



ELECTED OFFICIALS



MAYOR
JOHN MARCHIONE

CITY COUNCIL



TOM FLYNN



JOHN P. (PAT) VACHÉ
PRESIDENT



KIMBERLY ALLEN



HANK MYERS



DAYLE (HANK) MARGESON
VICE PRESIDENT



DAVID CARSON



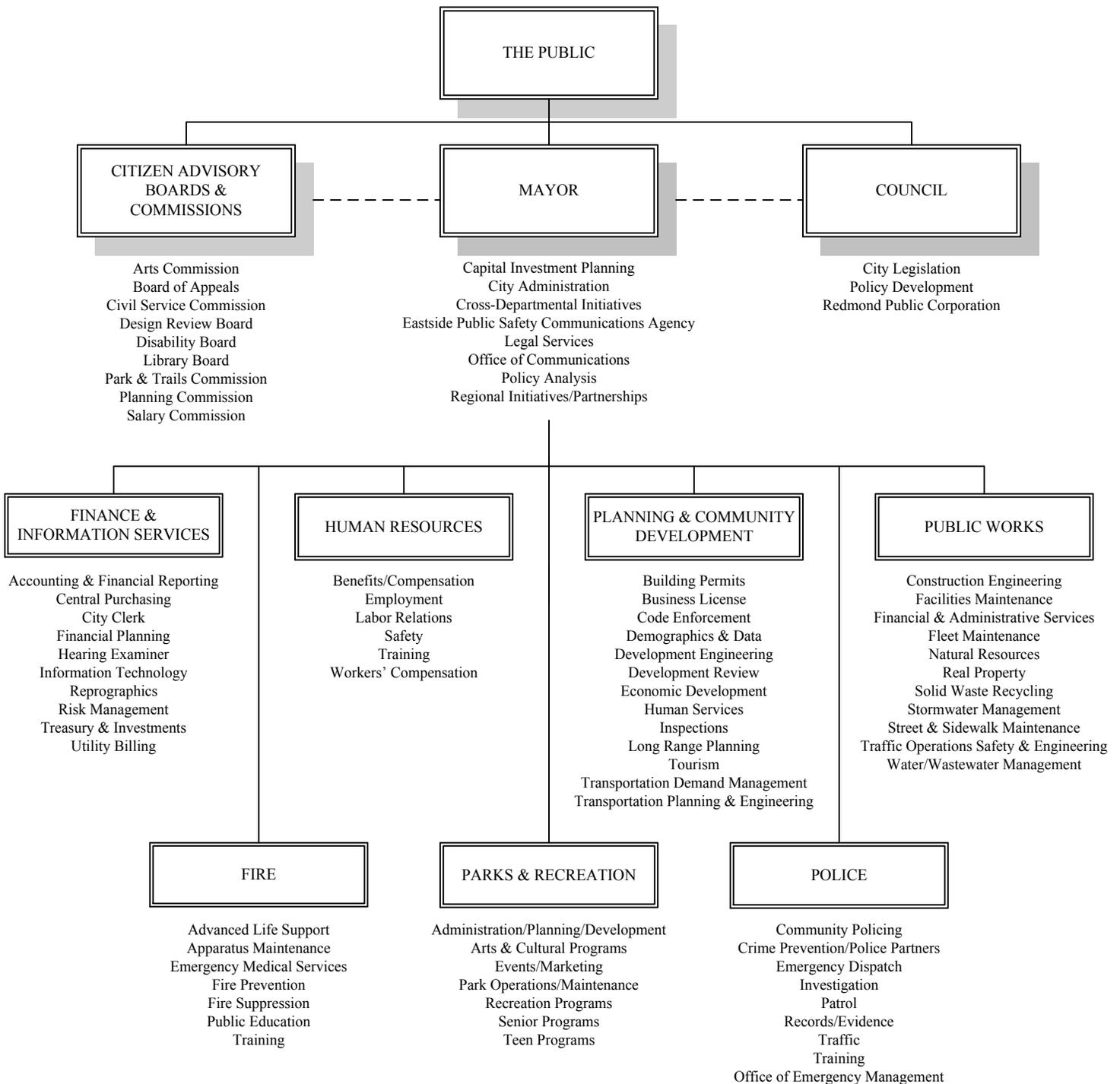
JOHN STILIN

EXECUTIVE STAFF & LEGAL COUNSEL

DEPUTY CITY ADMINISTRATOR
FINANCE & INFORMATION SERVICES DIRECTOR
FIRE CHIEF
HUMAN RESOURCES DIRECTOR
PARKS & RECREATION DIRECTOR
PLANNING & COMMUNITY DEVELOPMENT DIRECTOR
POLICE CHIEF
PUBLIC WORKS DIRECTOR – JANUARY – APRIL
PUBLIC WORKS DIRECTOR – MAY - DECEMBER
CITY ATTORNEY
BOND ATTORNEY
PROSECUTOR

JANE CHRISTENSON
MICHAEL E. BAILEY
KEVIN DONNELLY
KERRY SIEVERS
CRAIG LARSEN
ROB ODLE
RON GIBSON
WILLIAM CAMPBELL
TIM FULLER
OGDEN MURPHY WALLACE
PACIFICA LAW GROUP
LARRY MITCHELL

ORGANIZATIONAL STRUCTURE CITY OF REDMOND





June 28, 2013

Mayor Marchione,
The Redmond City Council, and
Citizens of Redmond, Washington:

I am pleased to provide the Comprehensive Annual Financial Report of the City of Redmond for the fiscal year ended December 31, 2012. This report is published annually as the official annual financial report and complies with State law (RCW 43.09.230) requiring annual reports for Washington municipal governments to be certified and filed with the Washington State Auditor's Office.

As management for the City, we are responsible for both the accuracy of the data, and the completeness and fairness of the presentation, including all related disclosures. The City operates under a system of accounting internal controls that are concerned with the safeguarding of assets and the reliability of financial records. The definition of accounting control assumes reasonable, but not absolute, assurance that the objectives expressed in it will be accomplished by the system. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived.

Cities and counties of the State of Washington use the Budgeting, Accounting and Reporting System (BARS) developed and prescribed by the Office of the State Auditor. State law provides for an annual independent audit to be conducted by the Office of the State Auditor. This report includes the auditor's opinion with respect to the city's financial statements.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis (MD&A)*. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Redmond's MD&A can be found immediately following the independent auditor's report.

