REDMOND
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 85,790,766	\$ 57,514,898	\$ 143,305,664
Investments (Note 3)	78,974,835	47,695,075	126,669,910
Receivables:			
Taxes	11,938,071	-	11,938,071
Accounts	1,376,627	5,162,051	6,538,678
Interest	475,964	316,004	791,968
Special assessments	10,000,000	-	10,000,000
Due from other governments	4,376,473	522,677	4,899,150
Inventory	60,552	122,325	182,877
Prepayments	614,003	-	614,003
Net pension asset	20,958,829	-	20,958,829
Restricted assets:			
Deposit cash	454,814	58,473	513,287
Deposit investments	4,809,996	-	4,809,996
Revenue bond reserve	-	1,634,409	1,634,409
Rate stabilization fund	-	6,107,077	6,107,077
Advance on service contract	-	11,232	11,232
Capital assets (Note 6):			
Land, artwork, construction in progress	173,153,408	45,757,130	218,910,538
Depreciable capital assets, net	305,434,423	324,023,522	629,457,945
Total assets	<u>698,418,761</u>	<u>488,924,873</u>	<u>1,187,343,634</u>
Deferred outflow of resources:			
Debt refunding	2,864,579	-	2,864,579
Pensions	6,074,749	696,766	6,771,515
OPEB	212,477	-	212,477
Total deferred outflows of resources	<u>9,151,805</u>	<u>696,766</u>	<u>9,848,571</u>
Total assets and deferred outflows of resources	<u>707,570,566</u>	<u>489,621,639</u>	<u>1,197,192,205</u>
LIABILITIES			
Payables:			
Accounts/claims	7,320,008	(81,730)	7,238,278
Retainage payable	185,529	160,331	345,860
Employee wages	3,751,533	436,073	4,187,606
Interest	159,963	74,280	234,243
Due to other governments	2,258,881	93,293	2,352,174
Unearned revenues	234,101	28,091	262,192
Customer deposits	3,846,748	58,473	3,905,221
Noncurrent liabilities (Note 11):			
Due within one year	9,227,642	1,599,396	10,827,038
Due in more than one year	48,570,331	23,786,386	72,356,717
Net pension liability	11,252,889	2,620,248	13,873,137
Total pension liability-firefighters' pension plan	640,242	-	640,242
Total OPEB liability	15,273,781	-	15,273,781
Total liabilities	<u>102,721,648</u>	<u>28,774,841</u>	<u>131,496,489</u>
Deferred inflow of resources:			
Pensions	13,463,267	1,536,058	14,999,325
Total deferred inflows of resources	<u>13,463,267</u>	<u>1,536,058</u>	<u>14,999,325</u>
Total liabilities and deferred inflows of resources	<u>116,184,915</u>	<u>30,310,899</u>	<u>146,495,814</u>
NET POSITION			
Net investment in capital assets (Note 6)	429,308,425	345,047,896	774,356,321
Restricted for:			
Net pension asset	20,958,829	-	20,958,829
Public Safety	6,003,597	-	6,003,597
Cable access	256,067	-	256,067
Parks	545,521	-	545,521
Debt service	879,368	1,634,409	2,513,777
Capital projects	65,251,411	-	65,251,411
Impact fees	18,119,915	-	18,119,915
Tourism	926,466	-	926,466
Planning-Transportation	1,197,397	-	1,197,397
Recycling	1,101,905	-	1,101,905
Rate stabilization fund	-	6,107,077	6,107,077
Unrestricted	46,836,750	106,521,358	153,358,108
Total Net Position	<u>\$ 591,385,651</u>	<u>\$ 459,310,740</u>	<u>\$ 1,050,696,391</u>

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 25,889,069	\$ 3,070,577	\$ 301,300	\$ -	\$ (22,517,192)	\$ -	\$ (22,517,192)
Security	58,613,556	18,660,638	3,510,955	-	(36,441,963)	-	(36,441,963)
Economic environment	12,178,991	27,921,906	232,577	-	15,975,492	-	15,975,492
Transportation	20,618,865	618,061	1,560,997	979,622	(17,460,185)	-	(17,460,185)
Culture and recreation	15,640,585	2,533,856	132,017	-	(12,974,712)	-	(12,974,712)
Interest on long-term debt	2,263,515	-	-	-	(2,263,515)	-	(2,263,515)
Total governmental activities	135,204,582	52,805,038	5,737,846	979,622	(75,682,075)	-	(75,682,075)
Business-type activities							
Water/Wastewater	33,284,850	37,031,191	942,925	2,506,660	-	7,195,926	7,195,926
UPD Water/Wastewater	6,969,910	7,404,141	203,760	-	-	637,991	637,991
Stormwater	11,463,018	14,182,725	731,551	2,832,244	-	6,283,502	6,283,502
Total business-type activities	51,717,778	58,618,057	1,878,236	5,338,904	-	14,117,419	14,117,419
Total government	\$ 186,922,360	\$ 111,423,095	\$ 7,616,082	\$ 6,318,526	(75,682,075)	14,117,419	(61,564,656)
General revenues:							
Taxes							
Property					26,746,809	-	26,746,809
Sales					40,697,978	-	40,697,978
Business and Occupation					16,069,654	-	16,069,654
Excise					10,830,140	-	10,830,140
Investment interest					3,082,144	2,124,066	5,206,210
Gain (loss) in change of fair value					1,008,217	784,043	1,792,260
Miscellaneous					3,432,948	281,678	3,714,626
Contributions/Disposal of capital assets					4,527,407	207,769	4,735,176
Special Item - Loss on sale of land					(1,732,716)	-	(1,732,716)
Transfers, internal activities					(326,717)	326,717	-
Total general revenues					104,335,864	3,724,273	108,060,137
Change in net position					28,653,789	17,841,692	46,495,481
Net position-beginning					567,381,263	441,469,048	1,008,850,311
Prior Period Adjustments (note 19)					(4,649,401)	-	(4,649,401)
Net position-ending					591,385,651	459,310,740	1,050,696,391

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019

	General	Capital Improvements Program Fund	Other Governmental Funds	Governmental Funds Total
ASSETS				
Cash and cash equivalents	\$ 33,259,841	\$ 35,799,943	\$ 10,699,848	\$ 79,759,632
Investments	28,691,760	34,160,977	10,306,300	73,159,037
Receivables:				
Taxes	8,122,479	-	3,815,592	11,938,071
Accounts	94,664	1,632	1,280,331	1,376,627
Interest	190,902	193,087	58,800	442,789
Special assessments	-	10,000,000	-	10,000,000
Due from other funds	851,632	-	-	851,632
Due from other governments	767,683	1,356,540	2,252,250	4,376,473
Prepayments	26,466	-	6,756	33,222
Restricted assets:				
Deposit investments	4,796,808	3,188	10,000	4,809,996
Cash	454,814	-	-	454,814
Total assets	\$ 77,257,049	\$ 81,515,367	\$ 28,429,877	\$ 187,202,293
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts/claims payable	\$ 1,577,951	\$ 2,969,772	\$ 364,219	\$ 4,911,942
Retainage payable	80,698	104,831	-	185,529
Employee wages payable	2,912,324	29,395	549,200	3,490,919
Due to other funds	164,526	-	687,107	851,633
Due to other governments	1,403,346	681,826	104,778	2,189,950
Payable from restricted assets:				
Deposits payable	3,833,560	3,188	10,000	3,846,748
Unearned revenues	12,901	-	221,200	234,101
Total liabilities	9,985,306	3,789,012	1,936,504	15,710,822
Deferred Inflows of resources:				
Unavailable revenue-special assessments	-	46,849,124	-	46,849,124
Total deferred inflows	-	46,849,124	-	46,849,124
Fund balance: (Note 4)				
Non-spendable	26,466	-	6,756	33,222
Spendable:				
Restricted	4,859,562	23,571,195	19,001,766	47,432,523
Committed	10,219,426	-	7,484,851	17,704,277
Assigned	21,919,021	7,306,036	-	29,225,057
Unassigned	30,247,268	-	-	30,247,268
Total fund balance	67,271,743	30,877,231	26,493,373	124,642,347
Total liabilities, deferred Inflows, and fund balances	\$ 77,257,049	\$ 81,515,367	\$ 28,429,877	
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.				470,354,576
Internal service funds are used by management to charge the costs of certain activities, such as insurance, information services, and fleet maintenance, to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the Statement of Net Position.				16,245,136
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. (Note 2)				(54,768,060)
The net pension asset, net pension liability, total pension liability for firefighters' pension plan, and deferred inflows and deferred outflows are reported in the government-wide statement of net position but not in the governmental balance sheet. (Note 2)				(11,937,472)
Special assessments are susceptible to full accrual in the government-wide statements, but are reported as deferred inflows in the governmental funds.				46,849,124
Net position of governmental activities				\$ 591,385,651

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	Capital Improvements Program Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 82,033,352	\$ -	\$ 12,311,228	\$ 94,344,580
Licenses and permits	12,179,424	-	7,748,639	19,928,063
Contributions	38,704	-	70,856	109,560
Intergovernmental	5,200,362	979,622	427,925	6,607,909
Charges for services	15,151,349	5,857,989	11,264,139	32,273,477
Fines and forfeitures	561,372	-	42,125	603,497
Investment income	1,278,168	844,617	441,670	2,564,455
Net change in fair value of investment	444,064	334,632	127,850	906,546
Miscellaneous	807,851	2,495,998	269,612	3,573,461
Total revenues	<u>117,694,646</u>	<u>10,512,858</u>	<u>32,704,044</u>	<u>160,911,548</u>
EXPENDITURES				
Current:				
General government	21,199,430	3,455	9,516	21,212,401
Security of persons and property	48,735,392	16,033	8,642,396	57,393,821
Transportation	12,356,019	293,690	1,115,423	13,765,132
Economic environment	7,295,049	-	4,893,787	12,188,836
Social services	929,286	-	282,330	1,211,616
Culture and recreation	11,860,221	281,225	2,123,825	14,265,271
Capital outlay	5,701,405	11,200,491	295,032	17,196,928
Debt service:				
Principal	94,451	795,000	3,655,000	4,544,451
Interest and debt issuance costs	3,070	102,787	1,958,858	2,064,715
Total expenditures	<u>108,174,323</u>	<u>12,692,681</u>	<u>22,976,167</u>	<u>143,843,171</u>
Excess (deficiency) of revenues Over (under) expenditures	<u>9,520,323</u>	<u>(2,179,823)</u>	<u>9,727,877</u>	<u>17,068,377</u>
OTHER FINANCING SOURCES (USES)				
Disposition of capital assets	2,250	275,002	-	277,252
Transfers in (Note 10)	3,296,000	4,972,440	3,873,150	12,141,590
Transfers out (Note 10)	(7,027,623)	(1,877,290)	(4,334,884)	(13,239,797)
Total other financing sources and uses	<u>(3,729,373)</u>	<u>3,370,152</u>	<u>(461,734)</u>	<u>(820,955)</u>
SPECIAL ITEM				
Proceeds from sale of land	8,281,096	-	-	8,281,096
Net change in fund balance	<u>14,072,046</u>	<u>1,190,329</u>	<u>9,266,143</u>	<u>24,528,518</u>
Fund balance-beginning	53,513,612	29,372,987	17,227,230	100,113,829
Prior period adjustments (note 19)	(313,915)	313,915	-	-
Fund balance-ending	<u>\$ 67,271,743</u>	<u>\$ 30,877,231</u>	<u>\$ 26,493,373</u>	<u>\$ 124,642,347</u>

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

Amounts reported for governmental funds in the statement of activities are different because:

Net change in fund balances-total governmental funds.	\$ 24,528,518
Governmental funds report capital outlays as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$17,196,928 and contributions of \$2,986,130 surpass depreciation expense of \$11,499,556 and disposals of \$10,050,890 in the current period.	(1,367,388)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (Note 2)	(622,899)
Repayment of long-term debt is an expenditure in the governmental funds, yet the repayment reduces long-term liabilities in the statement of net position. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of activities (note 2):	4,638,138
Internal service funds are used by management to charge the costs of certain activities, such as insurance, information services, and fleet maintenance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	(3,869,960)
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. (Note 2)	(66,255)
Pension expenses reported in the governmental fund statements are not reported as expenditures in the statement of activities.	5,413,635
Change in net position of governmental activities	<u>\$ 28,653,789</u>

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2019

Page 1 of 2

	Business-type Activities				Totals	Governmental Activities Internal Service Funds
	Water/ Wastewater	UPD Water/ Wastewater	Stormwater Management	Enterprise Funds		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 22,876,370	\$ 13,684,408	\$ 20,954,120	\$ 57,514,898	\$ 6,031,134	
Investments	17,695,983	11,428,161	18,570,931	47,695,075	5,815,798	
Accounts and contracts receivable	3,498,083	675,434	988,534	5,162,051	-	
Interest receivable	124,842	76,124	115,238	316,004	33,175	
Due from other Governments	65,778	11,608	445,291	522,677	-	
Inventory	122,325	-	-	122,325	-	
Prepaid insurance	-	-	-	-	60,552	
Restricted assets:					580,781	
Customer deposits:						
Cash and cash equivalents	16,373	32,000	10,100	58,473	-	
Revenue bond reserve:						
Investments	-	-	1,634,409	1,634,409	-	
Rate stabilization fund:						
Investments	4,177,811	1,929,266	-	6,107,077	-	
Total current assets	<u>48,577,365</u>	<u>27,837,001</u>	<u>42,718,623</u>	<u>119,132,989</u>	<u>12,521,440</u>	
Noncurrent assets:						
Advance on service contract	8,908	2,324	-	11,232	-	
Capital assets:						
Land and land rights	3,223,162	3,274,106	19,030,629	25,527,897	584,292	
Buildings	25,377,864	11,031,564	1,549,496	37,958,924	715,786	
Improvements other than buildings	194,976,647	66,096,026	140,748,119	401,820,792	356,198	
Intangible assets	838,315	-	-	838,315	-	
Equipment	857,444	267,674	665,330	1,790,448	15,278,975	
Construction in progress	3,727,090	-	15,663,828	19,390,918	1,743	
Less accumulated depreciation	(69,392,328)	(20,935,446)	(27,218,868)	(117,546,642)	(8,703,738)	
Total capital assets (net of depreciation)	<u>159,608,194</u>	<u>59,733,924</u>	<u>150,438,534</u>	<u>369,780,652</u>	<u>8,233,256</u>	
Total noncurrent assets	159,617,102	59,736,248	150,438,534	369,791,884	8,233,256	
Total assets	<u>208,194,467</u>	<u>87,573,249</u>	<u>193,157,157</u>	<u>488,924,873</u>	<u>20,754,696</u>	
Deferred outflow of resources:						
Pensions	313,498	159	383,109	696,766	315,257	
Total deferred outflows of resources	<u>313,498</u>	<u>159</u>	<u>383,109</u>	<u>696,766</u>	<u>315,257</u>	
Total assets and deferred outflows of resources	<u>\$ 208,507,965</u>	<u>\$ 87,573,408</u>	<u>\$ 193,540,266</u>	<u>\$ 489,621,639</u>	<u>\$ 21,069,953</u>	

