

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, 2011, and for the City's financial position at December 31, 2011. 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. Particular attention should be paid to the discussion regarding the city's implementation of GASB's Statement 54. Implementing this statement has resulted in many changes to the presentation of financial information as detailed in Note 5 of the financial statements.

Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equaled \$660,698,559 at the end of 2011. The City's net assets increased by \$19,094,345 or 2.98% in 2011. Governmental activities had a increase of \$7,252,648 or 2.10% from 2010. The increase is predominantly due to an investment in fixed assets (primarily infrastructure). The details regarding these can be found in Note 7 to the financial statements. An additional area of increase is the net assets is the amounts restricted for future capital projects. Business-Type activities had an increase of \$11,841,692 or 3.99% from 2010 which is again largely attributed to increased investment in fixed assets. This reflects the city's commitment to investment in its capital infrastructure.
- Of the remaining net assets, \$47,237,857 and \$37,828,747 are restricted and unrestricted, respectively, for Governmental Activities, while \$2,220,500 and \$50,415,020 are restricted and unrestricted respectively for Business-Type Activities. The major component of the legally restricted portion is for capital projects, which account for \$36,686,924 or 78% of total restricted net assets citywide compared to \$18,406,405 or 46.78% in 2010.
- Governmental fund balances at year-end were \$77,713,932 a decrease of \$1,839,036 from the prior year. The City experienced a reduction in cash and investments of \$2,477,490 but also had a reduction in total liabilities of \$2,189,190. The City saw an increase of \$6,601,779 in unassigned (formerly unreserved) fund balance in the general fund and amounts available to fund ongoing activities. Other legally restricted or committed by City policy fund balances are \$6,330,833, \$1,754,636 and \$35,695,108 for special revenue, debt service, and capital improvement projects (CIP) fund purposes, respectively.

Budget Adjustments

The difference between the original budget and final budget for the general fund for the biennium 2011-2012 totaled an increase of \$2,058,981 in revenues and \$11,607,136 in expenditures which accounts for a budgetary decrease of \$9,548,155 of total net assets of the City. The result is to reduce the anticipated excess of revenues over expenditures from \$12,705,625 to \$3,157,470. These adjustments included an increase in the budgets for transportation and parks maintenance and capital projects, as well as economic development. The adjustments occurred as part of the city's transition to comply with GASB Statement 54 as described in Note 5 to the financial statements.

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 primarily 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 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.

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. 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 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 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. As discussed previously in this analysis, the City's compliance with GASB Statement 54 resulted in significant change to the reporting for the city's funds and is responsible for the reduction in the number of funds to be found in this report from 27 last year to the 13 included in the 2011 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.

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, 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 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 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, 2010 and 2011 total \$641,604,214 and \$660,698,559, respectively. Following is a condensed version of the government-wide statement of net assets for 2011 compared to 2010.

City of Redmond's Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 103,523	\$ 105,724	\$ 55,375	\$ 56,804	\$ 158,898	\$ 162,528
Capital assets, net of accumulated depreciation	341,265	327,183	266,467	253,710	607,732	580,893
Total assets	\$ 444,788	\$ 432,907	\$ 321,842	\$ 310,514	\$ 766,630	\$ 743,421
Long-term liabilities	\$ 80,490	\$ 75,172	\$ 10,853	\$ 11,419	\$ 91,343	\$ 86,591
Other liabilities	12,430	13,120	2,159	2,106	14,589	15,226
Total liabilities	\$ 92,920	\$ 88,292	\$ 13,012	\$ 13,525	\$ 105,932	\$ 101,817
Net assets						
Invested in capital assets, net of related debt	\$ 266,802	\$ 257,663	\$ 256,195	\$ 242,798	\$ 522,997	\$ 500,461
Restricted	47,237	29,569	2,220	2,221	49,457	31,790
Unrestricted	37,829	57,384	50,415	51,970	88,244	109,354
Total net assets	\$ 351,868	\$ 344,616	\$ 308,830	\$ 296,989	\$ 660,698	\$ 641,605

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 2010 and 2011.