Profile of the Government

Incorporated in 1912, Redmond is the nineteenth largest city in the state of Washington encompassing an area of 17.14 square miles east of downtown Seattle on the east side of Lake Washington. Redmond has grown from a population of 1,453 in 1960 to a 2012 population of 55,360.

Redmond is a non-charter code city, operating under Section 35A of the Revised Code of Washington. It has a Mayor/Council form of government. The Mayor and the seven member City Council are elected for staggered four-year terms and are elected at-large. Members of the City Council are responsible for establishing the general direction and policies for the City and for providing the resources necessary to carry out those policies. As the City's chief administrator, the Mayor is responsible for carrying out the policy and direction set by the City Council. This includes the enforcement of laws and ordinances, the execution of contracts and agreements, and maintenance of peace and order in the City.

The City of Redmond provides a full range of municipal services, including police and fire, emergency medical services, planning and zoning, street maintenance and construction, parks and recreation, and general administrative services. The City operates enterprise funds for water and wastewater services and stormwater management.

This report includes all funds, agencies, and boards and commissions that are controlled by, or dependent on, the City's executive and legislative departments. Included as part of the reporting entity are the Redmond Public Corporation and Redmond Community Properties. Additional information on these entities can be found in the Notes to the Financial Statements.

The City prepares a biennial budget on the modified accrual basis in accordance with the Revised Code of Washington (RCW) 35A.34. Biennial budgets must be adopted by the City Council prior to the first of each odd-numbered calendar year. Reviews are conducted at mid-biennium and any changes for the second half of the biennium are adopted by the City Council.

