

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Redmond
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF REDMOND ELECTED OFFICIALS



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Rosemarie M. Ives



Rosemarie M. Ives

COUNCIL



Nancy McCormick
President



John "Pat" Vache
Vice President



Kim Allen



Richard Cole



John Marchione



Hank Margeson



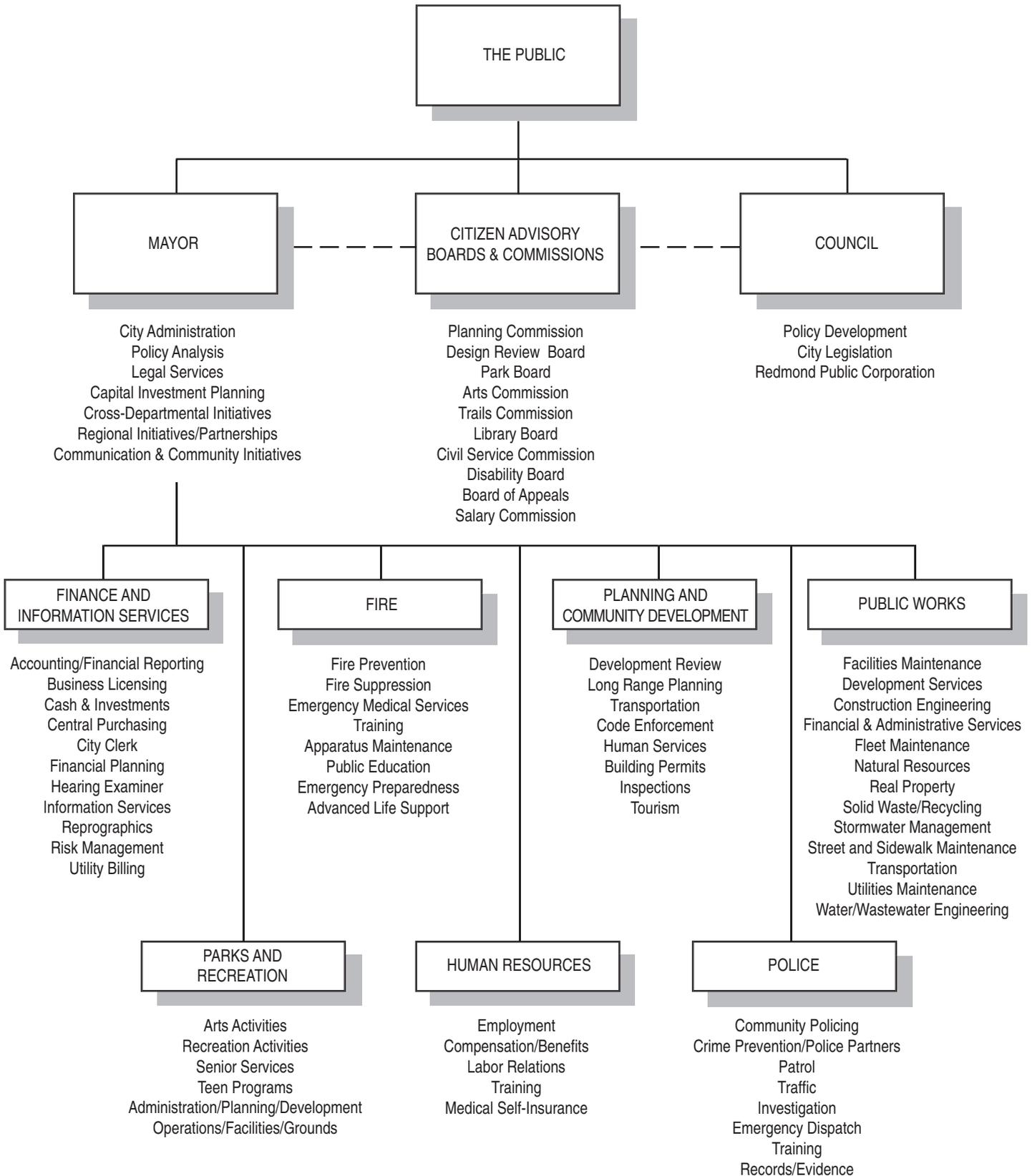
Jim Robinson

EXECUTIVE STAFF AND LEGAL COUNSEL

Assistant to the Mayor
Finance and Information Services Director
Fire Chief
Human Resources Director
Parks and Recreation Director
Planning and Community Development Director
Police Chief
Public Works Director
City Attorney
Bond Attorney
Prosecutor

Jane Christenson
Lenda Crawford
Tim K. Fuller
Kerry Sievers
Craig E. Larsen
Rob Odle
Steven R. Harris
William Campbell
James Haney, Ogden Murphy Wallace
Gottlieb, Fisher & Andrews
Richard L. Mitchell

CITY OF REDMOND ORGANIZATIONAL STRUCTURE





September 22, 2008

To the Honorable Mayor, 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, 2007. 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 State Auditor's Office in a timely fashion.