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2019

Page 2 of 2

	Business-type Activities			Totals	Governmental Activities Internal Service Funds
	Water/ Wastewater	UPD Water/ Wastewater	Stormwater Management		
LIABILITIES					
Current liabilities:					
Accounts payable	\$ (518,179)	\$ 18,703	\$ 417,746	\$ (81,730)	\$ 2,408,066
Retainage payable	93,423	50,548	16,360	160,331	-
Employee wages payable	250,894	120	185,059	436,073	260,614
Compensated absences	337,126	-	185,295	522,421	260,238
Due to other governments	43,145	-	50,148	93,293	68,931
Unearned revenues	28,091	-	-	28,091	-
Current portion of loans payable	-	-	196,975	196,975	-
Current portion of revenue bonds payable	-	-	880,000	880,000	-
Accrued interest payable	-	-	74,280	74,280	-
Current liabilities payable from restricted assets:					
Customer deposits payable	16,373	32,000	10,100	58,473	-
Total current liabilities	<u>250,873</u>	<u>101,371</u>	<u>2,015,963</u>	<u>2,368,207</u>	<u>2,997,849</u>
Noncurrent liabilities:					
Revenue bonds payable, net	-	-	20,142,234	20,142,234	-
Loans payable	-	-	3,513,547	3,513,547	-
Compensated absences	84,281	-	46,324	130,605	65,059
Net pension liability	1,127,061	1,297	1,491,890	2,620,248	1,003,284
Total noncurrent liabilities	<u>1,211,342</u>	<u>1,297</u>	<u>25,193,995</u>	<u>26,406,634</u>	<u>1,068,343</u>
Total liabilities	<u>1,462,215</u>	<u>102,668</u>	<u>27,209,958</u>	<u>28,774,841</u>	<u>4,066,192</u>
Deferred inflow of resources:					
Pensions	922,063	198	613,797	1,536,058	758,625
Total deferred inflows of resources	<u>922,063</u>	<u>198</u>	<u>613,797</u>	<u>1,536,058</u>	<u>758,625</u>
Total liabilities and deferred inflows of resources	<u>2,384,278</u>	<u>102,866</u>	<u>27,823,755</u>	<u>30,310,899</u>	<u>4,824,817</u>
NET POSITION					
Net investment in capital assets	159,608,194	59,733,924	125,705,778	345,047,896	8,233,256
Restricted for debt service	-	-	1,634,409	1,634,409	-
Restricted for rate stabilization	4,177,811	1,929,266	-	6,107,077	-
Unrestricted	42,337,682	25,807,352	38,376,324	106,521,358	8,011,880
Total net position	<u>206,123,687</u>	<u>87,470,542</u>	<u>165,716,511</u>	<u>459,310,740</u>	<u>16,245,136</u>

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2019

	Business-type Activities- Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Water/ Wastewater	UPD Water/ Wastewater	Stormwater Management		
Operating revenues:					
Charges for services	\$ 22,077,358	\$ 5,212,595	\$ 14,182,725	\$ 41,472,678	\$ 22,209,224
Metro service	14,953,833	2,191,546	-	17,145,379	-
Charges for replacement	-	-	-	-	2,653,219
Charges for insurance	-	-	-	-	1,511,592
Total operating revenues	<u>37,031,191</u>	<u>7,404,141</u>	<u>14,182,725</u>	<u>58,618,057</u>	<u>26,374,035</u>
Operating expenses:					
Administrative and general	3,423,718	741,697	2,748,892	6,914,307	-
Purchased water	5,004,515	1,304,140	-	6,308,655	-
Metro service	15,397,364	2,173,224	-	17,570,588	-
Supplies	-	-	-	-	661,524
Maintenance and operations	4,689,758	1,176,717	4,562,265	10,428,740	30,982,698
Taxes	796,501	186,172	219,158	1,201,831	-
Depreciation and amortization	3,972,868	1,387,960	3,070,630	8,431,458	1,193,204
Total operating expenses	<u>33,284,724</u>	<u>6,969,910</u>	<u>10,600,945</u>	<u>50,855,579</u>	<u>32,837,426</u>
Operating income (loss)	<u>3,746,467</u>	<u>434,231</u>	<u>3,581,780</u>	<u>7,762,478</u>	<u>(6,463,391)</u>
Nonoperating revenues (expenses):					
Interest and investment revenue	825,755	514,157	784,154	2,124,066	211,781
Net change in fair value of the investment	315,626	192,183	276,233	784,042	101,670
Grant income	105,957	-	659,300	765,257	-
Interest expense	(126)	-	(862,073)	(862,199)	-
Gain (Loss) on disposal of capital assets	207,769	-	-	207,769	39,543
Insurance recovery	-	-	-	-	818,191
Lease and other revenue	186,964	94,561	154	281,679	650,755
Total nonoperating revenues (expenses)	<u>1,641,945</u>	<u>800,901</u>	<u>857,768</u>	<u>3,300,614</u>	<u>1,821,940</u>
Income before contributions and transfers	5,388,412	1,235,132	4,439,548	11,063,092	(4,641,451)
Capital contributions					
Transfers in	3,343,628	203,760	2,904,495	6,451,883	-
Transfers out	-	-	326,717	326,717	771,491
Change in net position	<u>8,732,040</u>	<u>1,438,892</u>	<u>7,670,760</u>	<u>17,841,692</u>	<u>(3,869,960)</u>
Total net position - beginning					
	197,391,647	86,031,650	158,045,751	441,469,048	20,115,096
Prior period adjustment					
	-	-	-	-	-
Total net position - ending	<u>\$ 206,123,687</u>	<u>\$ 87,470,542</u>	<u>\$ 165,716,511</u>	<u>\$ 459,310,740</u>	<u>\$ 16,245,136</u>

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2019

	Business-type Activities-			Governmental Activities-	
	Water/ Wastewater	Enterprise Water/ Wastewater		Stormwater Management	Internal Service Funds
	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	37,527,138	7,400,272	14,441,869	59,369,279	23,756,563
Cash received for replacement	-	-	-	-	2,653,219
Cash payments to suppliers	(23,729,723)	(3,869,559)	(1,511,136)	(29,110,418)	(5,457,474)
Cash payments to employees	(4,633,565)	(1,197)	(3,440,710)	(8,075,472)	(25,265,853)
Cash payments to other governments	(775,802)	(186,172)	(187,062)	(1,149,036)	9,034
Internal activity - payments to other funds	(1,769,986)	(1,746,536)	(2,704,362)	(6,220,884)	(734,306)
Other operating receipts	186,964	82,952	154	270,070	1,229,266
Net cash provided (used) by operating activities	<u>6,805,026</u>	<u>1,679,760</u>	<u>6,598,753</u>	<u>15,083,539</u>	<u>(3,809,551)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in/transfers out	-	-	326,717	326,717	771,491
Grant proceeds	156,344	-	599,595	755,939	-
Net cash provided by noncapital financing activities	<u>156,344</u>	<u>-</u>	<u>926,312</u>	<u>1,082,656</u>	<u>771,491</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(7,454,619)	(404,865)	(2,430,331)	(10,289,815)	(1,144,797)
Proceeds from sale of other assets	141,991	-	-	141,991	239,679
Cash payments to suppliers	-	-	(112,859)	(112,859)	-
Retainage payable	93,423	50,548	16,360	160,331	-
Cash payments to other governments	5,502	-	9,053	14,555	-
Cash received from customers	944	-	26	970	-
Capital contributions	2,631,550	440	2,587,649	5,219,639	-
Grant Proceeds	-	-	411,874	411,874	-
Interest paid on other debt	-	-	(100,769)	(100,769)	-
Principal paid on other debt	-	-	(191,925)	(191,925)	-
Interest paid on revenue bonds	(126)	-	(925,760)	(925,886)	-
Principal paid on revenue bonds	-	-	(845,000)	(845,000)	-
Net cash provided (used) for capital and related financing activities	<u>(4,581,335)</u>	<u>(353,877)</u>	<u>(1,581,682)</u>	<u>(6,516,894)</u>	<u>(905,118)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Internal activity, net investment purchases	13,786,161	8,293,626	9,343,418	31,423,205	7,553,407
Interest on investments	1,186,715	733,373	1,086,972	3,007,060	343,979
Net cash provided (used) in investing activities	<u>14,972,876</u>	<u>9,026,999</u>	<u>10,430,390</u>	<u>34,430,265</u>	<u>7,897,386</u>
Net increase (decrease) in cash and cash equivalents	17,352,911	10,352,882	16,373,773	44,079,566	3,954,208
Cash and cash equivalents-beginning of year	5,539,832	3,363,526	4,590,447	13,493,805	2,076,926
Cash and cash equivalents-end of year	<u>\$ 22,892,743</u>	<u>\$ 13,716,408</u>	<u>\$ 20,964,220</u>	<u>\$ 57,573,371</u>	<u>\$ 6,031,134</u>

The notes to the financial statements are an integral part of this statement

CITY OF REDMOND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2019

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	Business-type Activities-		Totals	Governmental Activities- Internal Service Funds
	Water/ Wastewater	Enterprise Funds UPD Water/ Wastewater		
Cash and cash equivalents				
Operating fund cash	\$ 22,876,370	\$ 13,684,408	\$ 57,514,898	\$ 6,031,134
Customer deposits	16,373	32,000	58,473	-
Cash and cash equivalents-end of year	<u>\$ 22,892,743</u>	<u>\$ 13,716,408</u>	<u>\$ 57,573,371</u>	<u>\$ 6,031,134</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	\$ 3,746,467	\$ 434,231	\$ 3,581,780	\$ 7,762,478	\$ (6,463,391)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	3,972,868	1,387,960	3,070,630	8,431,458	1,193,204
Decrease (increase) in accounts receivable	495,946	(3,869)	259,143	751,220	35,747
Decrease (increase) in inventory	1,241	-	-	1,241	(13,211)
Decrease (increase) in prepaid expenses	-	-	-	-	(46,140)
Increase (decrease) in accounts payable	(1,298,768)	(220,317)	(44,194)	(1,563,279)	576,039
Increase (decrease) due to other governments	20,699	-	32,096	52,795	9,034
Increase (decrease) in unearned revenues	28,091	-	-	28,091	-
Increase (decrease) in employee wages payable	36,059	(1,197)	40,181	75,043	87,249
Increase (decrease) in compensated absences payable	69,137	-	(6,434)	62,703	19,999
Increase (decrease) in customer deposits payable	-	-	-	-	-
Increase (decrease) in GASB 68 adjustment	(453,678)	-	(334,603)	(788,281)	(437,347)
Reclassify other income	186,964	82,952	154	270,070	1,229,266
Net cash provided (used) by operating activities	<u>\$ 6,805,026</u>	<u>\$ 1,679,760</u>	<u>\$ 6,598,753</u>	<u>\$ 15,083,539</u>	<u>\$ (3,809,551)</u>

Noncash investing, capital and financing activities:

Developers contributed infrastructure valued at	\$ 712,079	\$ 203,320	\$ 316,845	\$ 1,232,244	\$ -
Fair value of investments decreased by	(114,793)	(70,109)	(106,131)	(291,033)	(30,556)

The notes to the financial statements are an integral part of this statement

NOTE 1

Summary of Significant Accounting Policies

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

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

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

Reporting Entity

The City's CAFR includes the financial statements for the City of Redmond and its component units; entities for which the City is considered to be financially accountable. The City has two blended component units, Redmond Community Facilities District 2014-1 (CFD 2014-1), which was created in 2014 for the purpose of financing the construction of a pedestrian/bicycle bridge over SR 520 at the Overlake Transit Station, and Redmond Community Facilities District 2016-1 (CFD 2016-1), which was created in 2016 for the purpose of financing northeast 40th Street Trunkline Project and multimodal improvements on 154th Avenue northeast and northeast 51st Street, and northeast 31st Street and 156th Avenue northeast. The CFDs are reported as blended component units in the Capital Investments Program funds of the City of Redmond because the City appoints a majority of the Board members, has the ability to impose its will on the organizations through the ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operation of the organizations, and the CFD's services are primarily provided to the City. (See Note 14 - Component Units for additional information.)

Basic Financial Statements

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. The effect of 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 primarily on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues instead.

Separate financial statements are provided for governmental funds and proprietary funds. 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 financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Financial Statement Presentation

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. It accounts for all financial resources and transactions except those required to be accounted for in another fund. The **Firefighters Pension Plan** is now reported in the General Fund, as reported in Note 7 – Pensions.

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

The City reports the following major proprietary funds:

The **Water/Wastewater Fund** accounts for the activities of providing water and sewer services to its citizens. The utilities operations are self-supported through user charges.

The **UPD Water/Wastewater Fund** accounts for the activities of providing water and sewer services to an urban planned development outside the City limits. The 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.

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

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

The City does not have any permanent funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide Statement of Activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal service funds for fleet maintenance and information technology. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utility funds and internal service funds are charges to customers for sales and services, vehicle replacement, and insurance. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

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

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

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

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

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

- In winter, community meetings are held to affirm or revise the City's budget priorities. The Mayor appoints staff and citizens to teams which interpret these priorities and develop the primary factors that the City should support to pursue the given priority. These factors are used by staff to develop budget offers.
- In spring, the Mayor develops and submits a budget calendar to the City Council for approval.
- In June, the City Clerk publishes notice for the first public hearing. Also around mid-year staff prepares a six-year forecast and reviews this forecast with the City Council at a public meeting.

- Throughout the summer, City staff create budget offers and review revenue and expenditure estimates.
- In October, preliminary budget estimates are made available to the public.
- Sixty days before the ensuing fiscal year, the Mayor files the preliminary budget with the City Clerk's office.
- During the first two weeks of November, the City Clerk publishes notice of the filing of the preliminary budget and publishes notice of public hearings.
- The City Council holds a series of study sessions to review the preliminary budget to determine if they wish to make any modifications to the Mayor's recommended programs.
- Public hearings are held prior to the adoption of the budget for the public to comment on recommended programs and to offer ideas for new programs.
- Prior to the beginning of the first calendar year of the biennial budget, the City Council, by a majority of the members present, adopts a final operating budget by ordinance.
- The Final Budget document is printed and distributed and posted on the City's website after adoption.

Assets, Liabilities, and Net Position

Cash and Investments

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

In accordance with City policy and Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, US Treasury and Agency Securities, Bankers' Acceptances, Bonds of Washington State and any local government in Washington State which have, at the time of purchase, one of the three highest credit ratings of a nationally recognized rating agency, repurchase agreements, the State Investment Pool 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 and GASB 72 (see Note 3).

In accordance with GASB 31 and GASB 79, 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

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

Sales Taxes

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

because all sales taxes are required by law to be collected by businesses at the time of sale and remitted to the State.

Investment Interest

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

Accounts Receivable

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

Interfund Transactions

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

Inventories

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

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

Restricted Assets

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

Advance on Service Contract

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

Capital Assets

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

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

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

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

Compensated Absences

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

Pensions

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

Other Post-Employment Benefits (OPEB)

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. The actual medical costs are reported as expenditures in the year they are incurred and are paid out of the General Fund. A liability for the accumulated unfunded actuarially required contribution and deferred outflow of resources is reported in the Statement of Net Position. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB the City used the alternative measurement method.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category.