The biennial budget serves as the foundation for the City of Redmond's financial planning and control. The budget is prepared by fund and department. A budget increase or decrease to a fund must be authorized by the City Council. Appropriation changes within a fund may be authorized by the Mayor.

Local Economy

Redmond has evolved from a small town with logging and farming as its chief industries into a city of very diverse industries. Led by a significant technology industry, the local economy also includes light manufacturing, business parks, and a large outdoor mall adjacent to the downtown retail core. The largest employer in Redmond is Microsoft which has its world headquarters and about 32,514 employees located in the City. Other significant employers in our city include Terex (formerly Genie Industries) (1,613 employees), AT&T Mobility (1,584 employees), Volt Technical Resources (975 employees), Honeywell (685 employees) and Nintendo of America (615 employees).

Redmond's economy experienced significant growth in 2007 and 2008. Sales tax revenues, employment growth, and development activity all increased through most of 2008. The City's assessed valuation of property grew by almost \$3 billion from 2007 to 2008. Much of the employment growth in Redmond over the last decade or so has been led by Microsoft and the technology sector. Development activity within Redmond is also related to the technology sector with Microsoft investing \$1 billion by adding several new buildings with 3.1 million square feet of office space in 2007 and 2008. Nintendo has also replaced and expanded its US headquarters within the City with three new office buildings as well. The jobs related to this development and others like it have helped to create needs for housing and other support industries. These have propelled the Redmond economy in the past. Late in 2008 Redmond began to see signs of the economic decline that had already begun to be felt by the state and nation. Development related revenues, employment and economic activity in the Puget Sound region began to decline significantly over the next year. With unemployment in the Seattle metro area being just 3.5% as recently as 2007, it was 8.5% as of 2011. The good news is that the economy has since shown signs of a healthy recovery. Unemployment in King County is currently 4.4%, a dramatic improvement from just a year ago. The housing and other markets are also showing signs of recovery.

Several significant projects in the downtown area have included large condominium and rental unit developments, new medical facilities, a new hotel and a new transit oriented multi-use design development that combines residential, commercial and a downtown transit center. The city is continuing to make major investments in roadways, utility infrastructure and parks facilities in pursuit of the transformation of its two urban centers (the historic downtown and the "Overlake" area (which is the primary location of technology firms). The City's continued commitment to investing in its capital assets continued during the economic downturn with an increase in capital assets of over \$56.1 million in 2012 alone.

Long-term Financial Planning and Relevant Financial Policies

In line with the City's financial policy to maintain a diversified and stable revenue system, the financial strategy called for increases in four revenue sources. Three of these revenue sources, utility tax rate, business license fees, and developer fees, were increased by Council vote in 2006. In 2007 voters approved three Levy Lid Lifts to provide additional revenue in 2008. The Fire Levy provides additional firefighters to support fire and aid car operations at the Overlake Fire Station and the North Redmond Fire Station; the Police Levy provides additional police personnel to support police operations and programs; and the Park Levy provides operation and maintenance of park facilities and programs.

Beginning early in 2008, the Mayor and Council initiated a "Budgeting by Priorities" process. This process helped to align community priorities with efficient delivery of city services through the development of the 2009/2010 biennium budget. It

also includes indicators to gauge the degree of success in addressing the community priorities with city resources. This process has been used since that time, including for the the 2011/2012 budget as well as the 2013/2014 bienniums.

City financial policies restricts the use of borrowed funds to capital improvements that can't be financed from current revenues. Debt is not used for current operations. The City issued bonds in 2008 for significant transportation improvements to support development in the downtown and to improve its utility systems. The City again issued bonds to finance acquisition of park land in the downtown in early 2011. More about city bonds and debt can be found in the Notes to the financial statement in this report.

To ensure the City keeps abreast of and incorporates economic conditions into its financial plans, revenues are projected for the next six years and the forecast is updated annually (and available on the city's website). Operating expenses are supported by ongoing revenues per City policy. Short-term financial planning is inherent in the development of the City's biennial budget. In addition, the City's long-term capital needs and potential funding sources are assessed as part of its "Capital Investment Strategy". In this effort the city forecasts capital needs consistent with its vision and its comprehensive land use plan through the year 2030.

