

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, 2009, and for the City's financial position at December 31, 2009. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow.

Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equaled \$649,773,855 at the end of 2009. The City's net assets increased by \$35,912,792 or 5.85% in 2009. The overall increase was split between governmental activities and business-type activities at \$24,993,435 or 69.59% and \$10,919,357 or 30.41%, respectively. The increase is predominantly due to an increase in investment in capital assets of \$31,842,159. The detail breakout is discussed in greater detail in the capital asset section.
- Of the remaining net assets, \$25,938,321 and \$83,797,873 are restricted and unrestricted, respectively, for Governmental Activities, while \$1,371,947 and \$48,279,990 are restricted and unrestricted respectively for Business-Type Activities. The major component of the legally restricted portion is for Capital Projects, which account for \$17,773,026 or 65.52% of total restricted net assets citywide.
- Governmental fund balances at year-end were \$101,513,580, a decrease of \$2,176,748 from the prior year. The City experienced a reduction in cash and investments of (\$5,118,690) but also had a reduction in total liabilities of (\$5,734,042). The City also had a reduction of (\$9,687,825) in unreserved in the general fund and available to fund ongoing activities. These decreases were offset by an increase in unreserved fund balance for capital projects which increased \$14,482,176. Other legally restricted or reserved by City policy fund balances are \$1,244,021 and \$31,914,081 for debt service and for Special Revenue Fund purposes, respectively.

Budget Adjustments

The difference between the original budget and final budget for the general fund for the biennium 2009-2010 are modest. The adjustments in total resulted in an increase of \$179,338 in fund balance which accounts for 0.03% of total net assets of the city. These adjustments included an increase in revenues of \$898,864, an increase in expenses of \$2,022,470 and a decrease in transfers out of \$60,253.

Overview of the Financial Statements

The City's basic financial statements are presented in three parts: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government (finance, executive and human resources), security (police and fire), physical environment, economic environment, transportation, mental/physical health, 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 self-supporting through user fees and charges.

The statement of net assets presents information on all of the City of Redmond's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the City's overall financial health.

The statement of activities presents information designed to show how the City's net assets changed during the year. This 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 how much each function either 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 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.

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 three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions as are reported as governmental activities in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the 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 twenty-seven individual governmental funds. The City's two major governmental funds – the general fund and the capital improvements 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 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. A budgetary comparison statement is presented for the General Fund as basic financial statements. Other budgetary comparison schedules are included following the other governmental funds' combining statements in this report.

The City of Redmond

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. Internal service funds are used to account for goods and services provided internally to various City departments.

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, workmen's compensation self-insurance program, information technology, and one blended component unit, Redmond Community Properties. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities column of the government-wide statement of net assets.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City of Redmond's activities.

The City has two types of fiduciary funds, a pension fund and agency funds. The accounting for the pension fund is on the accrual basis. Agency funds are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

Notes to the financial statements

The notes to the financial statements provide additional information that is important to 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 to certain retired firefighters 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, internal service funds, and agency-type fiduciary funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Statement of net assets

The statement of net assets can serve as a useful indicator of the City's financial position. The City of Redmond's net assets at December 31, 2008 and 2009 total \$613,861,063 and \$649,773,855, respectively. Following is a condensed version of the government-wide statement of net assets for 2009 compared to 2008.

City of Redmond's Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 131,947	\$ 136,176	\$ 52,317	\$ 55,287	\$ 184,264	\$ 191,463
Capital assets, net of accumulated depreciation	<u>325,908</u>	<u>305,784</u>	<u>245,601</u>	<u>233,883</u>	<u>571,509</u>	<u>539,667</u>
Total assets	\$ <u>457,855</u>	\$ <u>441,960</u>	\$ <u>297,918</u>	\$ <u>289,170</u>	\$ <u>755,773</u>	\$ <u>731,130</u>
Long-term liabilities	\$ 77,454	\$ 80,288	\$ 12,020	\$ 12,678	\$ 89,474	\$ 92,966
Other liabilities	<u>14,551</u>	<u>20,815</u>	<u>1,974</u>	<u>3,487</u>	<u>16,525</u>	<u>24,302</u>
Total liabilities	\$ <u>92,005</u>	\$ <u>101,103</u>	\$ <u>13,994</u>	\$ <u>16,165</u>	\$ <u>105,999</u>	\$ <u>117,268</u>
Net assets						
Invested in capital assets, net of related debt	\$ 256,114	\$ 238,895	\$ 234,272	\$ 228,193	\$ 490,386	\$ 467,088
Restricted	25,938	24,203	1,372	7,686	27,310	31,889
Unrestricted	<u>83,798</u>	<u>77,758</u>	<u>48,280</u>	<u>37,126</u>	<u>132,078</u>	<u>114,884</u>
Total net assets	\$ <u><u>365,850</u></u>	\$ <u><u>340,856</u></u>	\$ <u><u>283,924</u></u>	\$ <u><u>273,005</u></u>	\$ <u><u>649,774</u></u>	\$ <u><u>613,861</u></u>

Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the City resulting from its operating activities. Following is a condensed version of the City's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities for 2008 and 2009.

