

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, 2010, and for the City's financial position at December 31, 2010. 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 \$641,604,214 at the end of 2010. The City's net assets decreased by (\$8,169,641) or (1.257%) in 2010. Governmental activities had a decrease of (\$21,234,260) or (5.80%) from 2009. The decrease is predominantly due to an investment in fixed assets that did not result in an increase in capital assets. The details regarding this transaction are detailed in the note 8. Business-Type activities had an increase of \$13,064,619 or 4.60% from 2009 which offset a portion of the decrease of the governmental funds.
- Of the remaining net assets, \$29,569,188 and \$57,383,880 are restricted and unrestricted, respectively, for Governmental Activities, while \$2,220,500 and \$51,970,019 are restricted and unrestricted respectively for Business-Type Activities. The major component of the legally restricted portion is for capital projects, which account for \$18,406,405 or 46.78% of total restricted net assets citywide.
- Governmental fund balances at year-end were \$79,552,968 a decrease of (\$21,960,612) from the prior year. The City experienced a reduction in cash and investments of (\$23,081,877) but also had a reduction in total liabilities of (\$1,324,819). The City also had a reduction of (\$1,985,656) in unreserved fund balance in the general fund and amounts available to fund ongoing activities. Other legally restricted or reserved by City policy fund balances are \$273,304, \$27,498,609 and \$47,277,353 for debt service, special revenue 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 2009-2010 totaled an increase of \$2,010,450 in fund balance which accounts for 0.31% of total net assets of the City. These adjustments included an increase in revenues of \$1,340,275, an increase in expenses of \$2,279,101 and a decrease in transfers out of \$1,706,585.

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 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 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.

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 a basic financial statement. Other 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, 2009 and 2010 total \$649,773,855 and \$641,604,214, respectively. Following is a condensed version of the government-wide statement of net assets for 2010 compared to 2009.

City of Redmond's Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 105,724	\$ 131,947	\$ 56,804	\$ 52,317	\$ 162,528	\$ 184,264
Capital assets, net of accumulated depreciation	327,183	325,908	253,710	245,601	580,893	571,509
Total assets	\$ 432,907	\$ 457,855	\$ 310,514	\$ 297,918	\$ 743,421	\$ 755,773
Long-term liabilities	\$ 75,172	\$ 77,454	\$ 11,419	\$ 12,020	\$ 86,591	\$ 89,474
Other liabilities	13,120	14,551	2,106	1,974	15,226	16,525
Total liabilities	\$ 88,292	\$ 92,005	\$ 13,525	\$ 13,994	\$ 101,817	\$ 105,999
Net assets						
Invested in capital assets, net of related debt	\$ 257,663	\$ 256,114	\$ 242,798	\$ 234,272	\$ 500,461	\$ 490,386
Restricted	29,569	25,938	2,221	1,372	31,790	27,310
Unrestricted	57,384	83,798	51,970	48,280	109,354	132,078
Total net assets	\$ 344,616	\$ 365,850	\$ 296,989	\$ 283,924	\$ 641,605	\$ 649,774

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 2009 and 2010.