- Deferred charges on debt refunding result from the difference in the carrying value of refunded debt and the reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows related to debt is discussed in detail in Note 11: Long-Term Obligations;
- Deferred outflows related to pension plans are discussed in detail in Note 7: Pension Plans; and
- Deferred outflows related to other postemployment benefits are discussed in detail in Note 8: Defined Benefit Other Postemployment Benefits.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category. Deferred inflows related to pension plans are discussed in detail in Note 7: Pension Plans.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Fund balances are categorized as Nonspendable or Spendable amounts as follows:

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

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

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

Flow assumption: When expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first. When expenditure is incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's policy to spend committed resources first, then assigned and unassigned, in that order. However, prior to the commencement of any project, the flow assumption is reviewed to ensure that the proper resources are being used.

NOTE 2

Reconciliation of Government-Wide and Fund Financial Statements

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

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

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

G.O Bonds payable	\$	(47,420,000)
Unamortized bond premiums		(3,590,576)
Deferred outflows on refunding		2,864,576
Loans payable		(1,133,409)
Accrued interest payable		(159,960)
Compensated absences		(5,328,691)
Net adjustment to reduce fund balance - total governmental funds		-
To arrive at net position – governmental activities	\$	<u>(54,768,060)</u>

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

Net pension asset	\$	20,958,829
Deferred outflows of resources		5,971,969
Other post-employment benefits		(15,273,781)
Total pension liability – firefighters' pension plan		(640,242)
Net pension liability		(10,249,605)
Deferred inflows of resources		(12,704,642)
	\$	<u>(11,937,472)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. The details of the aggregated differences are presented below.

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

Developer/Private asset contributions	\$	986,563
Unavailable revenue – special assessments		(1,609,462)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position- governmental activities		-
	\$	<u>622,899</u>

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

Principal repayments:		
General obligation bonds	\$	4,450,000
Public Works Trust Fund Loans repayment		94,451
Amortization/(addition) of debt premiums		305,908
Amortization of deferred outflows on refunding		(212,221)
Net adjustment to decrease net change in fund balances- governmental funds to arrive at change in net position- governmental activities		-
	\$	<u>4,638,138</u>

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

Change in accrued interest payable	\$	13,421
Change in compensated absences payable		(131,308)
Change in other post-employment benefits payable		51,632
Net adjustment to decrease net change in fund balances- governmental funds to arrive at change in net position- governmental activities	\$	-
		<u>(66,255)</u>

NOTE 3: Deposits and Investments

Deposits

As of December 31, 2019, the carrying amount of the City's cash demand deposits with KeyBank was \$381,785 and the in-transit items were \$494,592. In addition, \$7,471,040 was held in a public fund money market account at Opus Bank. A total of \$163,880 retained from contractors pending acceptance of City construction projects was held in escrow or savings accounts at various banks. Another \$171,891 was held in a City of Redmond Client Trust Account at Wells Fargo. Imprest funds totaled \$48,500 of which \$36,070 was allocated to various City offices.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City of Redmond's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). The FDIC insures the first \$250,000 of the City's deposits. The deposit balances over \$250,000 are insured by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

Investments

Investments are stated at fair value, based on quoted market prices in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in the fair-value of investments is recognized as an increase or decrease to the investment assets and investment income. Interest income on investments is recognized in non-operating revenue as earned. Changes in fair value of investments are recognized on the Statements of Revenues, Expenses, and Changes in Net Position.

Interest Rate Risk

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

Credit Risk

State law and City policy limit investments to those authorized by State statute including commercial paper and bonds of the State of Washington and any local government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency. The City further limits its holdings in commercial paper to 10% of the portfolio and 10% per issuer, and local government bonds to 25% of the portfolio and 10% per issuer. At December 31, 2019 the City held no investments in commercial paper. Additionally, the City restricts its investment in mutual fund bonds to be used for arbitrage purposes only.

Concentration of Credit Risk

The City diversifies its investments by security type and institution. 100% of the City's portfolio may be invested in US Treasury Notes, Bonds or Certificates, US Government Sponsored Corporations, or the State Investment Pool.

50% of the portfolio may be invested in Certificates of Deposit with no more than 10% held by any one issuer and not exceeding 20% of the issuer's net worth. 25% of the portfolio may be invested in Bankers Acceptances (10% per issuer), State of Washington or Local Government Bonds (10% per issuer) and Repurchase Agreements (25% per dealer). 10% of the portfolio may be invested in Commercial Paper and other authorized investments. On December 31, 2019 more than five percent of the City's investments were held in Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds.

Investments in the Local Government Investment Pool (LGIP)

The City is a participant in the Local Government Investment Pool, authorized by Chapter 294, Laws of 1986, which is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts its rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually; proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is an unrated external investment pool and does not have any legally binding guarantees of share values.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP manages a portfolio of securities that meet the maturity, quality, diversification, liquidity and fair value calculation requirements set forth by the Governmental Accounting Standards Board (GASB) 72 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities to minimize both market and credit risk. Investments are reported on trade date basis in accordance with generally accepted accounting principles (GAAP).

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute or withdraw funds daily. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10 a.m., at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Investments Measured at Amortized Cost

Investments reported as cash equivalents as of December 31, 2019:

	<u>Amortized Cost</u>	<u>Less Than 1 Year</u>
Money Market	\$ 7,471,040	\$ 7,471,040
Local Government Investment Pool	137,382,479	137,382,479
Total	<u>\$ 144,853,519</u>	<u>\$ 144,853,519</u>

Investments Measured at Fair Value

The City measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Prices quoted in active markets for identical securities.
- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3: Unobservable inputs for an asset or liability.

The fair values and levels noted in the following table have been provided by the City's investment custodian, Wells Fargo Bank, who obtains information through Interactive Data (IDC). IDC evaluates the various securities and obtains feeds from a number of live data and market sources including active market makers and inter-dealer brokers, relative credit information, observed market movements and sector news. IDC reviews sources on the basis of their historical accuracy for individual issues and maturity ranges.

At December 31, 2019, the City had the following investments measured at fair value:

Investment Type	Fair Value Measurement Using			Total
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
U.S. Agency Securities	\$ -	\$ 133,178,329	\$ -	\$ 133,178,329
U.S. Treasury Securities	6,043,060			6,043,060
Total	\$ 6,043,060	\$ 133,178,329	\$ -	\$ 139,221,389

The table below identifies the types of investments, concentration of investments in any one issuer, and maturities of the City's investment portfolio as of December 31, 2019:

Investment Type	Fair Value	Maturities		% of Total Portfolio
		Less Than 1 Year	1 to 5 Years	
Federal Farm Credit Bank	\$ 45,259,946	\$ 22,039,186	\$ 23,220,760	16.36%
Federal Home Loan Bank	60,129,139	37,683,584	22,445,555	21.74%
Federal Home Loan Mortgage Corporation	18,732,014	9,711,214	9,020,800	6.77%
Federal National Mortgage Association	9,057,230	5,000,090	4,057,140	3.27%
Treasury Notes	6,043,060	1,998,760	4,044,300	2.18%
Subtotal	139,221,389	76,432,834	62,788,555	50.33%
Local Government Investment Pools*	137,382,479	137,382,479	-	49.67%
Total	276,603,868	213,815,313	62,788,555	100.00%
Percentage of Total Portfolio		77.30%	22.70%	100.00%

*The fair value of the investments in the Washington State Local Government Investment Pool are the same as the amortized cost of the pool shares, and are considered Cash and Cash Equivalents.

The table below identifies the credit risk of the City's investment portfolio as of December 31, 2019:

Investment Type	Fair Value
Federal Farm Credit Bank	\$ 45,259,946
Federal Home Loan Bank	60,129,139
Federal Home Loan Mortgage Corporation	18,732,014
Federal National Mortgage Association	9,057,230
Subtotal	133,178,329
U.S. Treasury Securities	
U.S. Treasury Notes	6,043,060
Total	\$ 139,221,389

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

Cash & Investments by Type

Opus Bank-money market	\$ 7,471,040
State Investment Pool (LGIP)	137,382,479
KeyBank Advance Travel	19,124
KeyBank public checking	381,785
Deposits/Debits in transit at 12/31/2019	494,596
Checks/Credits in transit at 12/31/2019	(2,281,911)
Petty Cash/Change Fund	16,070
Wells Fargo Wright Runstad Client Trust Account	171,891
Contractors' Retainage Money Market	163,880
Federal Home Loan Bank	45,259,946
Federal Farm Credit Bank	60,129,139
Federal Home Loan Mortgage Corporation	18,732,014
Federal National Mortgage Association	9,057,230
US Treasury Notes	6,043,060
Grand Total Cash & Investments by Type	<u>\$283,040,343</u>

Cash & Investments by Statements	Cash & Equivalents*	Restricted Cash	Rate Stabilization Fund	Investments	Restricted Investments
Governmental Funds					
General Fund	\$ 33,259,841	\$ 454,814	\$ -	\$ 28,691,760	\$ 4,796,808
Capital Improvements Program Fund	35,799,943	-	-	34,160,977	3,188
Other Governmental Funds	10,699,848	-	-	10,306,300	10,000
Proprietary Funds					
Water/Wastewater	22,876,370	16,373	4,177,811	17,695,983	-
UPD Water/Wastewater	13,684,408	32,000	1,929,266	11,428,161	-
Stormwater Management	20,954,120	10,100	-	18,570,931	1,634,409
Internal Service Funds	6,031,134	-	-	5,815,798	-
	\$ 143,305,664	\$ 513,287	\$ 6,107,077	\$ 126,669,910	\$ 6,444,405
Grand Total Cash & Investments by Statements					<u>\$ 283,040,343</u>

Gains and Losses on Investments

Realized gains and losses are computed as the difference between the proceeds of the sales and the original cost of the investments sold. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

NOTE 4

Governmental Fund Balances

Governmental fund balances are classified as either spendable or non-spendable. Non-spendable fund balance category includes amounts not available to be spent because they are not in spendable form or are legally required to be maintained intact. The city has prepaid expenditures which are not in spendable form. Restricted fund balance is constrained externally, such as those resulting from federal and state legislation, grant awards, bond covenants, and inter-local service agreements. Committed fund balance is constrained by ordinance or resolution as adopted by City Council and requires the same action to remove the constraint. Assigned fund

balances are constrained by the government's intent to be used for a specific purpose but are not restricted or committed. Unassigned fund balance is the residual classification for the General Fund. The city only reports unassigned fund balance in the General Fund. The breakdown of what makes up each of the fund balance categories from the Balance Sheet - Governmental Funds that is designated for a particular purpose is shown below.

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Fund balances:				
Non-spendable	\$ 26,466	\$ -	\$ 6,756	\$ 33,222
Spendable:				
Restricted for:				
Cable access	-	-	256,067	256,067
Capital projects	-	23,571,195	12,951,007	36,522,202
Debt service	-	-	879,368	879,368
Parks	545,521	-	-	545,521
Planning-transportation	-	-	1,197,397	1,197,397
Public Safety	4,314,041	-	1,689,556	6,003,597
Solid waste recycling	-	-	1,101,905	1,101,905
Tourism	-	-	926,466	926,466
Committed to:				
Arts	204,562	-	-	204,562
Capital equipment replacement	3,882,402	-	-	3,882,402
Development review	-	-	7,068,763	7,068,763
Fire equipment	3,130,835	-	-	3,130,835
Investigative fund	8,500	-	-	8,500
Parks maintenance	755,891	-	-	755,891
Fire fighter pension (GASB 73)	2,217,236	-	-	2,217,236
Recreation activities	-	-	416,088	416,088
Travel advance fund	20,000	-	-	20,000
Assigned to:				
Capital projects	-	7,306,036	-	7,306,036
Community events	64,071	-	-	64,071
Maintenance	10,941,573	-	-	10,941,573
Human services fund	13,366	-	-	13,366
Parks	775,189	-	-	775,189
Real property fund	667,445	-	-	667,445
Reserves	7,096,732	-	-	7,096,732
Transportation	770,604	-	-	770,604
Business tax	1,590,041	-	-	1,590,041
Unassigned	30,247,268	-	-	30,247,268
Total Fund Balances	\$ 67,271,743	\$ 30,877,231	\$ 26,493,373	\$ 124,642,347

NOTE 5

Receivables

Property Taxes

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

Property Tax Calendar

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

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

Under Washington State law a city may levy property taxes up to \$3.60 per \$1,000 of assessed valuation. The assessed value was \$23,766,332,331 for the City in 2019.

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

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to one percent per year or IPD, whichever is less, after adjustments for new construction and annexations, unless an increase greater than this limit is approved by the voters. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.

The Washington State Constitution limits the total regular property tax levy to a maximum of one percent of assessed valuation or \$10 per \$1,000 of the market value of a property. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

Accordingly, the City levied \$1.14 per \$1,000 of assessed value for general governmental services and no additional voter-approved excess tax levy.

NOTE 6:
Capital Assets

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government				
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 157,948,417	\$ 11,084,941	\$ (12,572,584)	\$ 156,460,774
Construction in Progress	12,067,365	11,202,233	(7,150,334)	16,119,264
Art	554,488	18,882	-	573,370
Total capital assets, not being depreciated	<u>\$ 170,570,270</u>	<u>\$ 22,306,056</u>	<u>\$ (19,722,918)</u>	<u>\$ 173,153,408</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	\$ 90,182,133	\$ 1,000	\$ -	\$ 90,183,133
Improvements Other than Buildings	50,942,240	606,112	-	51,548,352
Machinery and Equipment	35,470,225	1,978,807	(1,533,194)	35,915,838
Infrastructure	309,313,626	4,572,157	(172,565)	313,713,218
Total capital assets, being depreciated	<u>\$ 485,908,224</u>	<u>\$ 7,158,076</u>	<u>\$ (1,705,759)</u>	<u>\$ 491,360,541</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	\$ (25,379,085)	\$ (1,951,783)	\$ -	\$ (27,330,868)
Improvements Other than Buildings	(17,093,435)	(1,629,279)	-	(18,722,714)
Machinery and Equipment	(19,682,674)	(2,492,934)	1,492,738	(20,682,870)
Infrastructure	(112,743,467)	(6,618,764)	172,565	(119,189,666)
Total accumulated depreciation	<u>\$ (174,898,661)</u>	<u>\$ (12,692,760)</u>	<u>\$ 1,665,303</u>	<u>\$ (185,926,118)</u>
Total capital assets, being depreciated, net	<u>\$ 311,009,563</u>	<u>\$ (5,534,684)</u>	<u>\$ (40,456)</u>	<u>\$ 305,434,423</u>
Governmental activities capital assets, net	<u>\$ 481,579,833</u>	<u>\$ 16,771,372</u>	<u>\$ (19,763,374)</u>	<u>\$ 478,587,831</u>

The governmental activities' construction in progress includes a prior period adjustment (see note 19 for details).