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

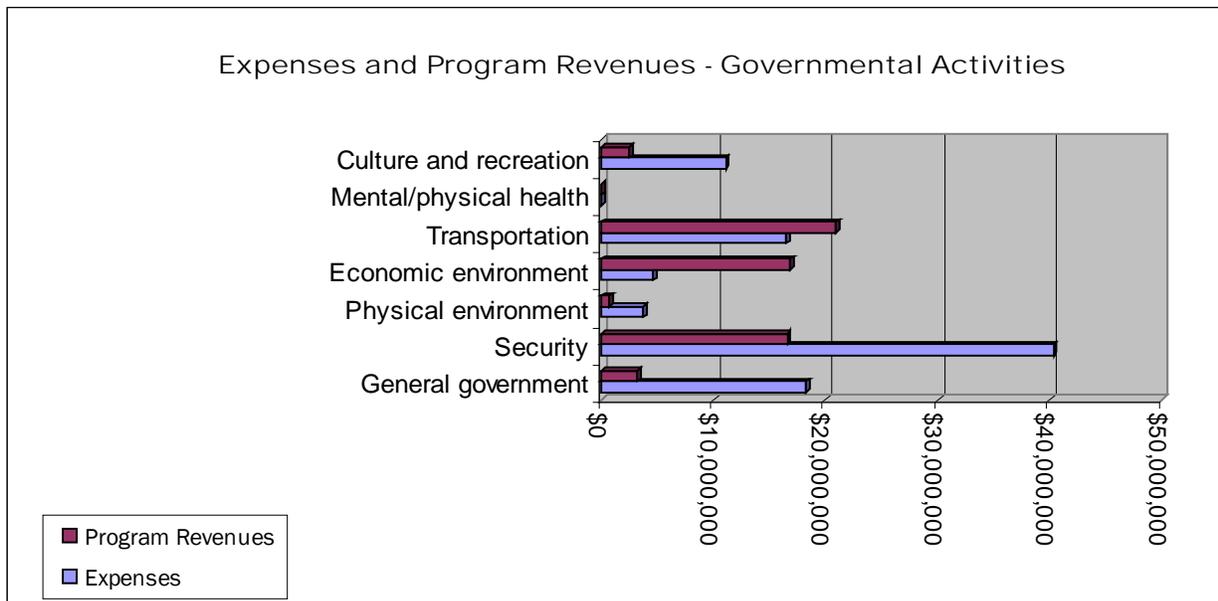
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues						
Charges for services	\$ 38,019	\$ 33,807	\$ 42,061	\$ 40,772	\$ 80,080	\$ 74,579
Operating grants and contributions	2,830	7,383	58	19	2,888	7,402
Capital grants and contributions	19,834	5,240	6,681	20,735	26,515	25,975
General revenues					-	-
Property taxes	19,446	18,589	-	-	19,446	18,589
Sales taxes	18,996	20,675	-	-	18,996	20,675
Other taxes	19,264	19,578	-	-	19,264	19,578
Investment interest	2,087	4,087	737	1,740	2,824	5,827
Miscellaneous	1,021	1,242	176	140	1,197	1,382
Total revenues	\$ 121,497	\$ 110,601	\$ 49,713	\$ 63,406	\$ 171,210	\$ 174,007
Expenses:						
General government	\$ 18,222	\$ 14,823	\$ -	\$ -	\$ 18,222	\$ 14,823
Security	40,319	40,940	-	-	40,319	40,940
Physical environment	3,763	3,962	-	-	3,763	3,962
Economic environment	4,664	3,689	-	-	4,664	3,689
Transportation	16,530	16,501	-	-	16,530	16,501
Mental/physical health	12	97	-	-	12	97
Culture and recreation	11,103	11,104	-	-	11,103	11,104
Interest on long term debt	1,891	2,045	-	-	1,891	2,045
Water/Wastewater	-	-	27,085	26,467	27,085	26,467
Novelty Hill						
Water/Wastewater	-	-	4,963	5,908	4,963	5,908
Stormwater	-	-	6,746	6,580	6,746	6,580
Total expenses	\$ 96,504	\$ 93,161	\$ 38,794	\$ 38,955	\$ 135,298	\$ 132,116
Increase in net assets	24,993	17,440	10,919	24,451	35,912	41,891
Net assets - beginning	340,857	323,417	273,005	248,553	613,862	571,970
Net assets - ending	\$ 365,850	\$ 340,857	\$ 283,924	\$ 273,004	\$ 649,774	\$ 613,861

Governmental activities contributed \$24,993,435 or 69.59% of the total change in net assets of \$35,912,792. Governmental activities accounts for 56.30% of the City's net assets.

