

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Kenmore
King County

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1010496

Issue Date
September 23, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

September 23, 2013

Mayor and City Council
City of Kenmore
Kenmore, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Kenmore's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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King County
January 1, 2011 through December 31, 2012**

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Federal Summary

**City of Kenmore
King County
January 1, 2012 through December 31, 2012**

The results of our audit of the City of Kenmore are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing
Standards*

**City of Kenmore
King County
January 1, 2011 through December 31, 2012**

Mayor and City Council
City of Kenmore
Kenmore, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Kenmore, King County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 9, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

September 9, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

**City of Kenmore
King County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Kenmore
Kenmore, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Kenmore, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

September 9, 2013

Independent Auditor's Report on Financial Statements

**City of Kenmore
King County
January 1, 2011 through December 31, 2012**

Mayor and City Council
City of Kenmore
Kenmore, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Kenmore, King County, Washington, for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Kenmore, for the years ended December 31, 2012 and 2011, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Liabilities are also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Purpose of this Report

The report is intended for the information and use of the management, the Mayor and City Council, federal awarding agencies and pass-through entities of the City. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013 on our consideration of the City's internal control over financial reporting and

on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

September 9, 2013

Financial Section

**City of Kenmore
King County
January 1, 2011 through December 31, 2012**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2012
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FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 General	101 Street	110 Public Art
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	8,620,717	124,145	1,681,993	68,563
30880	Beg Fund Bal-Unreserved	6,391,975	6,391,975	0	0
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	8,530,733	7,758,619	0	0
320	Licenses & Permits	607,411	607,411	0	0
330	Intergovernmental Revenues	1,720,144	411,599	455,654	0
340	Charges for Goods and Services	3,205,813	684,450	1,475	0
350	Fines & Penalties	218,144	218,144	0	0
360	Miscellaneous Revenues	569,133	82,132	5,606	478
Total Operating Revenues:		14,851,378	9,762,355	462,735	478
Operating Expenditures					
510	General Government	3,964,574	2,849,573	0	0
520	Public Safety	3,437,033	3,437,033	0	0
530	Utilities And Environment	1,801,360	706,431	0	0
540	Transportation	1,224,010	0	1,224,010	0
550	Economic Environment	1,257,838	1,257,838	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	505,280	504,780	0	500
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		12,190,094	8,755,655	1,224,010	500
Net Operating Increase (Decrease):		2,661,283	1,006,700	-761,275	-22
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	1,220,669	20,669	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	1,421,911	0	647,000	0
Total Nonoperating Revenues:		2,642,580	20,669	647,000	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	1,200,000	1,200,000	0	0
591-593	Debt Service	45,473	0	0	0
594-595	Capital Expenditures	2,499,534	28,309	53,780	0
597	Transfers-Out	1,421,911	647,000	0	0
Total Nonoperating Expenditures:		5,166,917	1,875,309	53,780	0
Increase (Decrease) in Cash and Investments		136,944	-847,940	-168,055	-22
Ending Cash and Investments					
50810	End Fund Bal-Reserved	9,605,602	124,145	1,513,937	68,541
50880	End Fund Balance-Unreserved	5,544,035	5,544,035	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		120 Parks Impact Fee	121 Transportation Impact Fee	300 Arterial Street	301 Municipal Capital
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	1,431,310	174,238	522,360	1,312,914
30880	Beg Fund Bal-Unreserved	0	0	0	0
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	767,245
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	321,392	43,147
340	Charges for Goods and Services	203,405	676,201	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	5,346	728	247,038	4,019
Total Operating Revenues:		208,752	676,929	568,430	814,411
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	0	0	0
Net Operating Increase (Decrease):		208,751	676,929	568,430	814,411
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	745,292	29,619
Total Nonoperating Revenues:		0	0	745,292	29,619
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	1,408,540	56,475
597	Transfers-Out	29,619	610,628	0	134,664
Total Nonoperating Expenditures:		29,619	610,628	1,408,540	191,139
Increase (Decrease) in Cash and Investments		179,132	66,302	-94,818	652,891
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,610,442	240,540	427,542	1,965,805
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		302 Capital Projects	401 SWM	501 Equipment Replacement
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	46,068	2,667,037	592,089
30880	Beg Fund Bal-Unreserved	0	0	0
38880/58880	Prior Period Adjustments, net	0	0	0
Operating Revenues				
310	Taxes	4,869	0	0
320	Licenses & Permits	0	0	0
330	Intergovernmental Revenues	0	488,352	0
340	Charges for Goods and Services	0	1,640,281	0
350	Fines & Penalties	0	0	0
360	Miscellaneous Revenues	102,650	11,935	109,201
Total Operating Revenues:		107,519	2,140,569	109,201
Operating Expenditures				
510	General Government	1,115,001	0	0
520	Public Safety	0	0	0
530	Utilities And Environment	0	1,094,929	0
540	Transportation	0	0	0
550	Economic Environment	0	0	0
560	Mental & Physical Health	0	0	0
570	Culture And Recreation	0	0	0
598	Intergovernmental Payments	0	0	0
Total Operating Expenditures:		1,115,001	1,094,929	0
Net Operating Increase (Decrease):		-1,007,482	1,045,640	109,201
Nonoperating Revenues				
370, 380, 395, 398	Other Financing Sources	1,200,000	0	0
391-393	Debt Proceeds	0	0	0
397	Transfers-In	0	0	0
Total Nonoperating Revenues:		1,200,000	0	0
Nonoperating Expenditures				
580, 596, 599	Other Financing Uses	0	0	0
591-593	Debt Service	0	45,473	0
594-595	Capital Expenditures	75,000	666,743	210,687
597	Transfers-Out	0	0	0
Total Nonoperating Expenditures:		75,000	712,216	210,687
Increase (Decrease) in Cash and Investments		117,518	333,424	-101,486
Ending Cash and Investments				
50810	End Fund Bal-Reserved	163,586	3,000,461	490,603
50880	End Fund Balance-Unreserved	0	0	0