Net Investment in capital assets:

Governmental Activities	
Capital assets not being depreciated	\$ 173,153,408
Capital assets being depreciated	491,360,541
Less accumulated depreciation	(185,926,118)
Less GO Bonds	(47,420,000)
Less bond premium	(3,590,576)
Less Public Works Trust Fund loans	(1,133,409)
Plus deferred outflow on refunding bonds	<u>2,864,579</u>
Governmental Activities, net investment in capital assets	<u>\$ 429,308,425</u>

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

Governmental Activities	
General Government	\$ 1,500,961
Security	1,698,079
Physical Environment	23,487
Transportation, Including Depreciation of General Infrastructure Assets	7,885,659
Economic Environment	42,041
Culture and Recreation	<u>1,542,533</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 12,692,760</u>

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets, not Being depreciated:				
Land	\$ 26,814,234	\$ 255,894	\$ (1,542,231)	\$ 25,527,897
Construction In Progress	20,836,106	11,605,014	(13,050,202)	19,390,918
Intangible Assets	838,315	-	-	838,315
Total capital assets, not being depreciated	<u>\$ 48,488,655</u>	<u>\$ 11,860,908</u>	<u>\$ (14,592,433)</u>	<u>\$ 45,757,130</u>
Capital Assets, Being Depreciated:				
Buildings/Building Improvements	\$ 37,958,924	\$ -	\$ -	\$ 37,958,924
Improvements Other Than Buildings	388,532,026	14,428,010	(1,139,244)	401,820,792
Machinery and Equipment	1,606,977	183,471	-	1,790,448
Total capital assets, being depreciated	<u>\$ 428,097,927</u>	<u>\$ 14,611,481</u>	<u>\$ (1,139,244)</u>	<u>\$ 441,570,164</u>
Less Accumulated Depreciation for:				
Buildings/Building Improvements	\$ (9,910,147)	\$ (759,179)	\$ -	\$ (10,669,326)
Improvements Other than Buildings	(99,199,535)	(7,534,588)	781,348	(105,952,775)
Machinery and Equipment	(788,253)	(136,288)	-	(924,541)
Total accumulated depreciation	<u>\$ (109,897,935)</u>	<u>\$ (8,430,055)</u>	<u>\$ 781,348</u>	<u>\$ (117,546,642)</u>
Total capital assets, being depreciated, net	<u>\$ 318,199,992</u>	<u>\$ 6,181,426</u>	<u>\$ (357,896)</u>	<u>\$ 324,023,522</u>
Business-Type activities capital assets, net	<u>\$ 366,688,647</u>	<u>\$ 18,042,334</u>	<u>\$ (14,950,329)</u>	<u>\$ 369,780,652</u>

Net Investment in capital assets:

Business-Type Activities	
Capital assets not being depreciated	\$ 45,757,130
Capital assets being depreciated	441,570,164
Less accumulated depreciation	(117,546,642)
Less Revenue bonds	(18,665,000)
Less bond premium	(2,357,234)
Less PWTF loan	<u>(3,710,522)</u>
Business-Type Activities, net investment in capital assets	<u>\$ 345,047,896</u>

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

Business-Type Activities	
Water/Wastewater	\$ 3,971,755
UPD Water/Wastewater	1,387,670
Stormwater	<u>3,070,630</u>
Total Depreciation Expense – Business-type Activities	<u>\$ 8,430,055</u>

The Business-Type Activities also had \$1,403 in amortization expense related to the Seattle master meter comp model that is included with depreciation expense in the financial statements.

NOTE 7 Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (13,873,137)
Pension assets	\$ 20,958,829
Deferred outflows of resources	\$ 6,771,515
Deferred inflows of resources	\$(14,999,325)
Pension expense/expenditures	\$ 1,049,672

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of

local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January – June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.86%	7.90%

The City’s actual PERS plan contributions were \$1,983,953 to PERS Plan 1 and \$3,077,929 to PERS Plan 2/3 for the year ended December 31, 2019.

Public Safety Employees’ Retirement System (PSERS)

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

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or

- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in [RCW 10.93.020](#); or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

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

PSERS covered employers include:

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

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

Contributions

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

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2019 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2019:		
PSERS Plan 2	7.07%	7.07%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.38%	7.07%
July - December 2019:		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.14%	7.20%

There were no plan contributions to PSERS Plan 2 and PERS Plan 1 for the year ended December 31, 2019.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include

duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as percentage of covered payroll) was 3.44% as of July 1, 2019.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2019		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities		
Administrative Fee	0.18%	
Total	8.93%	8.75%
July – December 2019		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities		
Administrative Fee	0.18%	
Total	8.77%	8.59%

The City’s actual contributions to the plan were \$1,569,795 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2019, the state contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,021,392.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component

used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 13,135,055	\$ 10,488,590	\$ 8,192,434
PERS 2/3	25,958,130	3,384,547	(15,138,570)
LEOFF 1	(1,113,140)	(1,360,719)	(1,574,479)
LEOFF 2	(3,644,116)	(19,598,111)	(32,620,222)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the City reported a total pension liability of \$13,873,137 for its proportionate share of the net pension liabilities, and a total pension asset of \$20,958,830 for its proportionate share of the net pension assets as follows:

	Liability (or Asset)
PERS 1	\$ 10,488,590
PERS 2/3	3,384,547
LEOFF 1	(1,360,719)
LEOFF 2	(19,598,111)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	1,360,719	19,598,111
State's proportionate share of the net pension asset associated with the employer	9,203,868	12,834,137
TOTAL	10,564,587	32,432,248

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.277829%	0.272760%	-0.005069%
PERS 2/3	0.350327%	0.348441%	-0.001886%
PSERS 2	0.013917%	0.000000%	-0.013917%
LEOFF 1	0.067634%	0.068841%	0.001207%
LEOFF 2	0.857127%	0.845952%	-0.011175%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 166,336
PERS 2/3	634,059
PSERS 2	(1,557)
LEOFF 1	(91,444)
LEOFF 2	342,278
TOTAL	\$ 1,049,672

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (700,726)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 1,068,765	\$ -
TOTAL	\$ 1,068,765	\$ (700,726)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 969,681	\$ (727,659)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (4,926,522)
Changes of assumptions	\$ 86,667	\$ (1,420,043)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 10,172	\$ (169,295)
Contributions subsequent to the measurement date	\$ 1,745,426	\$ -
TOTAL	\$ 2,811,946	\$ (7,243,519)

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ (13,859)
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	\$ -	\$ (13,859)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (141,066)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	\$ -	\$ (141,066)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,410,259	\$ (352,426)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (4,018,225)
Changes of assumptions	\$ 32,286	\$ (2,205,415)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 583,787	\$ (324,091)
Contributions subsequent to the measurement date	\$ 864,471	\$ -
TOTAL	\$ 2,890,803	\$ (6,900,157)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	PERS 1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2
2020	(154,689)	(1,534,710)	(1,557)	(32,765)	(1,006,194)
2021	(366,414)	(2,562,357)	(1,557)	(72,219)	(1,936,543)
2022	(130,758)	(1,155,238)	(1,499)	(26,206)	(904,948)
2023	(48,865)	(634,029)	(1,267)	(9,876)	(478,813)
2024	-	(301,854)	(1,267)	-	(156,848)
Thereafter	-	11,190	(6,712)	-	(390,478)
Total Net Deferred (Inflows)/Outflows	(700,726)	(6,176,998)	(13,859)	(141,066)	(4,873,824)

Firefighters' Pension Plan

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68](#) for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 640,242
Pension assets	\$ -
Deferred outflows of resources	\$ -
Deferred inflows of resources	\$ -
Pension expense/expenditures	\$ 35,049

The City is the administrator of the Firefighters' Pension Plan (FPP), a single-employer defined benefit pension plan established in conformance with Revised Code of Washington (RCW) 41.18. The Pension Board consists of five members: the Mayor, who is the chairman of the board, the City Clerk, the City Treasurer, and two regularly employed firefighters elected by secret ballot of the firefighters, each of whom serve two-year terms. Costs of administering the Plan are paid from the Firefighters' Pension Plan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature. Membership is limited to firefighters employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the FPP for covered firefighters who retire after March 1, 1970. Benefits and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan.

At December 31, 2019, there are three inactive plan members currently receiving benefits, and no active plan members. The pension plan is closed to new entrants.

Under State law, the FPP is provided an allocation of 25% of the taxes the state receives on fire insurance premiums, interest earnings, member contributions made prior to the inception of LEOFF, and City contributions required to meet projected future pension obligations. The City's fire insurance premium contribution for 2019 was \$166,131 and interest earnings were \$40,565, which was sufficient to pay the 2019 Firefighter's Pension Plan expenses of \$35,049. The financial activity of the Firefighters' Pension Plan is reported within the City's General Fund. No separate stand-alone financial report is issued for the Firefighters' Pension Plan.

The pension standards in GASB Statement No. 68 are applicable only to pension plans that are administered through trusts or equivalent arrangements in which:

- a. Contributions from employers to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, the plan administrator and plan members.

The Firefighter's Pension Plan does not meet the requirement "c" that assets be legally protected from the creditors of employers, the plan administrator and plan members. Therefore, the assets are not accumulated in a qualifying trust or equivalent arrangement as required for GASB 68 reporting purposes.

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

Investment Policy

The Firefighter's Pension Plan follows the City's policy to invest temporary cash surpluses. These investments are reported on the Statement of Net Position – Governmental Activities - as cash and cash equivalents or investments. Included in cash and cash equivalents are currency on hand, demand deposits with banks or other financial institutions, investments with the Local Government Investment Pool, investments in U.S. Government Mutual Funds and investments with original maturities of three months or less. Interest is allocated to the fund on the basis of investments owned.

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

In accordance with GASB 31, 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, based on quoted market prices in accordance with GASB Statement No. 72, Fair Value Measurement and Application.

The City reports its deposit and investment risk disclosures in accordance with GASB 40 and GASB 72. See Note 3 – Deposits and Investments for detail.

Changes in the Total Pension Liability

Firefighters' Pension Plan	Total Pension Liability (a)
Balances at 1/1/2019	\$676,110
Changes for the year:	
Interest	21,075
Differences between expected and actual experience	(21,894)
Benefit payments, including refunds of contributions	(35,049)
Net changes	(35,868)
Balance at 12/31/2019	640,242

The Schedule of Changes in Total Pension Liability and Related Ratios presented in Required Supplementary Information following the notes to the financial statements presents ten-year trend information about whether the total pension liability is increasing or decreasing over time and the factors affecting the changes.

Discount Rate and Investment Earnings

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

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

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

	1% Decrease (2.2%)	Current Discount Rate (3.2%)	1% Increase (4.2%)
Total Pension Liability \$	700,939	640,242	583,176

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

Municipal Employees Benefit Trust

By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418 (g) effective January 1, 1975. Permanent employees working 1,040 or more hours per year are eligible but not required to participate in the plan. Temporary employees working less than 1,040 hours per year are required to participate in the plan. Participating permanent employees may choose to defer income tax in accordance with Internal Revenue Code Section 401K, on all, part or none of their contribution while temporary employees may not defer income tax on any of their contribution. There were 713 permanent and 250 temporary participants with account balances at December 31, 2019.

The Municipal Employees Benefit Trust Plan is a defined contribution plan with participants contributing an amount equal to the current Social Security rate (7.65%). One hundred percent of the contributions made by employees hired before April 1, 1986 go to MEBT. Employees hired on or after April 1, 1986 contribute 6.2% to MEBT and 1.45% to Medicare. Permanent employees may make additional contributions up to the limit set by the Internal Revenue Code. The City contributes 7.65% for permanent employees and 4.75% for temporary employees. Of the City's contribution, 1.45% goes to Medicare for employees hired on or after April 1, 1986. Eighty percent of the remaining City contribution goes to MEBT and 20% to administrative fees. The City's contribution is based on the payroll for all employees who are eligible to participate in the plan, regardless of the number of participants. The City's payroll for participating employees in 2019 was \$67,336,948. Employee contributions were \$4,881,018. City contributions were \$3,198,083. The City's total payroll was \$71,562,365.

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

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

NOTE 8

Defined Benefit Other Postemployment Benefits (OPEB) Plans

GASB Statement 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when retirees earn their post-employment benefits, rather than when they use their post-employment benefit. The post-employment benefit liability is recognized on the Statement of Net Position over time. The City changed the actuarial cost method from GASB 45 to GASB 75 starting with the reporting periods beginning after January 1, 2018.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2019:

OPEB liabilities	\$ 15,273,781
OPEB assets	\$ -
Deferred outflows of resources	\$ 212,477
Deferred inflows of resources	\$ -
OPEB expenses/expenditures	\$ (51,632)

Plan Description

The City provides post-retirement healthcare benefits for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a single-employer, defined benefit healthcare plan administered by the City, as required by the Revised Code of Washington (RCW Chapter 41.26). Retirees are

eligible to receive lifetime retiree medical benefits upon service retirement after age 50 with at least five years of service. This is a closed plan covering retired employees only. New entrants are not permitted.

Most medical coverage for eligible retirees is provided by one of the City's employee medical insurance programs as a single-employer. Under the authorization of the LEOFF Disability Board, direct payment is made for other retirees' medical expenses not covered by standard medical plan benefit provisions.

No retirees' contributions toward the cost of retiree medical benefits are required.

As of December 31, 2019, the following retired employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to but not yet receiving benefits	-
Active employees	-
Total	29

Funding Policy

Funding for the 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 and the net assets available for plan benefits is zero at all times.

Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report.

Actuarial Methods and Assumptions

In 2019 the City used the alternative measurement method (AMM) permitted under GASB Statement 75. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2018, actuarial valuation report issued by the Office of the State Actuary (OSA).

The total OPEB liability was determined using the following methodology:

Actuarial Valuation Date	6/30/2019
Actuarial Measurement Date	6/30/2019
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)

For purposes of the AMM Online Tool, a simplifying actuarial assumption is made considering that over 99 percent of the LEOFF 1 members are already retired. The remaining members are eligible to retire and will retire immediately following the measurement date.

This approach inherently assumes that all liabilities are fully earned, and the service cost equals zero. In other words, the entry age normal total OPEB liability is by definition equal to the present value of future benefits. The OSA determines that there is no need to implicitly make assumptions with respect to projected salary changes.

Each cohort is assumed to be 100 percent male. As of the measurement date, greater than 98 percent of the eligible LEOFF 1 population is male. This simplification is believed to be reasonable and only the mortality

assumptions selected (since the medical assumptions are already blended based upon the actual gender distribution within the eligible population) are impacted. The OSA will continue to monitor this assumption for future versions of the tool.

Based upon the overall distribution of the LEOFF 1 eligible population, the four age-based cohorts are selected for purposes of the AMM Online Tool and this grouping approach is believed to be reasonable for purposes of the AMM. Medical and long-term care costs were projected from June 30th, 2018 to the measurement date of June 30, 2019 using the healthcare trend rates detailed in the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report.

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetime.

Healthcare Trend Rates

Medical costs	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 6%, trends down to about 5% in the 2020's.
Long-term care	4.50%
Medicare Part B Premiums	Approximately 5%, varies by year.

Please see the OSA's 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report for additional detail on the healthcare trend rates.

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rates used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018, measurement date and 3.50 percent for the June 30, 2019, measurement date.