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

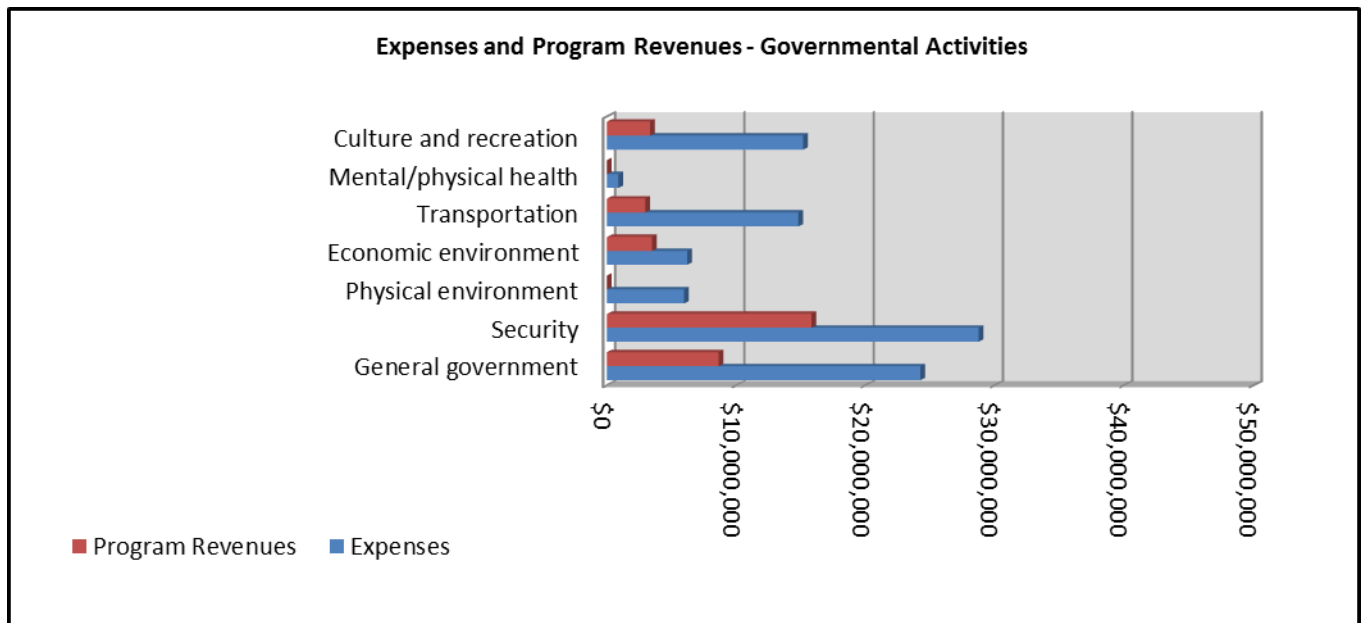
	Governmental Activities				Business-Type Activities				Total			
	2011		2010		2011		2010		2011		2010	
Revenues:												
Program revenues												
Charges for services	\$	34,283	\$	28,913	\$	44,981	\$	41,815	\$	79,264	\$	70,728
Operating grants and contributions		760		8,334		599		602		1,359		8,936
Capital grants and contributions		2,513		3,419		6,403		7,060		8,916		10,479
General revenues												-
Property taxes		21,978		20,930		-		-		21,978		20,930
Sales taxes		24,895		19,038		-		-		24,895		19,038
Other taxes		19,338		18,664		-		-		19,338		18,664
Investment interest		937		1,114		48		623		985		1,737
Miscellaneous		2,152		4,027		143		105		2,295		4,132
Total revenues	\$	106,856	\$	104,439	\$	52,174	\$	50,205	\$	159,030	\$	154,644
Expenses:												
General government	\$	24,253	\$	19,571	\$	-	\$	-	\$	24,253	\$	19,571
Security		28,751		36,764		-		-		28,751		36,764
Physical environment		5,976		5,283		-		-		5,976		5,283
Economic environment		6,218		5,719		-		-		6,218		5,719
Transportation		14,818		42,053		-		-		14,818		42,053
Mental/physical health		890		13		-		-		890		13
Culture and recreation		15,191		14,457		-		-		15,191		14,457
Interest on long term debt		3,506		1,813		-		-		3,506		1,813
Water/Wastewater		-		-		27,519		25,191		27,519		25,191
Novelty Hill Water/Wastewater		-		-		5,752		5,542		5,752		5,542
Stormwater		-		-		7,061		6,407		7,061		6,407
Total expenses	\$	99,603	\$	125,673	\$	40,332	\$	37,140	\$	139,935	\$	162,813
Increase/(Decrease) in net assets		7,253		(21,234)		11,842		13,065		19,095		(8,169)
Net assets - beginning		344,616		365,850		296,989		283,924		641,604		649,774
Net assets - ending	\$	351,869	\$	344,616	\$	308,830	\$	296,989	\$	660,699	\$	641,605

Governmental activities experienced an increase in total net assets of \$7,252,648. Governmental activities accounts for 53% of the City's net assets in 2011.