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds	650 Trust/Agency	660 Flexible Spending Fund
308	Beginning Cash and Investments	267,965	263,700	4,265
388 and 588	Prior Period Adjustments, net	0	0	0
310-360	Revenues	0	0	0
370-390	Other Increases and Financing Sources	46,016	42,135	3,882
510-570	Expenditures	0	0	0
580-590	Other Decreases and Financing Uses	61,575	58,630	2,946
Increase (Decrease) in Cash and Investments		-15,559	-16,495	936
508	Ending Cash and Investments	252,406	247,205	5,201

The accompanying notes are an integral part of this Statement.

CITY OF KENMORE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ended December 31, 2011

BARS CODE		Total for All Funds	General Fund #001	Street Fund #101	Public Art Fund #110
		Total Amount	Actual Amount	Actual Amount	Actual Amount
Beginning Net Cash and Investments:					
308.10	Reserved	\$ 12,866,960	\$ 1,388,610	\$2,040,581	\$68,244
308.80	Unreserved	\$ 4,805,644	\$ 4,805,644		
388.80 or 588.80	Prior Period Adjustments	\$ -			
Revenues and Other Sources:					
310	Taxes	\$ 8,336,287	7,728,331	-	-
320	Licenses and Permits	\$ 639,664	639,664	-	-
330	Intergovernmental	\$ 914,069	370,347	424,936	-
340	Charges for Goods and Services	\$ 2,323,605	488,818	308	-
350	Fines and Forfeits	\$ 220,238	220,238	-	-
360	Miscellaneous	\$ 352,480	163,145	11,212	819
390	Other Financing Sources	\$ 2,723,746	-	600,000	-
Total Revenues and Other Sources		15,510,091	9,610,543	1,036,456	819
Total Resources		33,182,695	15,804,797	3,077,037	69,063
Operating Expenditures:					
510	General Government	\$ 2,868,360	2,786,998	-	-
520	Security of Persons and Property	\$ 3,180,739	3,180,739	-	-
530	Physical Environment	\$ 1,771,474	550,146	-	-
540	Transportation	\$ 1,395,044	-	1,395,044	-
550	Economic Environment	\$ 1,188,698	1,188,698	-	-
560	Mental and Physical Health	\$ -	-	-	-
570	Culture and Recreational	\$ 585,597	585,097	-	500
Total Operating Expenditures		10,989,912	8,291,678	1,395,044	500
591-93	Debt Service	\$ 11,331	-	-	-
594-95	Capital Outlay	\$ 4,483,804	79,999		-
Total Expenditures		15,485,046	8,371,677	1,395,044	500
597-599	Other Financing Uses	\$ 2,654,075	917,000		-
Total Expenditures and Other Uses		18,139,121	9,288,677	1,395,044	500
Excess (Deficit) of Resources Over Uses		15,043,574	6,516,120	1,681,993	68,563
380	Nonrevenues (Except 384)	\$ 3,257			
580	Nonexpenditures (Except 584)	\$ 34,142	-		
Ending Net Cash and Investments:					
508.10	Reserved	\$8,620,714	\$124,145	\$1,681,993	\$68,563
508.80	Unreserved	\$6,391,975	\$6,391,975		