Changes in Total OPEB Liability

The following table presents the change in the total OPEB liability as of the June 30, 2019, measurement date:

Total OPEB Liability (TOL)	
Total OPEB Liability - Beginning	\$ 15,298,484
Service Cost	\$ -
Interest Cost	\$ 578,786
Changes in experience data and assumptions	\$ 88,620
Changes in benefit terms	\$ -
Estimated benefit payments	\$ (692,109)
Other	\$ -
Net Changes in Total OPEB Liability	\$ (24,703)
Total OPEB Liability - Ending	\$ 15,273,781
Covered Employee Payroll	\$ -
TOL as a Percentage of Covered Payroll	N/A

Sensitivity Analysis of the Total Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the City as an employer calculated using the discount rate of 3.50%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percent point lower (2.50 percent) or 1 percent point higher (4.50 percent) than the current rate.

	Total
1% Decrease	\$ 17,428,159
Current Discount Rate	\$ 15,273,781
1% Increase	\$ 13,494,304

Sensitivity Analysis of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the City as an employer, calculated using the healthcare trend rates of 6.00 percent, as well as what the total OPEB liability would be if it were calculated using healthcare trend rate that is 1 percent point lower (5.00 percent) or 1 percent point higher (7.00 percent) than the current rate:

	Total
1% Decrease	\$ 13,555,631
Current Discount Rate	\$ 15,273,781
1% Increase	\$ 17,304,904

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2019, the City recognized OPEB expense of (\$51,632).

On December 31, 2019, the City reported deferred outflows of resources related to OPEB for the City from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience \$	-	\$ -
Changes of assumptions	-	-
Transactions subsequent to the measurement date	212,477	-
Total \$	212,477	\$ -

NOTE 9
Construction Commitments

At December 31, 2019 the City had significant contractual obligations on construction projects:

	(In thousands)
Transportation projects	\$ 2,080
Transportation maintenance	793
Utility projects	<u>1,932</u>
Total	<u>\$ 4,805</u>

NOTE 10
Interfund Transfers

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

Interfund transfers at December 31, 2019 were as follows:

		Transfer from				Total
		General Fund	Capital Improvements Program Fund	Other Governmental Funds	Proprietary Funds	
Transfer to	General Fund	\$ -	\$ 1,550,574	\$ 1,745,426	\$ -	\$ 3,296,000
	Capital Improvements Program Fund	2,382,982	-	2,589,458	-	\$ 4,972,440
	Other Governmental Funds	3,873,150	-	-	-	\$ 3,873,150
	Proprietary Funds	-	326,717	-	-	\$ 326,717
	Internal Service Funds	771,491	-	-	-	\$ 771,491
	Total	\$ 7,027,623	\$ 1,877,291	\$ 4,334,884	\$ -	\$ 13,239,798

NOTE 11
Long-Term Obligations

General Obligation Bonds

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

In 2013 the City issued \$33,085,000 in limited tax general obligation refunding bonds with an interest rate of 3.75% to advance refund \$32,760,000 of outstanding 2004 Limited Tax General Obligation Lease Revenue Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$1,530,533. This amount is being charged to operations through the year 2035 using the straight-line method. The remaining balance of \$1,097,754 is reported as a deferred outflow in the statement of net position.

In November 2015, the City Council of the City of Redmond adopted ordinance 2809, providing for the issuance of two series of Limited Tax General Obligation and Refunding Bonds in the aggregate principal amount of not to

exceed \$31,000,000 to provide funds to finance the costs of transportation improvements, to refund certain outstanding limited tax general obligations of the City, and to finance costs of issuance of each series of bonds. In December 2015, the City issued \$9,280,000 in limited tax general obligation refunding bonds with an interest rate of 3.00% to advance refund \$8,940,000 of outstanding 2008 Limited Tax General Obligation Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$951,425. This amount is being charged to operations through the year 2035 using the straight-line method. The remaining balance of \$655,814 is reported as a deferred outflow in the statement of net position. In January 2016, the City issued \$11,630,000 in limited tax general obligation refunding bonds with an interest rate of 2.0%-5.0% to advance refund \$11,675,000 of outstanding 2008 Limited Tax General Obligation Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$1,386,462. This amount is being charged to operations through the year 2035 using the straight-line method. The remaining balance of \$1,111,011 is reported as a deferred outflow in the statement of net position. In January 2016, the City also issued \$6,000,000 in limited tax general obligation bonds with an interest rate of 2.0%-5.0% to provide funds to finance the costs of transportation improvements.

General obligation bonds outstanding at December 31, 2019 are as follows:

	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2019
2011 LTGO Bonds	3/16/2011	12/1/2021	2.0% - 4.5%	\$ 8,035,000	\$ 6,345,000	\$ 1,690,000
2013 LTGO Refunding Bonds	9/12/2013	12/1/2035	1.75% - 5.0%	33,085,000	11,185,000	21,900,000
2015 LTGO Refunding Bonds	12/22/2015	12/1/2028	3.0%	9,280,000	-	9,280,000
2016 LTGO Refunding Bonds	1/21/2016	12/1/2024	2.0% - 5.0%	11,630,000	2,220,000	9,410,000
2016 LTGO Bonds	1/21/2016	12/1/2035	2.0% - 5.0%	6,000,000	860,000	5,140,000
Total General Obligation Bonds				\$ 68,030,000	\$ 20,610,000	\$ 47,420,000

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

Year Ending	Governmental Activities	
	Principal	Interest
2020	\$ 4,610,000	\$ 1,899,719
2021	3,935,000	1,724,844
2022	3,175,000	1,593,481
2023	3,265,000	1,499,581
2024	3,410,000	1,351,131
2025-2029	16,985,000	4,529,706
2030-2034	9,805,000	1,899,588
2035-2039	2,235,000	102,800
	<u>\$ 47,420,000</u>	<u>\$ 14,600,850</u>

Revenue Bonds

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

In 2018 the City exercised an optional redemption in full of the 2008 revenue bonds issued for water and wastewater projects which retired the bonds five years early.

Revenue bonds outstanding at year end are as follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Issued</u>	<u>Redemptions to Date</u>	<u>Outstanding 12/31/2019</u>
2008						
Water/Wastewater Bonds	12/3/2008	12/1/2023	4.0% - 5.0%	\$ 11,755,000	\$ 11,755,000	\$ -
2014 Stormwater Bonds	7/24/2014	12/1/2034	3.26% - 4.25%	\$ 22,950,000	\$ 4,285,000	\$ 18,665,000
Total Revenue Bonds				<u>\$ 34,705,000</u>	<u>\$ 16,040,000</u>	<u>\$ 18,665,000</u>

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

<u>Year Ending</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 880,000	\$ 891,360
2021	915,000	856,160
2022	955,000	819,560
2023	1,000,000	771,810
2024	1,050,000	721,810
2025-2029	6,095,000	2,766,300
2030-2034	7,770,000	1,084,050
2035-2039	-	-
	<u>\$ 18,665,000</u>	<u>\$ 7,911,050</u>

Public Works Trust Fund Loans

The City's governmental activities currently have one State of Washington Public Works Trust Fund Loan with principal outstanding of \$1,133,409. The interest rate is 0.25%. This loan is considered an obligation of the general government and is being repaid from General Fund revenues which are transferred to the Capital Investments Program Fund where the loan payments are recorded.

The City's business type activities currently have one on State of Washington Public Works Trust Fund Loan outstanding. In 2012 the City Council of the City of Redmond adopted the Resolution #1371 in 2012 accepting a Washington State Department of Ecology (DOE) loan for funding towards the Redmond Way Water Quality Facility. The loan amount of \$4,412,000 was drawn down on September 2, 2015. The loan bears interest at the rate of 2.6% per annum, calculated on the basis of a 365-day year. The final loan amount will be repaid from the City's utility funds in equal installments semiannually over a term of twenty years.

Public Works Trust Fund Loans outstanding at December 31, 2019 are as follows:

Year Ending	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 94,451	\$ 2,834	\$ 196,975	\$ 95,719
2021	94,451	2,597	202,158	90,536
2022	94,451	2,361	207,477	85,217
2023	94,451	2,125	212,936	79,758
2024	94,451	1,889	218,539	74,155
2025-2029	472,254	5,903	1,182,034	281,434
2030-2034	188,900	708	1,345,945	117,524
2035-2039	-	-	144,459	1,888
	<u>\$1,133,409</u>	<u>\$ 18,418</u>	<u>\$ 3,710,523</u>	<u>\$ 826,231</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
G.O. Bonds	\$ 51,870,000	\$ -	\$ (4,450,000)	\$ 47,420,000	\$ 4,610,000
Premiums	3,896,483	-	(305,908)	3,590,575	-
Total Bonds Payable	<u>55,766,483</u>	<u>-</u>	<u>(4,755,908)</u>	<u>51,010,575</u>	<u>4,610,000</u>
PWTF loans	1,227,859	-	(94,451)	1,133,408	94,451
Compensated absences	5,502,681	5,963,785	(5,812,478)	5,653,988	4,523,191
Net pension liability	14,933,965	-	(3,681,076)	11,252,889	-
OPEB liability	15,298,484	-	(24,703)	15,273,781	-
Governmental activity long-term liabilities	<u>\$ 92,729,472</u>	<u>\$ 5,963,785</u>	<u>\$ (14,368,616)</u>	<u>\$ 84,324,641</u>	<u>\$ 9,227,642</u>
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 19,510,000	\$ -	\$ (845,000)	\$ 18,665,000	\$ 880,000
For issuance premiums	2,518,872	-	(161,640)	2,357,232	-
Total Bonds Payable	<u>22,028,872</u>	<u>-</u>	<u>(1,006,640)</u>	<u>21,022,232</u>	<u>880,000</u>
PWTF loans	\$ 3,902,447	\$ -	\$ (191,925)	\$ 3,710,522	\$ 196,975
Compensated absences	590,323	492,461	(429,758)	653,026	522,421
Net pension liability	3,455,668	-	(835,420)	2,620,248	-
Business-type activity long-term liabilities	<u>\$ 29,977,310</u>	<u>\$ 492,461</u>	<u>\$ (2,463,743)</u>	<u>\$ 28,006,028</u>	<u>\$ 1,599,396</u>

*The OPEB liability beginning balance has been restated by \$10.3 million as a result of implementing GASB Statement No.75.

General funds or utility funds typically have been used to liquidate pension or its related liabilities. The types of funding to use depends on where the employees' positions are budgeted to charge.

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 \$1,003,284 of internal service funds net pension liability and \$325,297 compensated absences are included in the above amounts. Compensated

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

Arbitrage

Arbitrage occurs when the City invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. At the fund level, the City recognizes this liability only when it is due and payable. The City had no arbitrage excess earnings liability in 2019.

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

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

**NOTE 12
Leases**

Operating Leases:

The City has two operating lease obligations in 2019, one for leasing Redmond Community Center at Marymoor Village from Lake Washington Institute of Technology and the other one for leasing equipment under noncancelable operating leases. For the year ended December 31, 2019, total expenditures for the office building lease were \$455,000, \$64,311 for other equipment leases; \$519,311 as total expenditures for all leases.

The future minimum lease payments for these leases are shown as follows:

Year Ending December 31	Building Lease	Other Equipment Leases	Total Leases
2020	\$ 480,000	\$ 51,541	\$ 531,541
2021	480,000	51,541	531,541
2022	516,000	51,541	567,541
2023	516,000	51,541	567,541
Total	\$ 1,992,000	\$ 206,166	\$ 2,198,166

**NOTE 13
Tax Abatement**

The State of Washington enters into various tax abatement agreements that have the effect of reducing the amount of tax revenue that flows through to the local jurisdictions. The reported figures are provided by the Department of Revenue and are estimates based upon calendar year 2018 as a proxy for fiscal year 2019. There are two state tax abatement programs that reduced the 2019 tax revenues of the City of Redmond, as follows:

High-Technology Sales and Use Tax Deferral Program

Chapter 82.63 RCW provides a deferral and ultimate waiver of sales and use tax to encourage the creation of high-wage, high-skilled jobs in Washington. The deferral applies to sales and use tax arising from the construction or expansion of a qualified research and development facility or a pilot scale manufacturing facility used in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology. This program expired January 1, 2015.

Businesses that hold approved certificates under this program must begin 'meaningful construction' no later than December 31, 2019 (five years from the date the program expired). If the business does not begin meaningful construction by December 31, 2019, the deferral certificates become invalid and businesses will immediately owe any deferred taxes. "Meaningful construction" is active construction. Examples such as building site excavation, laying a building foundation, and other tangible signs of construction qualify as signs of active construction. Planning, permitting, and land clearing do not qualify as active construction. The estimated reduction in 2019 sales and use tax revenues for the City of Redmond as a result of this abatement program is \$3,187,298.

Biotechnology Product and Medical Device Manufacturers Sales and Use Tax Deferral Program

Chapter 82.75 RCW provides a deferral and ultimate waiver of sales and use tax to encourage the creation of high-wage, high-skilled jobs in Washington. The deferral applies to sales and use tax arising from investments in construction or renovation of structures, or machinery and equipment used for biotechnology product or medical device manufacturing.

Applications for the deferral/waiver program must be received and approved by the Department of Revenue prior to starting construction or possessing machinery or equipment in Washington. Eligible projects will receive a sales and use tax deferral certificate issued by the Department of Revenue, which allows vendors and contractors to sell to the approved business without charging sales tax.

Sales and use tax may be deferred on three kinds of expenditures:

1. Qualified buildings;
2. Qualified machinery and equipment; and
3. Labor and services rendered in the planning, installation and construction of the project.

An annual tax performance report must be filed with DOR by May 31 of the year in which the investment project is certified by the department as operationally complete and for the following seven years. The project must remain an eligible investment project for an eight-year period in order for all deferred taxes to be waived. If the investment project is used for any other purpose at any time during the calendar year in which the investment is certified as operationally complete, or during the next seven calendar years, a portion of the deferred taxes must be repaid immediately. The portion due is determined by a sliding scale ranging from 100 percent recapture in the year the project is operationally complete to 12.5 percent recapture in year eight.

Because the Department of Revenue cannot disclose tax information for less than three taxpayers for either state or local estimates, the estimated reduction in 2019 sales and use tax revenues for the City of Redmond as a result of this abatement program is not available.

NOTE 14

Component Units

RCW 36.145 authorizes cities to form Community Facilities Districts (CFD's) when the owners of one hundred percent (100%) of the land to be included in the district petition the city to do so. The Community Facilities Districts are independently governed, special purpose districts, vested with the corporate authority included under Article VII, section 9 of the state Constitution to make local improvements by special assessments.

The City has formed two Community Facilities Districts:

Redmond Community Facilities District 2014-1 is a special purpose district formed on July 15, 2014 by Resolution No. 1411 of the City Council of the City of Redmond, Washington, in response to a petition from Microsoft Corporation to form a community facilities district for the purpose of financing the construction of a pedestrian/bicycle bridge over SR 520 at the Overlake Transit Station and the construction of canopy coverage for waiting areas at the Overlake Transit Station. Construction of the improvements will be financed through special assessments of \$33,300,000 levied against specific Microsoft Corporation properties. The assessment will be paid in fifteen equal annual installments, with the first installment due in November 2015. The project fund was to be advanced by Microsoft in annual installments between December 2014 and December 2017. However, the final installment for 2017 has been delayed while the project is in review. The design and construction of the project elements will be

administered by Sound Transit. Sound Transit has agreed to pay any cost of the improvements in excess of the assessed amounts.