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

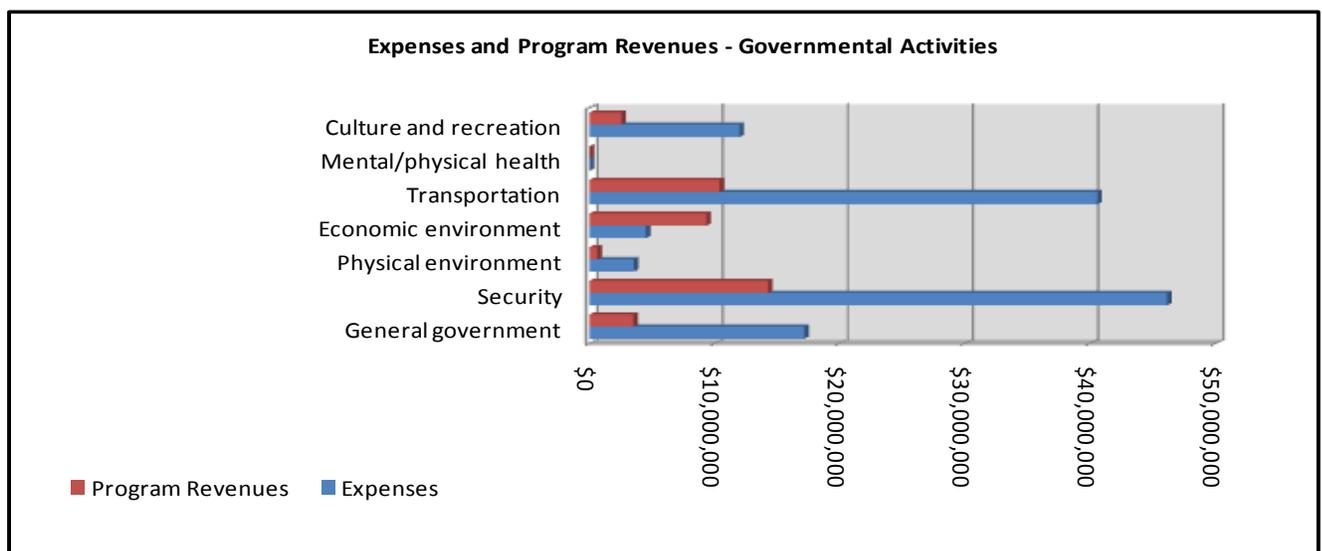
	Governmental Activities				Business-Type Activities				Total			
	2010		2009		2010		2009		2010		2009	
Revenues:												
Program revenues												
Charges for services	\$	28,913	\$	38,019	\$	41,815	\$	42,061	\$	70,728	\$	80,080
Operating grants and contributions		8,334		2,830		602		58		8,936		2,888
Capital grants and contributions		3,419		19,834		7,060		6,681		10,479		26,515
General revenues												
Property taxes		20,930		19,446		-		-		20,930		19,446
Sales taxes		19,038		18,996		-		-		19,038		18,996
Other taxes		18,664		19,264		-		-		18,664		19,264
Investment interest		1,114		2,087		623		737		1,737		2,824
Miscellaneous		4,027		1,021		105		176		4,132		1,197
Total revenues	\$	104,439	\$	121,497	\$	50,205	\$	49,713	\$	154,644	\$	171,210
Expenses:												
General government	\$	19,571	\$	18,222	\$	-	\$	-	\$	19,571	\$	18,222
Security		36,764		40,319		-		-		36,764		40,319
Physical environment		5,283		3,763		-		-		5,283		3,763
Economic environment		5,719		4,664		-		-		5,719		4,664
Transportation		42,053		16,530		-		-		42,053		16,530
Mental/physical health		13		12		-		-		13		12
Culture and recreation		14,457		11,103		-		-		14,457		11,103
Interest on long term debt		1,813		1,891		-		-		1,813		1,891
Water/Wastewater		-		-		25,191		27,085		25,191		27,085
Novelty Hill Water/Wastewater		-		-		5,542		4,963		5,542		4,963
Stormwater		-		-		6,407		6,746		6,407		6,746
Total expenses	\$	125,673	\$	96,504	\$	37,140	\$	38,794	\$	162,813	\$	135,298
Increase/(Decrease) in net assets		(21,234)		24,993		13,065		10,919		(8,169)		35,912
Net assets - beginning		365,850		340,857		283,924		273,005		649,774		613,862
Net assets - ending	\$	344,616	\$	365,850	\$	296,989	\$	283,924	\$	641,605	\$	649,774

Governmental activities incurred (\$21,234,260) of the total change in net assets of (\$8,169,641). Governmental activities accounts for 53.71% of the City's net assets.

Key elements of the 2010 decrease are as follows:

- Total assets from Governmental activities decreased by \$21,234,260.
 - Cash and investments reflect a large decrease of \$25,595,270 from 2009 to 2010. 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 decreased by \$3,713,194.
 - Long-term debt decreased by \$2,527,890 through principal payments on debt previously held by the City. There was no new debt added in 2010.
 - Accounts payable decreased by \$1,226,167.
- The total revenue decreased between 2009 and 2010 by \$17,058,857. This decrease largely related to grants received in 2009 but consisted of several components.
 - Capital grants and contributions had a decrease of \$16,414,709. This decrease was attributed to the large inflow of revenues in 2009 for the 36th Street Bridge over State Route 520 project. This project was completed in 2010, but the primary use of contributed dollars was recognized and expended in 2009.
 - Charges for services also showed a decrease of \$9,106,384. This reflects both the high level of activity in previous years and the effects of the economic recession on 2010 activity.
- Total expenses showed an increase from 2009 to 2010 of \$29,168,837.
 - This increase was made up of increases in transportation (an increase of \$25,521,574) which was primarily due to the construction of a bridge which is owned by the state and therefore not an asset of the city. Culture and recreation increased \$3,354,361 which was evenly distributed among culture and recreation programs. Security of persons and property saw a decrease in \$3,554,346 largely due to a decrease in grant supported expenditures as well as other smaller changes.

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 2010.