Key elements of the 2011 increase are as follows:

- Total assets from Governmental activities increased by \$11,880,607.
 - Cash and investments reflect a decrease of \$1,850,136 from 2010 to 2011 (a change of 1.98%). This is consistent with the budget and plans of the City whereby cash accumulated for investments in infrastructure and technology were expended for those purposes during the year.
- Total liabilities from Governmental activities increased by \$4,627,956 (5.24%).
 - Long-term debt increased by \$4,607,656 as a result of the combination of \$8.035 million in new bonds to fund park land acquisition and the principal payments on debt previously held by the City. See Note 12 to the financial statements for more information.
 - Accounts payable decreased by \$104,800.
- The total revenue increased between 2010 and 2011 by \$4,110,387. This increase largely related to taxes received in 2011 but consisted of several components.
 - Taxes in 2011 included a one-time payment of sales taxes of approximately \$4.7million which resulted from an audit conducted by the Washington State Department of Revenue.
- Total expenses showed an decrease from 2010 to 2011 of \$7,294,817.
 - This decrease was primarily attributable to the completion of a significant capital project in 2010, the "36th Street Bridge". This analysis (a comparison of the 2010 and 2011 expenditure patterns) is complicated by the implementation of GASB Statement 54. Many expenditures formerly classified as capital improvements have been reclassified as major maintenance and included in the city's General Fund.

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 2011.