Redmond Community Facilities District 2016-1 is a special purpose district formed on June 21, 2016 by Resolution No. 1453 of the City Council of the City of Redmond, Washington, in response to a petition from Microsoft Corporation to form a community facilities district for the purpose of financing the northeast 40th Street Stormwater Trunk Line project and multimodal improvements of eastbound and westbound left-turn lanes at the intersection of 154th Avenue NE and NE 51st Street along with bicycle lanes along NE 51st Street from 154th Avenue NE to the SR 520 eastbound on-ramp; and separately, multimodal improvements including bicycle lanes along NE 31st Street from the roundabout just east of SR 520 to 156th Avenue NE along with improvements to the intersection of NE 31st Street and 156th Avenue NE. Construction of the improvements will be financed through special assessments of \$24,618,000 levied against specific Microsoft Corporation properties. The assessment will be paid in fifteen equal annual installments, with the first installment due in November 2017. The project fund has been advanced by Microsoft in annual installments between December 2016 and December 2017. The design and construction of the project will be administered by the City. The improvements will be capital assets of the City of Redmond.

Each Community Facilities District's Board of Supervisors consists of three members of the Redmond City Council and two representatives nominated by the petitioner (Microsoft). The City Finance Director is the Treasurer for the CFD's, and City staff provides accounting and reporting services. Because the City appoints a majority of the Board members, has the ability to impose its will on the organizations through the ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operation of the organizations, and the CFD's provide services almost entirely to the City. The CFD's are reported as blended component units in the Capital Investments Program funds in the City of Redmond's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2019.

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

NOTE 15

Joint Ventures and Operations

Water Storage and Pumping Facility

In February 1990, the City of Redmond joined with the City of Bellevue to construct, operate, and maintain a joint-use water storage and pumping facility located on the common boundary of the two cities. The City of Redmond has an undivided interest in the facility of 44%, and the City of Bellevue has an undivided interest of 56%. The City of Redmond's share of costs to construct the joint-use facility totaled \$2,078,539 and is reported on the business-type activity financial statements as improvements other than buildings. The City recognizes depreciation expense annually. Accumulated depreciation totals \$1,870,685 with a net book value of \$207,854. The city reimbursed the City of Bellevue \$48,452 for its share of operating costs in 2019.

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

Cascade Water Alliance

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

The Alliance is governed by a Board of Directors consisting of one individual representative appointed by resolution of the member's legislative authority. Each member entity must pay annual dues based on the number of units served by the water system within their jurisdiction. The City of Redmond's dues for 2019 were \$635,226. The Alliance had a credit of (\$978,440) in 2019 for Regional Capital Facilities Charges (RCFCs). The credits were from the result of having Microsoft's meters removed while rebuilding its campus.

A member may withdraw from the Alliance with a resolution of its legislative authority expressing such intent. The Board will then determine the withdrawing member's obligations to the Alliance, as well as the withdrawing

member's allocable share of the Alliance's then-existing obligations. The member's withdrawal shall be effective upon payment of obligations. Members do not hold legal ownership rights in any assets owned by the Alliance.

In 2011, the CWA's Board passed a resolution offering to purchase the outstanding RCFCs credits from its members at a discounted rate. These credits were awarded to its members who transferred or retained an independent water supply in excess of its needs. The Alliance's members were allowed to use such credits to apply against future RCFCs. The CWA offered to buy out the RCFC credits at \$2,500 per Cascade Equivalent Residential Unit (CERU) from its members. The City of Redmond chose the one-time redemption option. The payment was finalized and the total of \$ 3,076,875 was sent to the City of Redmond in December 2012. Such receipt was reported as capital contributions in the city's Water/Wastewater fund on the proprietary funds' Statement of Revenues, Expenses, and Changes in Fund Net Position. These monies were used to help pay off the remaining balance of the 2008's revenue bonds that became callable in 2018.

Financial statement information can be obtained from Cascade Water Alliance, c/o Chris Paulucci, Finance and Administration Manager, 520 - 112th Avenue NE, Suite 400, Bellevue, WA 98004.

A Regional Coalition for Housing (ARCH)

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

ARCH's purpose is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing for low and moderate-income households by combining public funding with private-sector resources. ARCH assists member governments in developing housing policies, strategies, programs, and development regulations; identifies and prioritizes projects which the member cities fund directly through their own grants, Community Development Block Grants and US Department of Housing and Urban Development's (HUD) grants.

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

Each member city provides operating funding and contributes operating revenues as specified in the annual budget for ARCH. Contributions from the member cities are based on each member's population. Contributions by member agencies are held in the ARCH Housing Trust Fund Account and dispersed by the Administering Agency for approved projects. In 2019 the city contributed \$78,584 for operations or 10.85% of the total contributions for operations by all members. The City has accumulated \$1,125,750 in the Trust Fund for funding affordable housing projects.

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

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

Eastside Public Safety Communications Agency (EPSCA)

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

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

An Operations Committee, composed of the Chief of Police and Fire Chief of each Principal, reports to the Board and oversees budget preparation, rates, revenues, expenditures, policies and other operational issues. The Committee also includes representation from non-Principal EPSCA user agencies.

EPSCA has developed an Eastside radio communications system which is integrated with a regional radio communications network. Its capital funding derives from a September 15th, 1992 voter-approved King County excess property tax levy of \$57,016,764. EPSCA's portion of the levy was \$10,004,469.

Operating revenues derive from fees charged to the Principals for communications services and from subscriber fees for communications services. The City of Redmond paid \$113,036 to EPSCA in 2019 for the 800 MHz radios that are in use throughout the City. These fees would change when the access fee rate change or when radios are added or removed from the system.

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

As of December 31st, 2019, the weighted vote percentage was shown as follows:

Redmond	22.96%
Bellevue	47.03%
Kirkland	17.98%
Mercer Island	5.99%
Issaquah	6.04%
	<u>100.00%</u>

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

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

Hazardous Materials Unit and Response Team (HazMat)

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

The purpose of the HazMat agreement is to provide equipment and personnel for improving the quality of emergency services through development of the cooperative HazMat unit as a normal function of fire protection services. Eastside is better prepared to respond to any HazMat incident with low frequency but high risk through this existing collaborative model.

The HazMat team is governed by a Joint Board which is composed of the Fire Chiefs of the member agencies plus one member from the HazMat team. The Joint Board is responsible for formulating policy, establishing annual budgets, and acquiring, holding, and disposing of real and personal property. With the exception of the member from the HazMat team, each representative on the Joint Board has a vote on all matters. Member agencies have no equitable interest in the holdings of the consortium as stated in the agreement.

The City of Bellevue has the administrative authority for operations conducted pursuant to the agreement and provides administrative and secretarial support to the Joint Board.

The agreement may be terminated at any time upon the mutual agreement of all the members. A decision to withdraw will not relieve the withdrawing member of liability incurred prior to withdrawal. Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of assets among the members based on the percentage of the total annual charges paid by each member during the period of the agreement.

The HazMat team has no outstanding debt or leases in 2019. Operating revenues are provided by an annual charge assessed each member based on each member's property values and number of emergency incidents. The City of Redmond paid the HazMat team \$19,438 for 2019's contract fee.

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

Community Connectivity Consortium

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

The City of Redmond petitioned to join the Consortium as a non-voting member on May 14th, 2012 and became a voting member at the following year. Redmond has the option to participate in fiber projects with project agreement that documents scope, roles and responsibilities, ownership, share of the overall project cost, etc.

In 2019 the fiber ring continues to operate and serve members, and more services were made available to members. Redmond has the ability to connect to strategic locations, such as Westin and Sabey, and to take advantage of connectivity services from University of Washington and King County.

As a member, Redmond paid \$5,355 for its annual dues in 2019. The Board can recommend new projects or services with increased dues and all members get to vote on the recommended budget each May. Besides getting the connectivity any member needs, members with similar interests may share the cost of new projects with one another. Redmond has equitable interest in the projects it participates in. If the City decides to leave the Consortium, the assets Redmond acquired under any project agreements remains Redmond's.

For additional information, please contact Chelo Picardal, Board Chair, CIO City of Bellevue, cpicardal@bellevuewa.gov

North King County Regional Public Safety Communication Agency (NORCOM)

In November 2007, the City of Kirkland, with the Cities of Bellevue, Bothell, Clyde Hill, Medina, Mercer Island, and Snoqualmie, along with Eastside Fire and Rescue, King County Fire Protection Districts 27 and 45, King and Kittitas County Fire Protection District 51, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire and Life Safety District entered into an interlocal agreement to establish and maintain a consolidated emergency service communications center to the public for emergency medical services, fire and police.

In 2008, the City of Redmond joined as a subscriber. Prior to the interlocal agreement, the formation efforts were carried out under a Joint Powers Agreement originally approved in 2005 and amended in 2006 and 2007. On July 1st, 2009, the separate dispatch operations of the Cities of Bellevue and Kirkland were combined and began operating as the North East King County Regional Public Safety Communications Agency (or NORCOM). NORCOM includes 911 telephone answering, computer aided dispatch of fire, police and EMS resources, public safety field technology and a records management system.

Operating revenues are provided by user fees charged to each member based on average call volume. The City of Redmond paid \$590,836 to NORCOM for calls for services and maintenance fees in 2019. Redmond has become a principal agency since January 1st, 2017.

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

North Sound Metro SWAT and Crisis Negotiating Team

In 2016, Redmond joined the North Sound Metro Special Weapons and Tactics (SWAT) and Crisis Negotiating Team (CNT), which is a regional team made up of the following cities: Bothell, Edmonds, Kirkland, Lake Forest Park, Lynnwood, Mill Creek, Monroe, Mountlake Terrace, Mukilteo and Redmond. Redmond joined this team for the purpose of combining resources to create a specially trained and equipped unit to respond to and resolve criminal activity of a high-risk nature. The Executive Board is comprised of the Police Chiefs of all participating cities. The Board reviews and approves changes and updates to the SWAT Policy and Procedures Manual and gives approval and direction on operational matters.

Operating revenues are provided by contributions from the participating cities based on population. The City of Redmond paid \$6,888 for 2019's dues and \$2,440 for 2019's SWAT advanced training. Upon termination of the SWAT team, any funds or jointly purchased assets will be distributed to the participating cities. The City's share of assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from Assistant Chief Jim Lawless, City of Edmonds, 250 – 5th Avenue North, Edmonds, WA 98020.

NOTE 16 Contingencies and Litigation

As of December 31, 2019, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims and lawsuits, would materially affect the financial condition of the City.

NOTE 17 Risk Management

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

Property and Liability Claims Program:

The self-insured portion of the Insurance Claims and Reserve Fund provides coverage up to a maximum of \$25,000 per occurrence for related claims and expenses. There were no claims in 2019 which exceeded the city's self-insurance limit; in 2018 there was one (1) claim which exceeded the city's self-insurance limit; there were no claims that settled in 2017 which exceeded the city's self-insurance limit. Reserves for open claims are established by an independent claims adjusting firm on a case reserve basis based on the assessment of the settlement potential and costs specifically associated with a particular claim, given the information available at the time. Cases are reviewed at least monthly and are subject to periodic audits. Lawsuits are reviewed and handled directly by the city Attorney or the excess insurer's appointed legal counsel.

The city's current approach to risk management stems from 2010 when the city conducted a comprehensive review of its property and liability risk programs. As a result, the city issued a request for proposal (RFP) for a broker/consultant and selected Bannon Carlson & Kessel, Inc. Bannon Carlson & Kessel, Inc. then conducted a search for service providers to meet the city's needs. This resulted in the city selecting Travelers Insurance for liability coverage and retaining Affiliated FM for property coverage. As a result, the city's risk program changed from a \$100,000 self-insured retention for general liability claims to a \$25,000 deductible. A deductible limit applies to all claim costs while a self-insured retention only applies to any judgment or settlement. The liability limits were extended to \$20 million for general liability as described in the table below. There was one (1) claim in 2019 which

exceeded the deductible amount; in 2018 there was one (1) claim which exceeded the deductible amounts; there were no claims in 2017, which settled in excess of deductible.

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

Medical Self Insurance Program:

For 2019, the Medical Self-Insurance Fund provided coverage up to a maximum of \$175,000 per person per calendar year, with the excess insurance covering an Unlimited Major Medical Maximum. There were seven (7) claimants who exceeded the per-person limit in 2019; four (4) claimants exceeded the per-person limit in 2018; four (4) claimants exceeded the per-person limit in 2017. Each fund of the city, from which employee wages are paid, contribute to and pay out of the Medical Self-Insurance Fund. The premium payments are based on health insurance rates, which derived from actual fund experience, as well as historical and market trend rates.

The City's Medical Self-Insurance Fund was carrying excess reserves of approximately \$5 million for several years. On March 19th, 2019, the City Council approved the establishment of Health Reimbursement Arrangement (HRA) Voluntary Employees' Beneficiary Association (VEBA) accounts for employees based on eligibility requirements and the use of reserves in the Medical Self-Insurance Fund to support the new accounts. HRA VEBA trust is a third-party, voluntary employees' beneficiary association (VEBA) authorized under Internal Revenue Code 501(c)(9). Trust offers tax-exempt funded health reimbursement arrangement. On April 25th, 2019, a total of \$4,935,775 of excess reserves was transferred, on a one-time basis, from Medical Self-Insurance Fund to HRA VEBA employee accounts.

The City Council authorized the city to self-insure workers' compensation benefits effective January 1, 1998 for employee injuries and illnesses. For 2019, the city self-insures \$500,000 of each accident or illness and purchases excess insurance above that, up to the statutory requirements. There were no claims in 2019 which exceeded insurance amount of 500,000; in 2018 no claims exceeded the city's self-insurance coverage; one (1) claim exceeded the coverage in 2017. Claims handling is currently contracted to an independent, qualified third party administrator (TPA).