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF KENMORE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ended December 31, 2011

BARS CODE		Park Impact Fee Fund #120	Transportation Impact Fee Fund #121	Arterial Street Fund #300	Municipal Capital Projects Fund #301
		Total Amount	Actual Amount	Actual Amount	Actual Amount
Beginning Net Cash and Investments:					
308.10	Reserved	\$ 1,354,457	\$ 545,658	\$1,209,199	\$1,866,317
308.80	Unreserved				
388.80 or 588.80	Prior Period Adjustments				
Revenues and Other Sources:					
310	Taxes	-	-	-	605,932
320	Licenses and Permits	-	-	-	-
330	Intergovernmental	-	-	6,683	42,676
340	Charges for Goods and Services	68,462	237,039		-
350	Fines and Forfeits	-	-	-	-
360	Miscellaneous	8,390	2,168	5,429	9,575
390	Other Financing Sources	-	-	1,737,075	-
Total Revenues and Other Sources		76,853	239,207	1,749,187	658,183
Total Resources		1,431,310	784,865	2,958,386	2,524,500
Operating Expenditures:					
510	General Government	-	-	-	-
520	Security of Persons and Property	-	-	-	-
530	Physical Environment	-	-	-	-
540	Transportation	-	-	-	-
550	Economic Environment	-	-	-	-
560	Mental and Physical Health	-	-	-	-
570	Culture and Recreational	-	-	-	-
Total Operating Expenditures		-	-	-	-
591-93	Debt Service	-	-	-	-
594-95	Capital Outlay	-	-	2,436,026	85,139
Total Expenditures		-	-	2,436,026	85,139
597-599	Other Financing Uses	-	610,628		1,126,447
Total Expenditures and Other Uses		-	610,628	2,436,026	1,211,586
Excess (Deficit) of Resources Over Uses		1,431,310	174,238	522,360	1,312,914
380	Nonrevenues (Except 384)	-	-	-	-
580	Nonexpenditures (Except 584)	-	-	-	-
Ending Net Cash and Investments:					
508.10	Reserved	\$1,431,310	\$174,238	\$522,360	\$1,312,914
508.80	Unreserved				

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF KENMORE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ended December 31, 2011

BARS CODE		Capital Projects Fund #302	Surface Water Mgmt. Fund #401	Equip. Replacement Fund #501	
		Total Amount	Actual Amount	Actual Amount	
Beginning Net Cash and Investments:					
308.10	Reserved	\$ 516,662	\$ 3,352,921	\$524,311	
308.80	Unreserved				
388.80 or 588.80	Prior Period Adjustments				
Revenues and Other Sources					
310	Taxes	2,025	-	-	
320	Licenses and Permits	-	-	-	
330	Intergovernmental	12,500	56,927	-	
340	Charges for Goods and Services	-	1,528,978	-	
350	Fines and Forfeits	-	-	-	
360	Miscellaneous	43,180	29,399	79,163	
390	Other Financing Sources	386,672	-	-	
Total Revenues and Other Sources		444,376	1,615,304	79,163	-
Total Resources		961,038	4,968,225	603,474	-
Operating Expenditures:					
510	General Government	81,362	-	-	
520	Security of Persons and Property	-	-	-	
530	Physical Environment	-	1,221,328	-	
540	Transportation	-	-	-	
550	Economic Environment	-	-	-	
560	Mental and Physical Health	-	-	-	
570	Culture and Recreational	-	-	-	
Total Operating Expenditures		81,362	1,221,328	-	-
591-93	Debt Service	-	11,331	-	-
594-95	Capital Outlay	836,866	1,034,388	11,386	
Total Expenditures		918,228	2,267,047	11,386	-
597-599	Other Financing Uses	-	-	-	
Total Expenditures and Other Uses		918,228	2,267,047	11,386	-
Excess (Deficit) of Resources Over Uses		42,811	2,701,179	592,089	-
380	Nonrevenues (Except 384)	3,257	-	-	-
580	Nonexpenditures (Except 584)	-	34,142	-	-
Ending Net Cash and Investments:					
508.10	Reserved	\$46,068	\$2,667,037	\$592,089	
508.80	Unreserved				