Key elements of the 2009 increase are as follows:

- Total assets from Governmental activities increased by \$15,895,212.
 - An increase in capital assets which increased by \$20,124,026. Details relating to this increase are discussed in the capital asset section.
 - Cash and investments reflect a minimal decrease of \$992,272 from 2008 to 2009.
- Total liabilities from Governmental activities decreased by \$9,098,223.
 - Long term debt decreased by \$2,474,351 through principal payments on debt previously held by the City. There was no new debt added in 2009.
 - Due primarily to a change in accounting for Impact Fees, unearned revenue decreased by \$8,256,608. Complete details are available in the Note 5 to the financial statements.
- The total revenue increased between 2008 and 2009 by \$13,894,927. This increase was made up of several components.
 - Recognition of \$7,344,038 of impact fees which were shown previously as unearned income. This recognition was done based on a change in accounting practices performed based on a judicial decision. This change of accounting method contributed 90.74% of the total increase of the contributions from property owners. Complete details are available in the Note 5 to the financial statements.
 - The 36th Street Bridge over State Route 520 project was the primary reason for the increase in revenue in the Capital Improvements Program Fund. Intergovernmental revenue increased \$5,580,476 primarily from grant revenues funded by the American Recovery and Reinvestment Act related. Charges for services increased by \$3,873,882 from private contributions for this project.
- Total expenditures showed an increase from 2008 to 2009 of \$3,341,042. This increase was made up of increases in general government and security of persons and property of \$7,755,892 and decreases of new capital outlay expenditures of \$11,816,098.

The graph that follows compares program revenues to program expenses from the Statement of Activities and illustrates the revenues by source separately for the governmental activities for 2009.

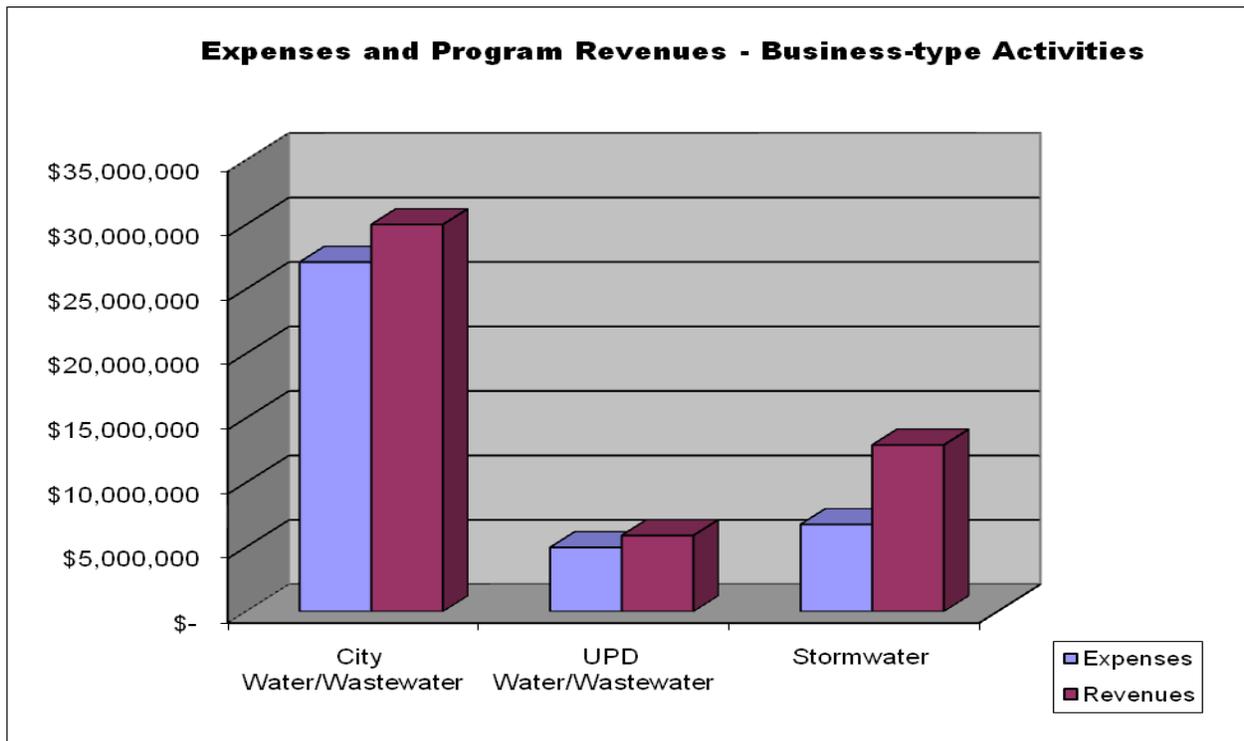


Business-type activities of the City's utilities increased the City of Redmond's net assets by \$10,919,357 or 30.41% of the total change of net assets of \$35,912,792. Business-type activities accounts for 43.70% of the City's net assets.