Major Initiatives

The City continues its tradition of significant investments in capital facilities needed to provide services to our community. Investments in general government capital facilities amounted to over \$17.7 million in 2012. Projects completed in 2012 ranged from completion of a new fire station to serve a growing residential area to roadway construction and significant park improvements. Land acquisition of a park in the city's "downtown" was completed in 2012 as well. Investments in capital assets of the city's utilities amounted to \$13.3 million in 2012 and included investments in regional surface water facilities and other amenities.

The city continues to build community connections in a variety of ways. This was especially true of 2011, the city's centennial year. The centennial celebration included such community based activities as arts walks, history walks and expansion of ongoing events. The centennial events were capped off with a community bon-fire held at the municipal campus on December 30th and attended by over 2,000 residents. Two ongoing community events were again featured and expanded in 2012, Derby Days and Redmond Lights. Derby Days, held in mid-July, celebrates the 4th of July holiday and Redmond's bicycling heritage. The second event, Redmond Lights is the City's annual year-end holiday celebration, running from early December through early January. The city also began to see widespread use of its newest (and growing) park attraction – the downtown park. Though the park is not "developed" into more than a nice lawn at this point, that did not stop the growing downtown residential community from enjoying events staged in this new space.

Another growing and significant community based activity is the city's "National Night Out" (against crime). This neighborhood based event started in many communities as a way to connect public safety services to like-minded residents. While this event has faded from the national attention it once got, in Redmond it has continued to grow into a significant point of connection between the city, its neighborhoods and among the neighbors themselves.

Lastly, this annual financial report is prepared with significant changes within the financial management tools of the city. First, the city reevaluated its method for reporting expenditures by function. As a result, this report more accurately depicts the nature of city expenditures which results in some differences in comparison to past reports. An example is the costs associated with housing police activities. In past reports this would be classified as a facilities expense where this report will reflect it as a function of its public safety purpose. Secondly, the city implemented a new financial management system in 2011. This system, Microsoft's Dynamics AX 2012 for the public sector, is a brand new product from Microsoft (which is headquartered in Redmond). The city partnered with Microsoft in the development of this very sophisticated set of tools and implemented numerous integrations with other related technologies in the city. The system was implemented on July 5, 2011 using a "pre-release" version of the product. Prior to year-end the city converted this product to the market release version and is current with regard to updates to the product. These types of projects are always challenging however this product was brand new and our field testing of it identified issues which needed to be resolved. Those issues were resolved and we have successfully used the product now for almost two years. We first reported on this in last year's annual report

which was completed later than usual due to this project. We are pleased to report that this year's report was able to be completed earlier than usual – again, as a result of this project. The progress made in the city's ability to manage its finances in a timely, efficient and accurate manner have been significant. We appreciate the efforts of Microsoft and Tyler Technologies (the implementation partner) in making this system a great platform for anticipated future innovations.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Redmond for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2010. That marked the twenty-fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. In addition, the report must be published within a prescribed timeline which the 2011 report was unable to achieve (as described in the paragraph above). We did not submit the 2011 report for this award as the new financial system referred to above has resulted in taking more time in preparing the report. We will submit this 2012 report to GFOA for their consideration of renewing the City's long and strong tradition of attaining this highest recognition for financial reporting in the local government sector.

The preparation of the Comprehensive Annual Financial Report could not have been accomplished without the efforts and dedication of City staff. This continues to be true in light of the new financial system. I am very proud of those who have dedicated numerous hours of service to the community in this effort. I would like to express my appreciation to the staff, including personnel from various departments and agencies who assisted in its preparation. Also, I would like to thank the Mayor and the City Council for their continued interest and support in planning and conducting the financial operations of the City in a dedicated and responsible manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael E. Bailey". The signature is stylized and cursive.

Michael E. Bailey, CPA
Finance Director