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF KENMORE
FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ended December 31, 2011

	Total for All Funds	Trust & Agency Fund #650	Flexible Spending Fund #660
	Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments	\$283,416	\$278,857	\$4,559
Prior Period Adjustments	\$0	0	0
Revenue and Other Financing Sources	\$85,460	80,860	4,601
Total Resources	368,876	359,717	9,160
Expenditures And Other Financing Uses	100,911	96,016	4,895
Excess (Deficit) of Resources Over Uses	267,965	263,700	4,265
Nonrevenues (Except 384)	0	0	0
Nonexpenditures (Except 584)	0	0	0
Ending Cash and Investments	\$267,965	\$263,700	4,265

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kenmore reports financial activity using the revenue and expenditure classifications contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Kenmore was incorporated on August 31, 1998 and operates under the laws of the state of Washington applicable to an optional municipal code city with a council-manager form of government. The City of Kenmore is a general purpose government and provides public safety, street maintenance and improvements, parks maintenance, health and social services, and general administrative services. The City uses double-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. **Fund Accounting**

The accounts of the City of Kenmore are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of double-entry accounts that comprise its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Kenmore:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the City of Kenmore. It accounts for all financial resources except those required or elected to be accounted for in another fund. The Strategic Reserve Fund was created to serve as the City's emergency reserve Fund and is combined with the General Fund for financial reporting purposes.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Kenmore. The Arterial Street Fund had previously been classified as a Special Revenue Fund. Beginning in 2011 it has been reclassified as a Capital Project Fund because it is used to account for all resources and expenditures related to transportation capital projects. Other Special Revenue Funds are the Street Fund, the Park Impact Fee Fund, the Transportation Impact Fee Fund, and the Public Art Fund.

Capital Project Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets. The Arterial Street Fund has been reclassified to a Capital Project Fund because it is used to account for all resources and expenditures related to transportation capital projects. This fund had previously been classified as a Special Revenue Fund. Other Capital Project Funds are the Municipal Capital Reserve Fund, and the Capital Projects Fund.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily with user charges. The Surface Water Management Fund is an Enterprise Fund and includes the Swamp Creek Basin Fund.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City on a cost reimbursement basis. The Equipment Replacement Fund is an Internal Service Fund.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the City of Kenmore in a trustee capacity or as an agent on behalf of others. The Trust and Agency Fund is a Fiduciary Fund.

Agency Funds

These funds are used to account for assets that the City holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

In accordance with state law, the City of Kenmore also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of fixed assets are expensed during the year of acquisition. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City of Kenmore adopts biennial appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for all funds lapse at the end of the two year fiscal period.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

For the purpose of financial reporting, certain budgeted funds are rolled up to the applicable financial statement funds as follows:

Budgeted Funds	Financial Statement Funds
General Fund Strategic Reserve Fund	General Fund
Surface Water Management Fund Swamp Creek Basin Fund	Surface Water Management Fund

The 2011-2012 biennial appropriated expenditures were amended on November 26, 2012 as follows:

Fund	2011-2012 Appropriated Expenditures as Previously Amended 11/28/2011	Amendment as of November 26, 2012	Amended 2011-2012 Appropriated Expenditures
General Fund	18,914,946	0	18,914,946
Street Fund	3,160,790	0	3,160,790
Public Art Fund	1,000	0	1,000
Park Impact Fee Fund	700,000	0	700,000
Transportation Impact Fee Fund	1,221,255	0	1,221,255
Arterial Street Fund	8,420,240	0	8,420,240
Municipal Capital Reserve Fund	3,262,894	0	3,262,894
Capital Projects Fund	507,820	1,210,000	1,717,820
Surface Water Management Fund	4,866,475	202,500	5,068,975
Equipment Replacement Fund	143,497	88,333	231,830