As of December 31, 2019, the city had reserves of \$817,096 in the Insurance Fund, \$4,419,955 in the Medical Self-Insurance Fund, and \$281,539 in the Workers' Compensation Fund to provide against risk of future loss. Claims liabilities of \$15,311 have been reported in the Insurance Fund, \$1,260,000 in the Medical Self-Insurance Fund, and \$128,389 in the Workers' Compensation Fund based on estimates provided by the city's third party administrators. Historical claims liabilities for incurred but not reported (IBNR) in the Insurance Claims and Reserve Fund average 15% to 17% of paid claims for the year. Reported claims liabilities are based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the self-insurance funds' claims liabilities in 2018 and 2019 were:

	<u>Insurance Fund</u>	<u>Medical Insurance Fund</u>	<u>Workers' Comp Fund</u>
December 31, 2018			
Unpaid claims, beginning of fiscal year	\$ 3,016	\$ 1,380,000	\$ 171,036
Claims incurred (including IBNRs)	328,539	9,155,079	1,441,717
Claims payments	<u>(304,535)</u>	<u>(9,382,079)</u>	<u>(1,285,075)</u>
Unpaid claims-December 31, 2018	<u>\$ 27,020</u>	<u>\$ 1,153,000</u>	<u>\$ 327,678</u>
December 31, 2019			
Unpaid claims, beginning of fiscal year	\$ 27,020	\$ 1,153,000	\$ 327,678
Claims incurred (including IBNRs)	211,279	11,204,517	1,198,896
Claims payments	<u>(222,988)</u>	<u>(11,097,517)</u>	<u>(1,398,185)</u>
Unpaid claims-December 31, 2019	<u>\$ 15,311</u>	<u>\$ 1,260,000</u>	<u>\$ 128,389</u>

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

	<u>Coverage</u>	<u>Self-Insured Retention</u>
Property policy limit	\$150,000,000	\$100,000
Earth movement	\$50,000,000	3%/\$100,000 minimum per location
Flood	\$50,000,000	\$100,000
Employee theft	\$1,000,000	\$10,000
General liability – per occurrence	\$1,000,000	\$25,000
General liability – aggregate	\$2,000,000	
Law enforcement	\$1,000,000	\$25,000
Employment related practices	\$1,000,000	\$25,000
Auto liability	\$1,000,000	\$25,000
Umbrella excess liability (excess of general liability, auto, law enforcement liability)	\$20,000,000	\$10,000
Employment-related practices excess	\$9,000,000	-
Underground storage tank liability	\$1,000,000	\$5,000
Blanket fidelity (employee dishonesty)	\$1,000,000	\$10,000 deductible
Excess workers' compensation	statutory	\$500,000
Excess medical insurance	unlimited	\$175,000

NOTE 18

Accounting and Reporting Changes

Change in accounting principle

In 2019 during the review process of GASB Statement No. 84 implementation as well as recommendations from the State Auditor's office, the City has determined that the Contractors Deposit Fund, Intergovernmental Fund and MEFT funds no longer meet the specific criteria to be reported as fiduciary activities. As a result, these funds are now reported in various governmental funds.

Implementation of new Governmental Accounting Standards Board (GASB)

pronouncements Effective for fiscal year 2019 reporting, the City adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 84, Fiduciary Activities - enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

GASB Statement No. 97, Fiduciary Activities - increase consistency and comparability related to (1) reporting of fiduciary component units (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of pension plan and for benefits provided through those plans.

NOTE 19

Prior Period Adjustments

Capital Improvement Projects

For the fiscal years ending December 31, 2018, 2017 and 2016, Connecting WA WSDOT Projects - SR 520 East Bound 40th and 51st Ramp Split and SR 520 Trail Grade Separation at NE 40th Street were reported as part of the City of Redmond's Capital Improvement Projects. In 2019, during year-end review with project managers, it came to our attention that both projects would not be owned by the City as it is in the limited access right of way. It was determined appropriate to report both projects as part of transportation maintenance in the General Fund. As a result, a prior period adjustment of \$313,915 (net of expenditures \$2,602,312 and revenue of \$2,288,397) to beginning net position in both Capital Improvement Project Fund and General Fund resulting in a zero-net change in the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds total. Similarly, a prior period adjustment of \$2,602,312 is reflected in the Statement of Activities to correct capitalized outlays which should be expensed.

Fire Fighters Pension Fund

In 2019, during year-end review of the summary of uncorrected items provided by the Washington State Auditors' Office (SAO) and the comments issued by the Government Finance Officers Association (GFOA), the City determined that in 2018 the 2017 the Firefighters' Pension Plan net pension asset of \$1,198,415 was misclassified. In addition, the City erroneously netted the total pension liability in calculating the net pension asset. The total pension liability should have been presented as a separate line item. Any assets accumulated for pensions provided through pension plans not administered through trusts that meet the criteria specified in Statement 68, should not be considered pension plan assets (Paragraph 115, GASB 73). As a result, a prior period adjustment of \$2,047,089 is reflected on the Statement of Activities to restate its beginning net position and the Firefighters' Pension Plan total pension liability of \$640,242 is presented as a separate line item on the Statement of Net Position.

NOTE 20

Subsequent Events

COVID-19

In January 2020, the U.S. Department of Health and Human Services declared a public health emergency for a new strain of coronavirus, COVID-19, a respiratory disease that can result in serious illness or death. In February 2020, Washington State's Governor declared a state of emergency in response to the spread of this deadly new virus. In March 2020, the World Health Organization declared COVID-19 as a global pandemic. In the weeks following the Governor's declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, closing all non-essential businesses, and mandating that people stay home and stay healthy.

The City quickly responded to the Governor's order by taking the following actions:

- On March 2, 2020 the Mayor declared a State of Emergency for the City. The emergency declaration would enable the City to respond quickly to the ever-changing environment and procure resources needed to respond to the pandemic.
- On March 5, 2020 the City canceled all Senior Programming and closed the Redmond Community Center at Marymoor Village and the Old Redmond Firehouse Teen Center.
- On March 12, 2020 City Hall was closed and all other City facilities were closed to the public; including, the Public Safety Building, Maintenance and Operations Center, Fire Stations and the Farrell McWhirter Barn Yard. All city facilities were decontaminated.
- The City quickly implemented remote work arrangements as appropriate and established safe working conditions for personnel providing essential city services that must report to work. Essential workers were

placed on rotating schedules, supplied required protective gear and asked to monitor their health in compliance with guidance from the Center of Disease Control (CDC).

- On April 20, 2020 out of an abundance of caution, the City of Redmond canceled all spring camps, activities and rentals. Summertime events, including Derby Days, the Rockin' on the River concert series, So Bazaar, Big Truck Day and all other permitted special events scheduled through August 31 were canceled.
- City Council meetings, city board and commission meetings are currently be conducted remotely per the Governor's guidance on the Open Public Meetings Act (OPMA).

Due to the closures mandated by the Governor, many businesses in the community are experiencing negative financial impacts. The City anticipates revenues will be greatly impacted by the pandemic, particularly sales tax, fees and charges for programs and development services permit revenue. The full extent of the financial impact is unknown at this time and will greatly depend on the length of time the current pandemic response is in place. As staff analyzes the potential impacts this situation may have on the city's revenue streams the city has instituted a hiring freeze for non-essential positions, plans to reduce some vacant positions, curtailed spending on non-critical areas and is looking at further reductions to personnel and line item budgets. Along with reductions, the City is reallocating funds to agencies and partners to help the most vulnerable populations through rental assistance, sheltering and other human service needs.

The City continues to monitor the situation closely and will make necessary adjustments in adherence to the Centers for Disease Control (CDC) guidelines, King County Public Health, the Governor's Office, and in collaboration with other community agencies.

Senior Center Closure

As a result of an evaluation of the Redmond Senior Center for the mid-life improvement project and at the recommendation of the consultant (Swenson Say Faget), the City closed and vacated the Senior Center on September 5, 2019, to allow for the ongoing investigation of the building, interior, exterior and roof. All senior activities and programs were relocated to City Hall or other facilities. The City has set aside \$15 million for this work which includes the exterior envelope and mechanical systems (AM No. 19-196).

The possible options for the City Council to consider are to (1) renovate Senior Center, to (2) demolish and rebuild the building, or to (3) demolish the facility and absorb programs in current facilities. City's staff was supposed to bring back options for the City Council to consider and give policy direction in the first quarter of 2020. The plan has been postponed due to the interruptions caused by the COVID-19 pandemic. The full extent of the financial impact on the City is unknown at the time of issuing the 2019's CAFR.

CFD 2014-1 FUNDING

On May 5, 2020 the board approved an amended funding agreement between Microsoft and CFD No. 2014-1, relieving Microsoft of the pending \$10,000,000 identified in the original commitment to fund and refunding Microsoft \$15,411,409 of the previously deposited \$23,300,000. In addition, the Board approved a revised resolution confirming and approving the reassessment roll to be set at \$8,498,789.

NOTE 21 Special Item

Sale of Imagine Housing of Esterra:

In 2018, the City of Redmond purchased the Esterra property for \$10,013,812, in partnership with Imagine Housing to build affordable housing in Redmond. Shortly thereafter, Imagine Housing lost their development partner and sought another to build affordable housing as envisioned. The City held the property until another affordable housing partner was identified. In 2019, the City sold the property to Inland Development to build 260 affordable units on the site.

The proceeds from the sale of land totaling \$8,281,096 were reported as a special item in the governmental funds. The original cost of the land of \$10,013,812 was removed from capital assets in the statement of net position, this is offset by the sale proceeds resulting in a "loss on sale of land" of (\$1,732,716) in the statement of activities. Due to the special circumstances associated with this transaction it was identified as a special item. This type of transaction does not occur regularly and it would not reasonably be expected to reoccur in the foreseeable future considering the environment in which the City operates.

City of Redmond
Schedule of Revenues, Expenditures
and Changes in Fund Balance
Budget and Actual - General Fund
For the year ended December 31, 2019

	Original Budget 2019-2020	Final Budget 2019-2020	2019 Actual	Actual 2019 Biennium	Variance with Final Budget Positive (Negative)
REVENUES					
Taxes	\$ 148,603,044	\$ 148,604,044	\$ 82,033,352	82,033,352	\$ (66,570,692)
Licenses and permits	26,558,980	26,557,980	12,179,424	12,179,424	(14,378,556)
Contributions	286,000	286,000	38,704	38,704	(247,296)
Intergovernmental	6,615,014	6,612,851	5,200,362	5,200,362	(1,412,489)
Charges for services	29,929,241	29,931,404	15,151,349	15,151,349	(14,780,055)
Fines and forfeitures	1,389,664	1,389,664	561,372	561,372	(828,292)
Investment income	1,574,191	1,624,191	1,278,168	1,278,168	(346,023)
Net change in fair value of investment	70,000	20,000	444,064	444,064	424,064
Miscellaneous	3,451,037	3,451,037	807,851	807,851	(2,643,186)
Total revenues	<u>218,477,171</u>	<u>218,477,171</u>	<u>117,694,646</u>	<u>117,694,646</u>	<u>(100,782,525)</u>
EXPENDITURES					
Current					
General government	42,697,305	43,791,939	21,199,430	21,199,430	22,592,509
Security of persons and property	108,248,604	107,258,207	48,735,392	48,735,392	58,522,815
Transportation	26,593,496	25,649,880	12,356,019	12,356,019	13,293,861
Economic development	14,259,990	14,495,151	7,295,049	7,295,049	7,200,102
Social services	2,081,497	2,081,497	929,286	929,286	1,152,211
Culture and recreation	33,629,754	33,319,754	11,860,221	11,860,221	21,459,533
Capital outlay	941,600	6,241,600	5,701,405	5,701,405	540,195
Debt service					
Principal	194,806	194,806	94,451	94,451	100,355
Interest and issuance Costs	-	-	3,070	3,070	(3,070)
Total expenditures	<u>228,647,052</u>	<u>233,032,834</u>	<u>108,174,323</u>	<u>108,174,323</u>	<u>124,858,511</u>
Excess (deficiency) of revenues over (under) expenditures	(10,169,881)	(14,555,663)	9,520,323	9,520,323	24,075,986
OTHER FINANCING SOURCES (USES)					
Disposition of capital assets	-	-	2,250	2,250	2,250
Transfers in	16,623,684	16,623,684	3,296,000	3,296,000	(13,327,684)
Transfers out	(13,462,818)	(14,769,534)	(7,027,623)	(7,027,623)	7,741,911
Total other financing sources and uses	<u>3,160,866</u>	<u>1,854,150</u>	<u>(3,729,373)</u>	<u>(3,729,373)</u>	<u>(5,583,523)</u>
SPECIAL ITEM					
Proceeds from sale of land	-	-	8,281,096	8,281,096	8,281,096
Net change in fund balance	<u>(7,009,015)</u>	<u>(12,701,513)</u>	<u>14,072,046</u>	<u>14,072,046</u>	<u>26,773,559</u>
Fund balance-beginning	35,207,049	41,709,236	53,513,612	53,513,612	11,804,376
Prior period adjustment (note 19)	-	-	(313,915)	(313,915)	(313,915)
Fund balance-ending	<u>\$ 28,198,034</u>	<u>\$ 29,007,723</u>	<u>\$ 67,271,743</u>	<u>\$ 67,271,743</u>	<u>\$ 38,264,020</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Proportionate Share of the Net Pension Liability
 PERS 1
 As of June 30, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset)	% 0.277269%	0.282854%	0.279288%	0.277829%	0.272760%
Employer's proportionate share of the net pension liability (asset)	\$ 14,503,747	15,190,592	13,252,433	12,407,938	10,488,590
TOTAL	\$ 14,503,747	15,190,592	13,252,433	12,407,938	10,488,590
Employer's covered payroll	\$ 31,572,345	33,640,475	34,727,464	36,583,419	38,037,993
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 45.94%	45.16%	38.16%	33.92%	27.57%
Plan fiduciary net position as a percentage of the total pension liability	% 59.10%	57.03%	61.24%	63.22%	67.12%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Proportionate Share of the Net Pension Liability
 PERS 2, 3
 As of June 30, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset) %	0.349456%	0.354613%	0.352032%	0.350327%	0.348441%
Employer's proportionate share of the net pension liability (asset) \$	12,486,262	17,854,484	12,231,429	5,981,522	3,384,547
TOTAL \$	12,486,262	17,854,484	12,231,429	5,981,522	3,384,547
Employer's covered payroll \$	31,081,296	33,183,481	34,513,096	36,338,197	37,874,599
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	40.17%	53.81%	35.44%	16.46%	8.94%
Plan fiduciary net position as a percentage of the total pension liability %	89.20%	85.82%	90.97%	95.77%	97.77%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Proportionate Share of the Net Pension Liability
 PSERS
 As of June 30, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset) %	0.092909%	0.073365%	0.060021%	0.013917%	0.000000%
Employer's proportionate share of the net pension liability (asset) \$	16,958	31,179	11,760	172	-
TOTAL \$	16,958	31,179	11,760	172	-
Employer's covered payroll \$	268,804	242,743	212,505	54,645	-
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	6.31%	12.84%	5.53%	0.31%	-
Plan fiduciary net position as a percentage of the total pension liability %	95.08%	90.41%	96.26%	99.79%	101.85%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Proportionate Share of the Net Pension Liability
 LEOFF 1

As of June 30, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset) %	0.061310%	0.066346%	0.066931%	0.067634%	0.068841%
Employer's proportionate share of the net pension liability (asset) \$	(738,921)	(683,554)	(1,015,491)	(1,227,897)	(1,360,719)
State's proportionate share of the net pension liability (asset) associated with the employer \$	(4,998,043)	(4,623,539)	(6,868,753)	(8,305,462)	(9,203,868)
TOTAL \$	(5,736,964)	(5,307,093)	(7,884,244)	(9,533,359)	(10,564,587)
Employer's covered payroll \$	182,331	-	-	-	-
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	-405.26%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability %	127.36%	123.74%	135.96%	144.42%	148.78%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Proportionate Share of the Net Pension Liability
 LEOFF 2