Key elements of this increase are as follows:

- The investments in capital assets increased \$11,718,133 or 5.01% between 2008 and 2009. Completion of Wells 1 & 2 totaling \$10,343,909 accounts for 88.27% of the increase.
- The decrease of \$2,171,213 in liabilities is due to principal payments on bond debt from previous years. There was no new debt incurred in 2009.
- The Water/Wastewater utility showed a modest operating income of \$387,137 due to an increase while the UPD Water/Wastewater utilities showed a modest operating loss of (\$134,273). However, when non-operating income and capital contributions are included, the net income is \$3,814,090 for the Water/Wastewater utility and \$1,076,798 for the UPD Water/Wastewater utility.
- The City is planning a significant stormwater project that will place a central line that will include filtration that will discharge to a pond. This project is tied to the acquisition of the BNSF rail corridor. This acquisition is expected to be completed in 2010. In preparation for this project, the Stormwater Management utility will be utilizing the reserves built over the past few years. In 2009 the total operating revenue was \$10,656,046 with operating expenses of \$6,746,031 for a net operating income of \$3,910,015.
- Investment earnings for the business-type activities had a decrease of \$1,003,183 over 2008. This decrease is due to the lower interest rates from the economic downturn.

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 2009.



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

The City continued to make large investments in capital assets in 2009 as reflected in the following table. The increase from 2008 to 2009 was \$31,842,159 or 5.57%.

Governmental activities increased \$20,124,026 partially made up of:

- Construction on the NE 36th Street bridge continued with \$14,615,806 in additional costs in 2009.
- Bear Creek Parkway Extension was completed in 2009 with additional costs of \$5,153,689.
- 161st Avenue NE Extension project got under way with \$1,178,428 in costs.
- Fire Station 17 increased \$1,512,805 with purchase of land and development costs for the new station.

Business-Type Activities reflected an increase of \$11,718,133 partially made up of:

- Completion of Well #1&2 with costs of \$10,343,909 in 2009.
- Education Hill Tank site improvements totaling \$1,982,216.
- Purchase of the King Country Metro land for the Stormwater Eastside Industrial Basin project totaled \$1,749,511.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 73,707,419	\$ 69,567,875	\$ 9,814,971	\$ 7,393,355	\$ 83,522,390	\$ 76,961,230
Buildings/ Bldg. Improvements	56,213,029	54,432,657	31,363,079	24,063,241	87,576,108	78,495,898
Improvements other than buildings	19,212,834	18,754,915	197,813,395	189,864,840	217,026,229	208,619,755
Machinery and equipment	12,097,455	12,511,615	287,784	331,618	12,385,239	12,843,233
Construction in progress	23,508,459	20,702,608	6,322,004	12,230,046	29,830,463	32,932,654
Infrastructure	140,840,131	129,504,015	-	-	140,840,131	129,504,015
Art	328,365	309,981	-	-	328,365	309,981
Total	\$ 325,907,692	\$ 305,783,666	\$ 245,601,233	\$ 233,883,100	\$ 571,508,925	\$ 539,666,766

Additional information on the City of Redmond's capital assets can be found in Note 8 of this report.

Long-term debt

At the end of 2009, the City of Redmond had total bonded debt outstanding of \$81,400,000. Of this amount, \$70,040,000 is general obligation bonds (City Hall, Bear Creek Parkway, and 1994 Refunding Bonds); \$170,000 is special assessment debt with governmental commitment; and the balance of \$11,190,000 is revenue bonded debt for the water/wastewater utility.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$70,040,000	\$72,455,000	\$ -	\$ -	\$70,040,000	\$72,455,000
Special assessment debt with governmental commitment	170,000	530,000	-	-	170,000	530,000
Revenue bonds	-	-	11,190,000	11,755,000	11,190,000	11,755,000
Total	\$70,210,000	\$72,985,000	\$11,190,000	\$11,755,000	\$81,400,000	\$84,740,000

For further details related to the outstanding debt please refer to Note 13 in the document.

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 & Information Services, City of Redmond, PO Box 97010, Redmond, WA 98073-9710.