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund	Final Amended 2011-2012 Appropriated Expenditures	2011 Actual Expenditures	2012 Actual Expenditures	Total	Variance
General Fund	18,914,946	9,288,677	9,430,963	18,719,640	195,306
Street Fund	3,160,790	1,395,044	1,277,791	2,672,835	487,955
Public Art Fund	1,000	500	500	1,000	0
Park Impact Fee Fund	700,000	0	29,619	29,619	670,381
Transportation Impact Fee Fund	1,221,255	610,628	610,627	1,221,255	0
Arterial Street Fund	8,420,240	2,436,026	1,408,540	3,844,566	4,575,674
Municipal Capital Reserve Fund	3,262,894	1,211,586	191,139	1,402,725	1,860,169
Capital Projects Fund	1,717,820	474,788	1,190,001	1,664,789	53,031
Surface Water Management Fund	5,068,975	2,301,189	1,807,145	4,108,334	960,641
Equipment Replacement Fund	231,830	11,386	210,687	222,073	9,757

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

The City Manager is authorized to transfer budgeted amounts between accounts within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington Public Deposit Protection Commission (WPDPC).

F. Investments

See Note 3.

G. Derivatives and Similar Transactions

The City has not used, held, or sold any derivatives or similar instruments during the period covered by the financial statements.

H. Capital Assets

Capital assets are long-lived assets of the City and are recorded as expenditures when purchased.

I. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon termination, resignation, retirement or death.

Sick leave will be paid at the rate of 1 hour of pay per 5 hours unused sick leave upon layoff or resignation in good status and at the rate of 1 hour of pay per 2 hours unused sick leave upon retirement or death, with a maximum amount of 720 paid hours.

J. Long-Term Debt

See Note 6, Debt Service Requirements

K. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of operating transfers in, operating transfers out, insurance recoveries, and sale of property.

Operating transfers were made in accordance with the adopted biennial budget.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

The following table displays interfund transfers during 2012:

Transfers From:		Transfers To:	
General Fund	\$647,000	Arterial Street Fund	745,291
Park Impact Fee Fund	29,617	Street Fund	647,000
Transportation Impact Fee Fund	610,627	Municipal Capital Fund	29,617
Municipal Capital Fund	134,664		
TOTALS	\$1,421,908		\$1,421,908

L. Risk Management

The City of Kenmore is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 153 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

M. Reserved Fund Balance

The General Fund Balance includes a reservation of \$124,145. This amount was received on June 2, 2010 as proceeds from sale of jail property that is restricted per the Proceeds Distribution and Hold Harmless Agreement between the City of Kenmore and the City of Bellevue. These funds are to contribute to the cost of building secure capacity or contracting for secure capacity, or building or contracting for alternative corrections facilities sufficient to enable the Contract Cities to meet the final step of the jail population reduction schedule.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Kenmore.

NOTE 3 – CASH AND INVESTMENTS

The City's investments are insured, registered or held by the City or its agent in the City's name. There were no investments held by the City of Kenmore as an agent for other local governments, individuals, or private organizations.

Investments are presented at cost.

Cash and Investments by type as of December 31, 2012 are as follows:

<u>Investments</u>	<u>Balance</u>
U.S. Government Securities	\$5,884,287
Certificates of Deposit	<u>2,443,215</u>
Total	\$8,327,502
<u>Cash</u>	
Local Govt. Investment Pool	\$4,236,166
Bank and petty cash balance	2,828,427
Flexible Spending balance	<u>5,201</u>
Total	\$7,069,794
Total Cash & Investments	<u>\$15,397,296</u>

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by electronic transfer to the City's bank account as they are collected by the County.

CITY OF KENMORE
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2012

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City's regular tax levy for 2012 was \$1.59704 per \$1,000 of assessed valuation that totaled \$2,633,096,573. For 2012, the total regular levy was \$4,172,195.

NOTE 5 – INTERFUND LOANS AND ADVANCES

There was one interfund loans approved by the City Council in 2012. Operating transfers were made in accordance with the adopted biennial budget.