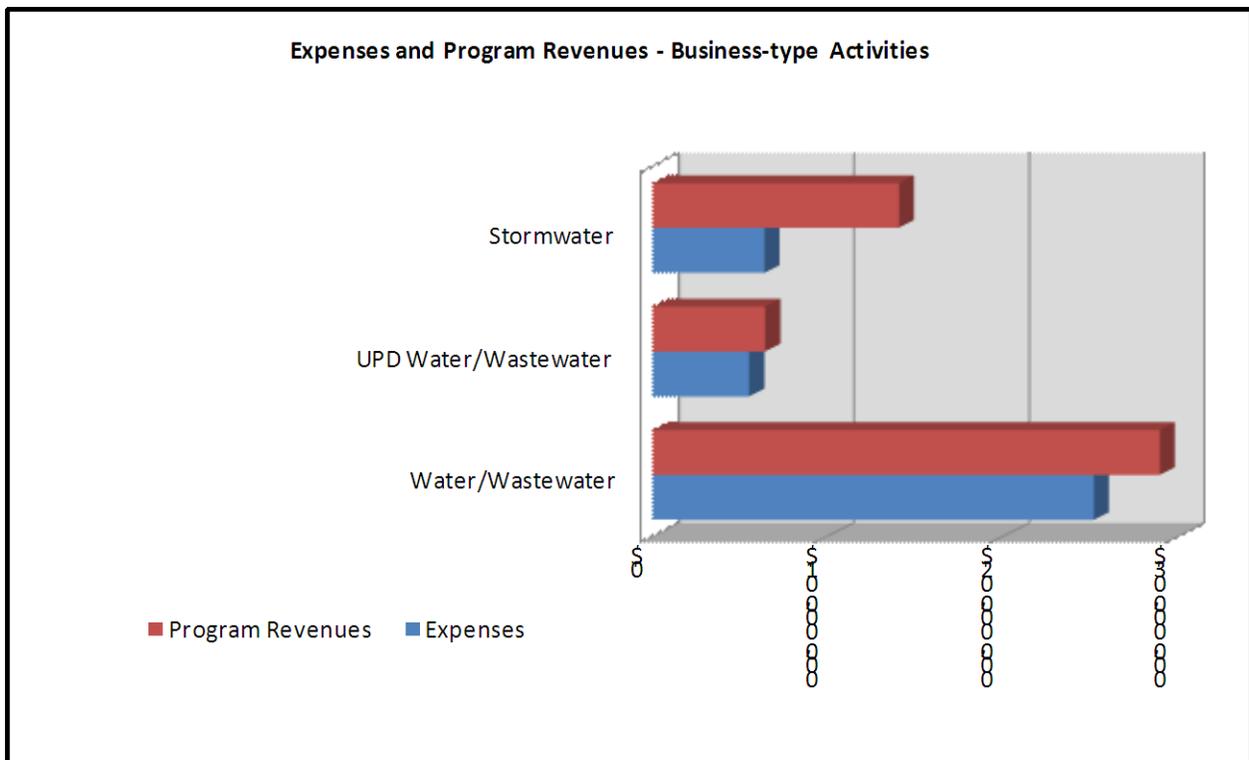


Business-type activities of the City's utilities increased the City of Redmond's net assets by \$13,064,619. Business-type activities accounts for 46.29% of the City's net assets.

Key elements of this increase are as follows:

- The investments in capital assets increased \$8,108,371 or 3.3% between 2009 and 2010.
- The decrease of \$469,345 in liabilities is due to principal payments on bond debt from previous years. There was no new debt incurred in 2010.
- The Water/Wastewater utility showed a modest operating income of \$700,097 while the UPD Water/Wastewater utilities showed a modest operating loss of (\$180,451). However, when non-operating income and capital contributions are included, the net income is \$3,986,919 for the Water/Wastewater utility and \$1,065,043 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. The total operating revenue for 2010 was \$11,002,186 with operating expenses of \$6,406,649 for a net operating income of \$4,595,537.

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 to make large investments in capital assets in 2010 as reflected in the following table. The increase from 2009 to 2010 was \$9,383,879 or 1.64% from 2009.

Governmental activities increased \$1,275,508 partially made up of:

- Purchase of the rail corridor which will provide additional trails.

Business-Type Activities reflected an increase of \$8,108,371 partially made up of:

- Purchase of the rail corridor for use for stormwater trunk and other easements.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 84,663,262	\$ 73,707,419	\$ 10,842,585	\$ 9,814,971	\$ 95,505,847	\$ 83,522,390
Buildings/ Bldg. Improvements	54,775,941	56,213,029	30,919,400	31,363,079	85,695,341	87,576,108
Improvements other than buildings	19,149,351	19,212,834	200,775,408	197,813,395	219,924,759	217,026,229
Machinery and equipment	13,273,005	12,097,455	242,977	287,784	13,515,982	12,385,239
Construction in progress	11,587,945	23,508,459	10,929,234	6,322,004	22,517,179	29,830,463
Infrastructure	143,405,331	140,840,131	-	-	143,405,331	140,840,131
Art	328,365	328,365	-	-	328,365	328,365
Total	\$ 327,183,200	\$ 325,907,692	\$ 253,709,604	\$ 245,601,233	\$ 580,892,804	\$ 571,508,925

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 2010, the City of Redmond had total bonded debt outstanding of \$78,140,000. Of this amount, \$67,540,000 is general obligation bonds (City Hall, Bear Creek Parkway, and 1994 Refunding Bonds); and \$10,600,000 is revenue bonded debt for the water/wastewater utility.

	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General obligation bonds	\$67,540,000	\$70,040,000	\$ -	\$ -	\$67,540,000	\$70,040,000
Special assessment debt with governmental commitment	-	170,000	-	-	-	170,000
Revenue bonds	-	-	10,600,000	11,190,000	10,600,000	11,190,000
Total	<u>\$67,540,000</u>	<u>\$70,210,000</u>	<u>\$10,600,000</u>	<u>\$11,190,000</u>	<u>\$78,140,000</u>	<u>\$81,400,000</u>

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.