



Government Finance Officers Association

**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, 2014

Executive Director/CEO



ELECTED OFFICIALS



MAYOR
JOHN MARCHIONE

CITY COUNCIL



TOM FLYNN



BYRON SHUTZ



KIMBERLY ALLEN
VICE PRESIDENT



HANK MYERS



DAYLE (HANK) MARGESON
PRESIDENT



DAVID CARSON



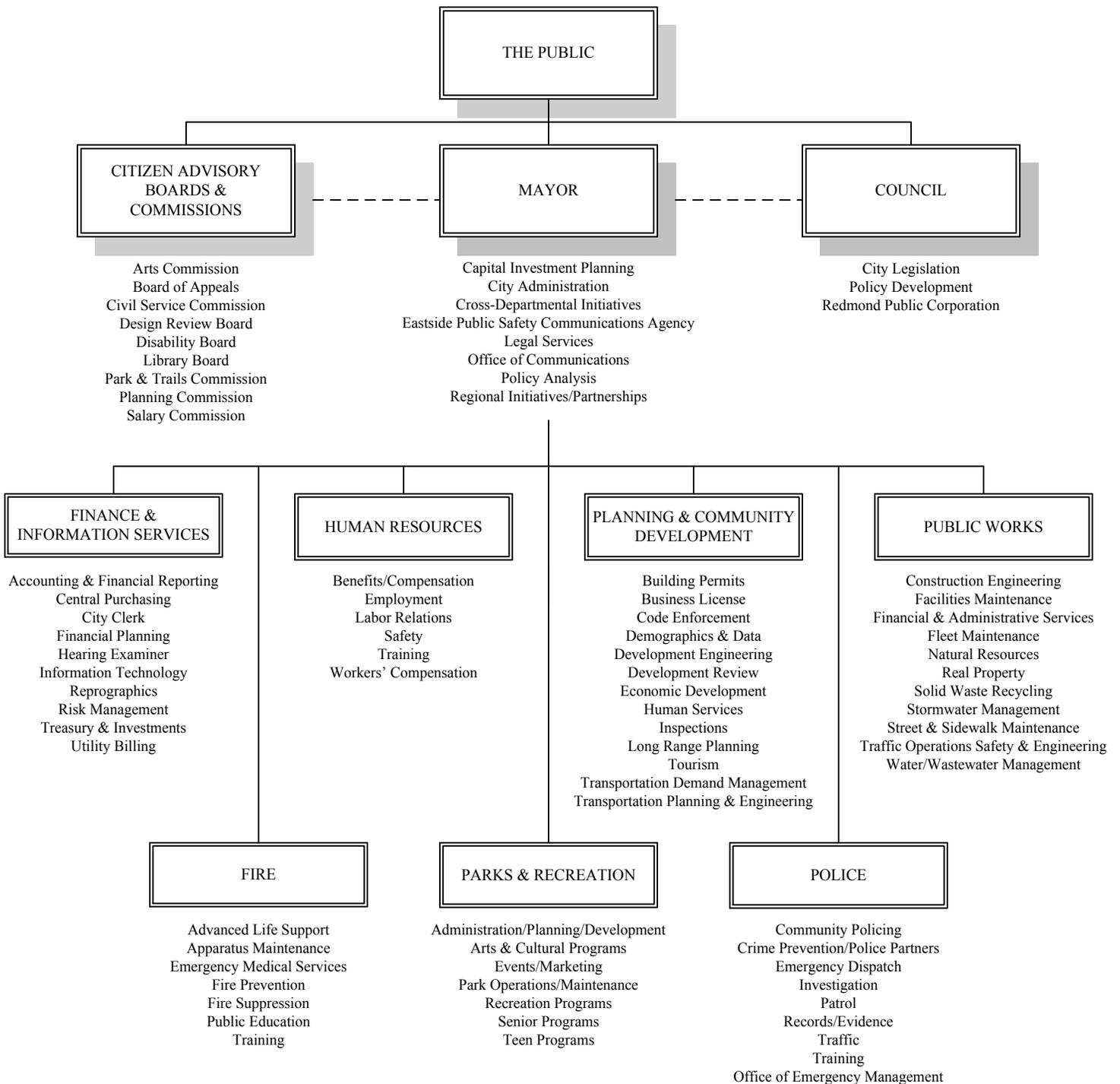
JOHN STILIN

EXECUTIVE STAFF & LEGAL COUNSEL

DEPUTY CITY ADMINISTRATOR
FINANCE & INFORMATION SERVICES DIRECTOR
FIRE CHIEF
HUMAN RESOURCES DIRECTOR
INTERIM PARKS & RECREATION DIRECTOR
PLANNING & COMMUNITY DEVELOPMENT DIRECTOR
POLICE CHIEF
PUBLIC WORKS DIRECTOR
CITY ATTORNEY
BOND ATTORNEY
PROSECUTOR

JANE CHRISTENSON
MICHAEL E. BAILEY
TOMMY SMITH
MELLODY MATTHES
KATIE ANDERSON
ROB ODLE
RON GIBSON
LINDA DE BOLDT
OGDEN MURPHY WALLACE
PACIFICA LAW GROUP
LARRY MITCHELL

ORGANIZATIONAL STRUCTURE CITY OF REDMOND





June 17, 2016

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, 2015. 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 17.15 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 2015 population of 59,180.