The following table displays interfund loan activity during 2012:

Borrowing Fund	Lending Fund	Balance 1/1/2012	New Loans	Repayments	Balance 12/31/2012
Capital Projects Fund	General Fund	\$0	\$1,200,000	\$0	\$1,200,000
	TOTALS	\$0	\$1,200,000	\$0	\$1,200,000

NOTE 6 – Debt Service Requirements

Upon incorporation in 1998, the City of Kenmore assumed its proportional share of 1996 King County Revenue Bonds. As of December 31, 2012, remaining debt service, including principal and interest is \$181,892.

Year	Principal	Interest	Total
2013	\$37,851	\$7,622	\$45,473
2014	\$39,897	\$5,575	\$45,473
2015	\$42,041	\$3,432	\$45,473
2016	\$44,310	\$1,163	\$45,473

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Kenmore and summarizes debt transactions for 2012.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

NOTE 7 – PENSION PLANS

Substantially all City of Kenmore full-time and qualifying part-time employees participate in the Public Employee Retirement System (PERS) 1, 2 or 3, administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Kenmore's financial statements. Contributions to the systems by both employee and employer are based on gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

NOTE 8 – OTHER DISCLOSURES AND SUBSEQUENT EVENTS

In 2012 The City of Kenmore and RECP/UP Kenmore, LP, agreed to terminate the disposition and development agreement (DDA) for the Kenmore Village by the Lake Project, along with the associated ground lease for part of the property. Development of the 9.6-acre site did not move forward in the wake of the severe economic downturn beginning in 2008. On February 23, 2012, the City Council authorized the execution of three agreements including a settlement agreement, an agreement to terminate the May 24, 2010 development agreement and an agreement to terminate the ground lease. March 9, 2012 was the effective date of the three agreements. Under the terms of the termination and settlement agreement, the City paid \$700,000 to the developer.

The termination of the development agreement was a mutual and amicable decision on behalf of the City and RECP/UP Kenmore, LP. Each party will now continue their respective pursuits—for the City, this means future development of a downtown mixed use redevelopment in Kenmore on property bracketed by recent public infrastructure investments.

In April 2013, The City closed on a sale of one 1.24 acre parcel in Kenmore Village to Kenmore Camera for price of \$1,340,820.

A purchase and sale agreement with Benaroya Company and Real Property Investors for the remainder 3.3 acres of the Kenmore Village lower lot was approved by the City Council in June, 2013. The purchase price of this parcel is \$1.8M. The project could bring significant new investment to the downtown area and new construction would include retail, office, and a high quality signature public gathering space.

In July 2013, the City and MainStreet Property Group LLC entered into a purchase and sale agreement in the amount of \$3.6M for the 4.75 acre upper lot of Kenmore Village, formerly the King County Park & Ride. MainStreet expects to develop and build in

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2012

excess of 160 units of quality multifamily apartments in downtown Kenmore, a portion of which will be affordable housing. Construction is expected to begin as soon as summer 2014.

On April 16, 2012 Kenmore City Council adopted Ordinance No. 12-0339 which established the Kenmore Transportation Benefit District (TBD), effective April 26, 2012. The TBD Board approved a \$20 Vehicle License Fee on November 20, 2012 which will be assessed on vehicle registrations in Kenmore beginning June 1, 2013.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kenmore reports financial activity using the revenue and expenditure classifications contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Kenmore was incorporated on August 31, 1998 and operates under the laws of the state of Washington applicable to an optional municipal code city with a council-manager form of government. The City of Kenmore is a general purpose government and provides public safety, street maintenance and improvements, parks maintenance, health and social services, and general administrative services. The City uses double-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City of Kenmore are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of double-entry accounts that comprise its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Kenmore:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the City of Kenmore. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Kenmore. The Arterial Street Fund had previously been classified as a Special Revenue Fund. Beginning in 2011 it has been reclassified as a Capital Project Fund because it is used to account for all resources and expenditures related to transportation capital projects.