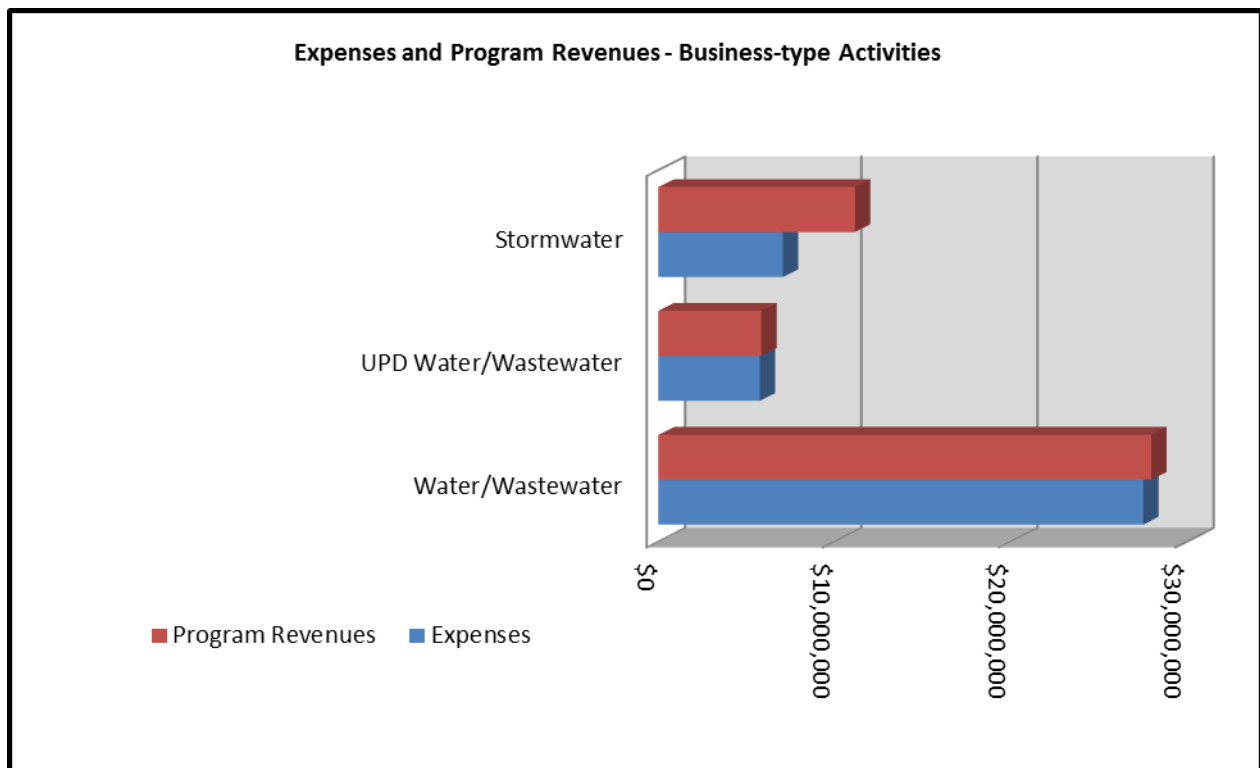


Business-type activities of the City's utilities increased the City of Redmond's net assets by \$11,841,697 (3.99%). Business-type activities accounts for 47% of the City's net assets.

Key elements of this increase are as follows:

- The investments in capital assets increased \$12,757,579 or 5.03% between 2010 and 2011.
- The Water/Wastewater utility showed another modest operating income of \$457,835 in 2011 (compared to \$700,097 in 2010) while the UPD Water/Wastewater utilities showed an operating income of \$97,988. When non-operating income and capital contributions are included, the change in net assets is \$3,380,978 for the Water/Wastewater utility and \$1,651,928 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 a rail corridor which was finalized in 2010. Construction on this project commenced in 2012. The total operating revenue for 2011 was \$11,154,082 with operating expenses of \$7,061,279 for a net operating income of \$4,092,803.

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 2010.



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

The City continued its commitment to investment in capital assets in 2011 as reflected in the following table. The increase from 2010 to 2011 was \$26,839,985 or 4.62% from 2010.

Governmental activities increased \$14,082,408 (4.30%) partially made up of:

- Purchase of the land for the new downtown park.
- Investment in transportation systems (roadways, sidewalks, etc.)

Business-Type Activities reflected an increase of \$12,757,577 (5.03%) partially made up of:

- Purchase of land for use for stormwater trunk and other easements.
- Investments in utility systems such as pump stations and emergency power generation.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 85,065,414	\$ 84,663,262	\$ 12,453,045	\$ 10,842,585	\$ 97,518,459	\$ 95,505,847
Buildings/ Bldg. Improvements	53,339,082	54,775,941	32,502,952	30,919,400	85,842,034	85,695,341
Improvements other than buildings	19,308,280	19,149,351	209,225,171	200,775,408	228,533,451	219,924,759
Machinery and equipment	12,491,423	13,273,005	173,627	242,977	12,665,050	13,515,982
Construction in progress	16,951,480	11,587,945	12,112,386	10,929,234	29,063,866	22,517,179
Infrastructure	153,765,346	143,405,331	-	-	153,765,346	143,405,331
Art	344,583	328,365	-	-	344,583	328,365
Total	\$ 341,265,608	\$ 327,183,200	\$ 266,467,181	\$ 253,709,604	\$ 607,732,789	\$ 580,892,804

Additional information on the City of Redmond's capital assets can be found in note 7 of this report.

Long-term debt

At the end of 2011, the City of Redmond had total bonded debt outstanding of \$82,255,000. Of this amount, \$72,270,000 is general obligation bonds (City Hall, Bear Creek Parkway, Parks and 1994 Refunding Bonds); and \$9,985,000 is revenue bonded debt for the water/wastewater utility.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$72,270,000	\$67,540,000	\$ -	\$ -	\$72,270,000	\$67,540,000
Special assessment debt with governmental commitment	-	-	-	-	-	-
Revenue bonds	-	-	9,985,000	10,600,000	9,985,000	10,600,000
Total	<u>\$72,270,000</u>	<u>\$67,540,000</u>	<u>\$9,985,000</u>	<u>\$10,600,000</u>	<u>\$82,255,000</u>	<u>\$78,140,000</u>

The increase in Governmental Activity long-term debt reflects the 2011 sale of bonds to finance acquisition of property for the new park in the downtown.

For further details related to the outstanding debt please refer to note 12 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.