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 in agency funds in the fiduciary funds statements is the Redmond Community Facilities District (CFD) which was created for the purpose of financing the construction of a pedestrian / bicycle bridge over State Route 520 at the Overlake Transit Station. Additional information on the reporting entity 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, a large outdoor mall adjacent to the downtown retail core, and, most recently space exploration companies. The largest employer in Redmond is Microsoft which has its world headquarters and about 35 thousand employees located in the City. Other significant employers in our city include Terex (formerly Genie Industries) (1,814 employees), Eurest Dining Services @ Microsoft (1,007 employees), Nintendo of America (926 employees), AT&T Mobility (914 employees), and Volt Technical Resources (810 employees).

Like most cities across the country, Redmond saw a significant decline in economic activity and tax revenues during the 2008/2009 recession. Since that time the recovery has been slow but steady. While we are seeing significant investments in the local economy (in the form of commercial developments) the city's tax revenues continue to be slow to reflect the renewed growth. Sales taxes in 2015 recovered from lackluster performance and have exceeded the high-water mark of 2007 for the first time. This eight year recovery reflects both the sluggishness of the economic recovery as well as a continuing shift to new economic models. Traditional taxes on telecommunications have stagnated or declined for some time for example. Sales taxes collected for "non-store" (or remote sales transactions) increased by 45% during this time! The City's financial planning efforts are adjusting for this slow recovery.

Several significant projects continue in the downtown area and have included large multi-use developments and new medical facilities. 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 commitment to investing in its capital assets continued during the economic downturn with an increase in capital assets.

Long-term Financial Planning and Relevant Financial Policies

In line with the City Council's financial strategy to maintain a diversified and stable revenue system, the city consistently develops long term financial plans and adjusts revenue strategies accordingly. 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. In adopting the 2015-2016 budget the council again increased utility taxes and business license fees.

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 performance indicators to gauge the degree of success in addressing the community priorities with city resources. This process has been used since that time, including the past four biennium 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. 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. In 2013 the city refinanced the capital lease obligation to Redmond Community Properties for the construction of its city hall with the issuance of limited tax general obligation bonds. This resulted in transfer of ownership of City Hall from Redmond Community Properties to the City, and a total savings of more than \$1.5 million in debt service payments. In 2014 the City issued \$22.95million in bonds to finance significant investment in storm water management systems. During 2015, the City refunded the bonds issued in 2008 and borrowed \$7m to complete a priority transportation project in the downtown. The refunding of the 2008 bonds saved more than \$240,000 per year for the next ten years. More information about city bonds and debt can be found in the Notes to the Financial Statements 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 to invest in the significant capital facilities that are necessary to realize the City's vision of two urban centers, connected to great neighborhoods. Projects in 2015 included completion of large utility infrastructure projects in the downtown and Overlake (the two urban centers). In addition, transportation projects continue as well. Cleveland Street – a major arterial in the downtown – was rebuilt and preliminary work was done to set the stage for major improvements to Redmond Way (another downtown arterial). Preliminary planning was completed on the downtown park with construction beginning in 2016.

Large community events continue to build the sense of community in Redmond. Derby Days, held in mid-July, celebrates Redmond's bicycling heritage. The festival features the Criterium, which is the City's oldest event and the nation's longest running bicycle race, a 5K run/walk, parades, live entertainment, and much more. Redmond Lights, is the City's annual year-end holiday celebration, running from early December through early January. In 2014 a new, multi-day community event was added. "So-Bazaar" is a market and imaginative platform for local artists, artisans, chefs, and entertainers.

National Night Out, "America's Night Out Against Crime" began in 1984 in an effort to promote involvement in crime prevention activities, police-community partnerships, neighborhood camaraderie and send a message to criminals letting them know that neighborhoods are organized and fighting back. National Night Out takes place annually, on the first Tuesday of August. The event celebrates safety and crime prevention successes and works to expand and strengthen programs to help make neighborhoods a safer place year round. In Redmond, it has continued to grow into a significant point of connection between the city, its neighborhoods and among the neighbors themselves.

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, 2014. 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.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the Comprehensive Annual Financial Report could not have been accomplished without the efforts and dedication of City staff. 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