Capital Project Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets. The Arterial Street Fund has been reclassified to a Capital Project Fund because it is used to account for all resources and expenditures related to transportation capital projects. This fund had previously been classified as a Special Revenue Fund.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2011

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily with user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the City of Kenmore in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account for assets that the City holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

In accordance with state law, the City of Kenmore also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of fixed assets are expensed during the year of acquisition. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City of Kenmore adopts biennial appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for all funds lapse at the end of the two year fiscal period.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

CITY OF KENMORE
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2011

For the purpose of financial reporting, certain budgeted funds are rolled up to the applicable financial statement funds as follows:

Budgeted Funds	Financial Statement Funds
General Fund Strategic Reserve Fund	General Fund
Surface Water Management Fund Swamp Creek Basin Fund	Surface Water Management Fund

The 2011-2012 biennial appropriated expenditures were amended on November 28, 2011 as follows:

Fund	2011-2012 Appropriated Expenditures as Originally Adopted	Amendment as of November 28, 2011	Amended 2011-2012 Appropriated Expenditures
General Fund	19,256,668	(341,722)	18,914,946
Street Fund	3,113,790	47,000	3,160,790
Public Art Fund	1,000	0	1,000
Park Impact Fee Fund	700,000	0	700,000
Transportation Impact Fee Fund	1,367,532	(146,277)	1,221,255
Arterial Street Fund	5,282,641	3,137,599	8,420,240
Municipal Capital Reserve Fund	3,346,018	(83,124)	3,262,894
Capital Projects Fund	190,820	317,000	507,820
Surface Water Management Fund	3,726,109	1,140,366	4,866,475
Equipment Replacement Fund	143,497	0	143,497

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund	Amended 2011-2012 Appropriated Expenditures	2011 Actual Expenditures	Variance
General Fund	18,914,946	9,288,677	9,626,269
Street Fund	3,160,790	1,395,044	1,765,746
Public Art Fund	1,000	500	500
Park Impact Fee Fund	700,000	0	700,000
Transportation Impact Fee Fund	1,221,255	610,628	610,627
Arterial Street Fund	8,420,240	2,436,026	5,984,214
Municipal Capital Reserve Fund	3,262,894	1,211,586	2,051,308
Capital Projects Fund	507,820	474,788	33,032
Surface Water Management Fund	4,866,475	2,301,189	2,565,286
Equipment Replacement Fund	143,497	11,386	132,111

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2011

The City Manager is authorized to transfer budgeted amounts between accounts within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington Public Deposit Protection Commission (WPDPC).

F. Investments

See Note 3.

G. Derivatives and Similar Transactions

The City has not used, held, or sold any derivatives or similar instruments during the period covered by the financial statements.

H. Capital Assets

Capital assets are long-lived assets of the City and are recorded as expenditures when purchased.

I. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon termination, resignation, retirement or death.

Sick leave will be paid at the rate of 1 hour of pay per 5 hours unused sick leave upon layoff or resignation in good status and at the rate of 1 hour of pay per 2 hours unused sick leave upon retirement or death, with a maximum amount of 720 paid hours.

J. Long-Term Liabilities

See Note 6.

K. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of operating transfers in, operating transfers out, insurance recoveries, and sale of property.

Operating transfers were made in accordance with the adopted biennial budget.

CITY OF KENMORE
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2011

The following table displays interfund transfers during 2011:

Transfers From:		Transfers To:	
General Fund	\$917,000	Arterial Street Fund	1,737,075
Transportation Impact Fee Fund	610,628	Street Fund	600,000
Municipal Capital Fund	1,126,447	Capital Projects Fund	317,000
TOTALS	\$2,654,075		\$2,654,075

L. Risk Management

The city of Kenmore is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 150 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2011

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

M. Reserved Fund Balance

The General Fund Balance includes a reservation of \$124,145. This amount was received on June 2, 2010 as proceeds from sale of jail property that is restricted per the Proceeds Distribution and Hold Harmless Agreement between the City of Kenmore and the City of Bellevue. These funds are to contribute to the cost of building secure capacity or contracting for secure capacity, or building or contracting for alternative corrections facilities sufficient to enable the Contract Cities to meet the final step of the jail population reduction schedule.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Kenmore.

NOTE 3 – CASH AND INVESTMENTS

The City's investments are insured, registered or held by the City or its agent in the City's name. There were no investments held by the City of Kenmore as an agent for other local governments, individuals, or private organizations.

Investments are presented at cost.