As of June 30, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset)	% 0.905449%	0.844407%	0.888184%	0.857127%	0.845952%
Employer's proportionate share of the net pension liability (asset)	\$ (9,306,205)	(4,911,324)	(12,325,116)	(17,401,547)	(19,598,111)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (6,153,272)	(3,201,826)	(7,995,073)	(11,267,173)	(12,834,137)
TOTAL	\$ (15,459,477)	(8,113,150)	(20,320,189)	(28,668,720)	(32,432,247)
Employer's covered payroll	\$ 26,361,527	25,582,420	27,783,905	28,236,058	29,619,230
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% -35.30%	-19.20%	-44.36%	-61.63%	-66.17%
Plan fiduciary net position as a percentage of the total pension liability	% 111.67%	106.04%	113.36%	118.50%	119.43%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Employer Contributions
 PERS 1

As of June 30, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	\$ 1,444,684	1,653,434	1,789,500	1,885,408	1,983,953
Contributions in relation to the statutorily or contractually required contributions	\$ (1,444,684)	(1,653,434)	(1,789,500)	(1,885,408)	(1,983,953)
Contribution deficiency (excess)	\$ -	-	-	-	-
Covered payroll **	\$ 32,615,637	34,388,717	36,162,379	36,909,229	40,004,857
Contributions as a percentage of covered payroll	% 4.43%	4.81%	4.95%	5.11%	4.96%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Employer Contributions
 PERS 2, 3
 As of June 30, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	\$ 1,814,140	2,112,355	2,461,861	2,751,819	3,077,929
Contributions in relation to the statutorily or contractually required contributions	\$ (1,814,140)	(2,112,355)	(2,461,861)	(2,751,819)	(3,077,929)
Contribution deficiency (excess)	\$ -	-	-	-	-
Covered payroll	\$ 32,160,083	33,906,036	35,809,117	36,690,221	39,899,665
Contributions as a percentage of covered payroll	% 5.64%	6.23%	6.87%	7.50%	7.71%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Employer Contributions
 PSERS

As of December 31, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	\$ 15,367	17,958	7,514	-	-
Contributions in relation to the statutorily or contractually required contributions	\$ (15,367)	(17,958)	(7,514)	-	-
Contribution deficiency (excess)	\$ -	-	-	-	-
Covered payroll	\$ 237,629	272,507	112,895	-	-
Contributions as a percentage of covered payroll	% 6.47%	6.59%	6.66%	0.00%	0.00%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

City of Redmond
 Schedule of Employer Contributions
 LEOFF 2

As of December 31, 2019
 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	\$ 1,350,946	1,339,697	1,455,369	1,515,013	1,569,795
Contributions in relation to the statutorily or contractually required contributions	\$ (1,350,946)	(1,339,697)	(1,455,369)	(1,515,013)	(1,569,795)
Contribution deficiency (excess)	\$ -	-	-	-	-
Covered payroll	\$ 26,751,402	26,528,575	28,238,790	28,691,585	30,083,310
Contributions as a percentage of covered payroll	% 5.05%	5.05%	5.15%	5.28%	5.22%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

City of Redmond
 Schedule of Changes in Total Pension Liability and Related Ratios
 Firefighter's Pension Plan
 Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total pension liability - beginning	\$ 676,110	\$ 692,473	\$ 685,451	\$ 567,121	\$ 483,433	\$ 331,168	\$ 557,526	\$ 557,526	\$ 654,000	\$ 654,000
Service cost	-	-	-	-	-	-	-	-	-	-
Interest	21,075	21,608	21,443	17,704	15,014	10,399	17,645	17,590	20,627	20,705
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(21,894)	(3,536)	16,300	128,397	97,140	154,238	(231,779)	(1,918)	(98,267)	(6,793)
Changes of assumptions	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds of contributions	(35,049)	(34,435)	(30,721)	(27,771)	(28,466)	(12,372)	(12,224)	(15,672)	(18,834)	(13,912)
Other changes	(35,868)	(16,363)	7,022	118,330	83,688	152,265	(226,358)	-	(96,474)	-
Net change in total pension liability	\$ 640,242	\$ 676,110	\$ 692,473	\$ 685,451	\$ 567,121	\$ 483,433	\$ 331,168	\$ 557,526	\$ 557,526	\$ 654,000
Total pension liability - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,040
Covered payroll	N/A	718.37%								

Notes to Schedule:

There are no assets accumulated in a trust that meets the criteria of a qualified plan under GASB Statements 67/68.

The City of Redmond
 Schedule of Changes in Total OPEB Liability and Related Ratios
 OPEB Plan - LEOFF 1
 For the year ended December 31, 2019
 Last 10 Fiscal Years*

	2019	2018
Total OPEB liability - beginning	\$ 15,298,484	\$ 15,855,449
Service cost	-	-
Interest	578,786	557,907
Changes in benefit terms	-	-
Changes in experience data and assumptions	88,620	(567,119)
Estimated benefit payments	(692,109)	(547,753)
Other changes	-	-
Total OPEB liability - ending	\$ 15,273,781	\$ 15,298,484

Covered-employee payroll**

-

Total OPEB liability as a % of covered payroll

N/A

Notes to Schedule:

* *Until a full 10-year trend is compiled, only information for those years available is presented.*

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

** *Covered-employee payroll is the payroll of employees that are provided with OPEB through the OPEB plan (GASB 75, par. 2.46)*

Notes to the Required Supplementary Information

Pensions

Change in Assumptions and Methods: Actuarial results that the Office of the State Actuary provided within the Department of Retirement Systems Participating Employer Financial Information report reflect the following changes in assumptions and methods:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

Other Postemployment Benefits

In 2019 valuation calculations for the Medical and Long-Term Care Benefits were done using the Alternative Measurement Method for GASB 75 as directed by the Office of the State Actuary.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov



**Office of the Washington State Auditor
Pat McCarthy**

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

October 29, 2020

Mayor and City Council
City of Redmond
Redmond, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Redmond, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Redmond, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 20 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 20. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The combining financial statements and schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory, Capital Assets Used in the Operation of Governmental Funds, and Statistical Sections are presented for purposes of additional analysis and is/are not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated October 29, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

Summary of Uncorrected Items

Description	Statement / Schedule	Opinion Unit
Expenses were incorrectly classified between Fund 402 and 401. This resulted in an overstatement in Fund 402 of \$332,732 and an understatement in Fund 401 by the same amount. (Classification error between funds)	Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	Water/ Wastewater
Expenses were incorrectly classified between Fund 402 and 401. This resulted in an overstatement in Fund 402 of \$332,732 and an understatement in Fund 401 by the same amount.(Classification error between funds)	Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	UPD Water/ Wastewater
Baseline Testing - Property Taxes: The City did not report unavailable revenues - property taxes in the Governmental Funds Balance Sheet. The City should have reported \$260,190 in deferred property taxes.	Statement of Net Position	Governmental Activities
Baseline Testing - Property Taxes: The City did not report unavailable revenues - property taxes in the Governmental Funds Balance Sheet. The City should have reported \$260,190 in deferred property taxes.	Governmental Funds Balance Sheet	General Fund
The City understated cash held with outside agent ARCH by \$1,128,705.	Statement of Net Position	Governmental Activities
The City understated cash held with outside agent ARCH by \$1,128,705.	Governmental Funds Balance Sheet	General Fund
The City misclassified a storm pipe replacement in the general fund rather than the stormwater management fund. As a result the stormwater management fund's expenditures were understated by \$18,700.	Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	Stormwater Management
The City misclassified a storm pipe replacement in the general fund rather than the stormwater management fund. As a result the general funds expenditures were overstated by \$18,700.	Governmental Funds Statement of Revenues, Expenses, and Changes	General Fund
To correct the net book value of 3 stormwater assets the City accelerated the depreciation on these assets for FY19 only. In subsequent years depreciation will return to the normal depreciation amount. Although this methodology will ensure the net book value of the assets is correct, FY19 depreciation expense will be overstated. We noted the total overstatement to depreciation expense was \$305,924.	Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	Stormwater Management
Based on testing of governmental activities accumulated depreciation and depreciation expense, we noted the following: <ul style="list-style-type: none"> • While testing buildings and improvements we noted four assets were disposed of in 2017, but was still being depreciated. The City confirmed that the excel rows were hidden and the formula was copied in error. As a result the City's depreciation expense was overstated by \$44,536. • While testing improvements other than buildings we noted the entire amount of an adjustment made in 2008 was depreciated in FY19, however per City documentation this should have been fully depreciated in 2008. Proper treatment of this correction would have been a prior period adjustment. As a result, depreciation expense is understated by \$189,327. • While testing machinery and equipment we noted 16 assets that the City over depreciated in FY19. The City over depreciated the assets in FY19 to align the assets with its correct accumulated depreciation balance. Although this methodology does correct the net book value of the assets it overstates depreciation expense. We noted depreciation expense was overstated by \$39,472. • While testing infrastructure we noted: <ul style="list-style-type: none"> o The City over depreciated two assets by one year. As a result depreciation expense was overstated by \$389,808. o The City did not depreciation 23 assets in FY19 to correct accumulated depreciation (The city began depreciating the assets early.). Proper treatment of this correction would have been a prior period adjustment. As a result, depreciation expense is understated by \$114,327. o An adjustment was made to align one asset with its remaining useful life. Proper treatment of this correction would have been a prior period adjustment. As a result, depreciation expense is understated by \$360,121. o We considered the above errors in aggregate and determine the net impact is an understatement of depreciation expense of \$84,640. <p>We then aggregated the total above misstatements and determined depreciation expense was overstated by \$189,959 for governmental activities.</p>	Statement of Activities	Governmental Activities
During testing of equipment's accumulated depreciation, we noted two assets that the City over depreciated in FY19. The City accelerated depreciation in FY19 only to align the assets with its correct book value. Although this methodology does correct the net book value of the assets it overstates depreciation expense. We noted depreciation expense was overstated by \$22,704	Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	Aggregate Remaining Funds
The City incorrectly reported \$1,236,918 of 2020 1st Quarter revenue related to Microsoft Refresh MOU to fiscal year 2019. As a result, revenue for Aggregate Remaining Funds-Licenses and Permits balance was overstated by \$1,236,918.	Governmental Funds Balance Sheet	Aggregate Remaining Funds
The City incorrectly reported \$1,236,918 of 2020 1st Quarter revenue related to Microsoft Refresh MOU to fiscal year 2019. As a result, revenue for Government Activities - Economic Environment balance was overstated by \$1,236,918.	Statement of Activities	Governmental Activities

Summary of Uncorrected Items

Description	Statement / Schedule	Opinion Unit
<p>We determined Water/Wastewater Fund - Maintenance and Operations was understated by \$149,111 due to misclassification between Water/Wastewater and UPD Water/Wastewater.</p> <p>Misclassification was due to the City inadvertently posting entry backwards (reversed debits and credits) so the year-end balances were off by twice the journal entry amounts.</p>	Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	Water/ Wastewater
<p>We determined UPS Water/Wastewater Fund - Maintenance and Operations was overstated by \$149,111 due to misclassification between Water/Wastewater and UPD Water/Wastewater.</p> <p>Misclassification was due to the City inadvertently posting entry backwards (reversed debits and credits) so the year-end balances were off by twice the journal entry amounts.</p>	Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	UPD Water/ Wastewater
<p>In the revised statements, the City misclassified \$362,734 related to MEBT. This resulted in understatement of Governmental Activities-Cash by \$362,734 and overstatement of Governmental Activities-Investments by \$362,734.</p>	Statement of Net Position	Governmental Activities
<p>In the revised statements, the City misclassified \$362,734 related to MEBT. This resulted in understatement of General Fund-Cash by \$362,734 and overstatement of General Fund-Investments by \$362,734.</p>	General Fund	Governmental Activities
<p>In the reconciliation of operating income to net cash provided by operating activities section of the Statement of Cash Flows, the City presented "GASB 68 adjustment". Item should be presented as Increase (decrease) in pension liability.</p>	Statement of Cash Flows	Business-type Activities



October 29, 2020

Officer of the Washington State Auditor
40 Lake Bellevue Drive, Suite 123
Bellevue, WA 98005

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of City of Redmond for the period from January 1, 2019 through December 31, 2019. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.

2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records, notwithstanding immaterial uncorrected items referenced below.
10. We are responsible for taking corrective action on audit findings and have developed a corrective action plan.

Additional representations related to the financial statements:

11. We acknowledge our responsibility for fair presentation of financial statements and believe financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.
12. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
13. The financial statements include financial information of the primary government and all component units, fiduciary and other activity required by generally accepted accounting principles to be included in the financial reporting entity.
14. The financial statements properly classify all funds and activities.
15. All funds that meet the quantitative criteria in GASB requirements or are otherwise particularly important to financial statement users, are presented as major funds.

16. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and depreciated as applicable.
17. We have no plans or intentions that may materially affect the reported value or classification of assets, liabilities or net position.
18. Revenues are appropriately classified by fund and account.
19. Expenses have been appropriately classified by fund and account, and allocations have been made on a reasonable basis.
20. Net position components (net investment in capital assets, restricted and unrestricted) and fund balance components (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, as applicable, approved.
21. Significant assumptions we used in making accounting estimates are reasonable.
22. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the government is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements, and other loss contingencies.
23. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
24. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
25. We acknowledge our responsibility for the supplementary information required by generally accepted accounting principles in the United States (RSI) and believe RSI is measured and presented within prescribed guidelines.

26. We have disclosed to you all significant changes in the methods of measurement and presentation of RSI, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the RSI.
27. We believe the effects of uncorrected financial statement misstatements summarized in the schedule of uncorrected items provided to us by the auditor are not material, both individually and in the aggregate, to each applicable opinion unit.
28. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.
29. We acknowledge our responsibility for presenting Comprehensive Annual Financial Report combining statements and supplemental schedules in accordance with generally accepted accounting principles in the United States. We believe that combining statements and supplemental schedules are fairly presented, including both form and content, in accordance with those principles.
30. We have disclosed to you all significant changes to the methods of measurement and presentation of combining statements and supplemental schedules, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the combining statements and supplemental schedules.


(Signature)
Angela Birney
Mayor


(Signature)
Malisa Files
Finance Director

UPDATING LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD

January 26, 2021

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We re-affirm the representations made in our previous letter dated October 29, 2020 up to the date of this letter, which was provided to you in connection with your audit of City of Redmond for the period from January 1, 2019 through December 31, 2019.

We confirm again, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, those representations made to you during your audit and included in our previous letter as referred to above.

If we subsequently discover information that would change our representations related to this audit, we will notify you in a timely manner.

(Signature)
Angela Birney
Mayor

(Signature)
Malisa Files
Finance Director

NOTES TO THE PREPARER

An updating letter of representation may be needed when the date of the original representation letter does not correspond to the effective date of the auditor's report. When providing an updating letter of representation to auditors, preparers should review the original representation letter and ensure that all representations can still be made.

- ① The date of the letter should match the date of the reports issued by the auditor. This date should be obtained from the auditor.
- ② The letter should normally be signed by the same members of management who signed the original representation letter.

Any deviation from standard language provided in the template above should be discussed with the auditor. If you need clarification on any point or feel that a previous representation needs to be modified or you can no longer make representation, please contact the auditor.