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.

As a recipient of federal, state, and county financial assistance the City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, Budget Circular A-133, *Audits of State and Local Governments*, and the March 2006 Compliance Supplement. This audit is conducted by the State Auditor's Office in conjunction with the City's annual independent audit.

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 sixteenth largest city in the state of Washington encompassing an area of 16.94 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 2007 population of 50,680.

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, rather than by district. 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 budgets 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 or a department within the general fund must be authorized by the City Council. Appropriation changes within a department of the general fund or within other funds 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. Lead by the 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 40,000 employees located in the City. Other significant employers in our city include Genie Industries, Volt Technical Resources, AT&T Mobility, and Nintendo of America.

Redmond's economy continues to rebound from the economic recession that began in 2001, albeit at a modest rate. Sales tax revenues, employment growth, and development activity all increased as the economy continued to strengthen. Base sales tax revenues for 2007 grew a modest 0.5%, but were augmented by a one-time sales tax adjustment. Employment growth in the Puget Sound region was 3.2% in 2007 with an expected decline of 1.8% and 1.1%, respectively, in 2008 and 2009. Much of the employment growth in Redmond is led by Microsoft, adding 1,600 to 2,000 new jobs per year at its Redmond campus. Microsoft attracts other technology businesses to the area, contributing further to the employment growth. Development activity is also being pushed by Microsoft as they invest \$1 billion over the next three years adding 14 new buildings with 3.1 million square feet of office space. Microsoft has pledged \$35 million to support City infrastructure in conjunction with their development projects. Ongoing revenues such as property tax, sales tax, business license fees and utility taxes should increase as a result of this new development.

Two other significant projects in the downtown area are a large condominium development and a new transit oriented design development which is a multi-use development that combines residential, commercial and a downtown transit center is currently under construction.

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. Operating expenses are supported by ongoing revenues per City policy. From 2001 to 2007 cost cutting measures were implemented to keep City expenses in line with revenues.

Long-term Financial Planning and Relevant Financial Policies

In early 2006 the Redmond City Council adopted a 6-year financial plan to address existing service deficiencies. 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 2007, the Mayor and Council initiated a year long "Budgeting by Priorities" process. This process will align community priorities with efficient delivery of city services through the development of the 2009 / 2010 biennium budget. It will also include indicators to gauge the degree of success in addressing the community priorities with city resources. This process will provide a context for balancing future budgets.

City financial policies restrict the use of borrowed funds to capital improvements that can't be financed from current revenues. Debt is not used for current operations.

Redmond is in a continuous process of both short-term and long-term financial planning. Short-term financial planning is inherent in the development of the City's biennial budget. Concurrent with the biennial budget, the City's long-term capital needs and potential funding sources are assessed. During each biennial budget planning process, initiatives for the next two years are identified. The budget is developed with the goal of attaining these initiatives.

Major Initiatives

The City received several awards for excellence in 2007 including a National Arbor Day Foundation Tree City award; first annual John D. Spellman Safety Award from the Evergreen Safety Council; a Certificate of Merit Award from the Washington Recreation and Parks Association for the Evans Creek Trail; a Washington Recreation and Parks Spotlight Facility Award for the Idlywood Beach project; a Merit Award from the American Planning Association and the Planning Association of Washington for the Redmond Community Indicators report; and the City was named one of the 100 Best Communities for Young People by America's Promise Alliance.

The City continues its tradition of significant investments in capital facilities needed to provide services to our community. Construction projects completed in 2007 ranged from the Sammamish Bear Creek habitat restoration to improvements and renovations at the Old Redmond School House Community Center. A total of 1.3 miles of transit enhancements including sidewalk improvements were also completed on Redmond Way and the Luke McRedmond water quality facility was constructed. Property acquisitions included land for the Bear Creek Parkway extension, park land adjacent to Perrigo Park and Juel Park, and the Trinity building near the Maintenance Operations Center was purchased to provide additional space for Public Works. An addition to the Public Safety building is currently under construction with completion scheduled in 2008.

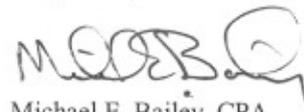
Two successful ongoing community events were featured in 2007, Derby Days and Redmond Lights. Derby Days, held in mid-July, celebrates the 4th of July holiday and Redmond's bicycling heritage. Community events for the whole family include a carnival, a criterium bicycle race, children's parade, live music for all musical tastes, and family entertainment from jugglers to reptiles. Redmond Lights is the City's annual year-end holiday celebration, running from early December through early January. This event celebrates holiday traditions from many countries and features music, lights, children's crafts, and a food and toy drive.

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, 2006. This was the twenty-second 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.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the Finance Department. I would like to express my appreciation to the staff and other 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,



Michael E. Bailey, CPA
Finance Director