CITY OF KENMORE
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2011

Cash and Investments by type as of December 31, 2011 are as follows:

<u>Investments</u>	<u>Balance</u>
U.S. Government Securities	\$6,990,087
Certificates of Deposit	<u>2,476,718</u>
Total	\$9,466,805
<u>Cash</u>	
Local Govt. Investment Pool	\$4,227,787
Bank and petty cash balance	1,581,791
Flexible Spending balance	<u>4,265</u>
Total	\$5,813,843
Total Cash & Investments	<u>\$15,280,648</u>

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by electronic transfer to the City’s bank account as they are collected by the County.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City’s regular tax levy for 2011 was \$1.48382 per \$1,000 of assessed valuation that totaled \$2,799,296,254. For 2011, the total regular levy was \$4,124,126.

NOTE 5 – INTERFUND LOANS AND ADVANCES

There were no interfund loans approved by the City in 2011. Operating transfers were made in accordance with the adopted biennial budget.

CITY OF KENMORE
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2011

NOTE 6 – LONG-TERM LIABILITIES

Upon incorporation in 1998, the City of Kenmore assumed its proportional share of 1996 King County Revenue Bonds. As of December 31, 2011, remaining debt service, including principal and interest is \$227,365.

Year	Principal	Interest	Total
2012	\$35,950	\$9,523	\$45,473
2013	\$37,851	\$7,622	\$45,473
2014	\$39,897	\$5,575	\$45,473
2015	\$42,041	\$3,432	\$45,473
2016	\$44,310	\$1,163	\$45,473

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Kenmore and summarizes debt transactions for 2011.

NOTE 7 – PENSION PLANS

Substantially all City of Kenmore full-time and qualifying part-time employees participate in the Public Employee Retirement System (PERS) 1, 2 or 3, administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Kenmore's financial statements. Contributions to the systems by both employee and employer are based on gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing:

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98504-8380

NOTE 8 – OTHER DISCLOSURES AND SUBSEQUENT EVENTS

Subsequent Event

In 2012 The City of Kenmore and RECP/UP Kenmore, LP, agreed to terminate the disposition and development agreement (DDA) for the Kenmore Village by the Lake Project, along with the associated ground lease for part of the property. Development of the 9.6-acre site did not move forward in the wake of the severe economic downturn beginning in 2008. On February 23, 2012, the City Council authorized the execution of

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2011

three agreements including a settlement agreement, an agreement to terminate the May 24, 2010 development agreement and an agreement to terminate the ground lease. March 9, 2012 is the effective date of the three agreements.

The termination of the development agreement was a mutual and amicable decision on behalf of the City and RECP/UP Kenmore, LP. Each party will now continue their respective pursuits—for the City, this means future development of a downtown mixed use redevelopment in Kenmore on property bracketed by recent public infrastructure investments.

City of Kenmore

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2012
Revenue Obligations								
	252.11	Revenue Bonds to King County	5/12/2016	200,050	0	35,950	58238	164,100
	259.12	Compensated Absences		185,208	61,516	57,702		189,022
		Total Revenue Obligations:		385,258	61,516	93,652		353,122
		Total Liabilities:		385,258	61,516	93,652		353,122

City of Kenmore

Schedule of Liabilities
For the year ended December 31, 2011

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2011
General Obligations								
	259.11	Compensated Balances		148,116	38,738	1,646		185,208
		Total General Obligations:		148,116	38,738	1,646		185,208
Revenue Obligations								
	252.11	Revenue Bonds to King County	12/1/2016	234,192	0	34,142	58238	200,050
		Total Revenue Obligations:		234,192	0	34,142		200,050
		Total Liabilities:		382,308	38,738	35,788		385,258

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City of Kenmore

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2012

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
FHWA/WA State Dept. of Transportation	Highway Planning & Construction	20.205	LA-7690	464,850		464,850	2
FEMA/WA State Military Dept	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-10-WA-4056-PW-217, 216, 215	41,636		41,636	2
Total Federal Awards Expended:				506,486	0	506,486	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

**CITY OF KENMORE
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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012**

NOTE 1- BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Kenmore's financial statements. The City of Kenmore reports financial activity using the revenue and expenditure classifications contained in the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

NOTE 2 -PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Kenmore's portion, are more than shown.

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

There are no program expenditures that were passed through to a subrecipient that administered its own project.

NOTE 4 - LOANS AND NON CASH AWARDS

The City of Kenmore received no revolving loans, federal loans or non cash awards that would be reportable on the Schedule of Expenditures of Federal Awards.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Chief of Staff
Director of State and Local Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

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Doug Cochran
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