



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Kenmore

King County

For the period January 1, 2013 through December 31, 2014

Published September 28, 2015

Report No. 1015296





Washington State Auditor's Office

September 28, 2015

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,

A handwritten signature in blue ink that reads "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

**City of Kenmore
King County
January 1, 2014 through December 31, 2014**

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 Cluster - 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, 2013 through December 31, 2014**

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 23, 2015.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 23, 2015

**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, 2014 through December 31, 2014**

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, 2014. 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, 2014.

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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 23, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Kenmore King County January 1, 2013 through December 31, 2014

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of 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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Kenmore has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

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, 2014 and 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Kenmore, as of December 31, 2014 and 2013, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 23, 2015

FINANCIAL SECTION

**City of Kenmore
King County
January 1, 2013 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2014
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014
Schedule of Liabilities – 2013
Schedule of Expenditures of Federal Awards – 2014 and 2013
Notes to the Schedule of Expenditures of Federal Awards – 2014 and 2013

City of Kenmore
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General	101 Street
Beginning Cash and Investments				
30810	Reserved	10,594,683	124,145	2,124,964
30880	Unreserved	6,159,820	6,159,820	-
388 & 588	Prior Period Adjustments, Net	229,697	145,882	-
Operating Revenues				
310	Taxes	9,165,344	8,039,554	-
320	Licenses and Permits	842,022	842,022	-
330	Intergovernmental Revenues	3,022,404	362,536	436,679
340	Charges for Goods and Services	4,228,214	811,042	460,836
350	Fines and Penalties	206,147	206,147	-
360	Miscellaneous Revenues	273,089	195,988	9,361
Total Operating Revenues:		<u>17,737,220</u>	<u>10,457,290</u>	<u>906,876</u>
Operating Expenditures				
510	General Government	3,273,516	3,272,850	-
520	Public Safety	3,716,048	3,716,048	-
530	Utilities	1,250,003	-	-
540	Transportation	2,585,683	572,610	2,013,073
550	Natural and Economic Environment	1,509,045	1,509,045	-
560	Social Services	-	-	-
570	Culture and Recreation	510,286	510,236	-
Total Operating Expenditures:		<u>12,844,581</u>	<u>9,580,788</u>	<u>2,013,073</u>
Net Operating Increase (Decrease):		<u>4,892,639</u>	<u>876,500</u>	<u>(1,106,197)</u>
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	3,237,130	3,236,707	424
391-393	Debt Proceeds	-	-	-
397	Transfers-In	1,951,250	-	138,000
Total Nonoperating Revenues:		<u>5,188,380</u>	<u>3,236,707</u>	<u>138,424</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	45,473	-	-
594-595	Capital Expenditures	6,312,380	41,110	170,118
597	Transfers-Out	1,951,250	364,000	86,000
Total Nonoperating Expenditures:		<u>8,309,102</u>	<u>405,110</u>	<u>256,118</u>
Net Increase (Decrease) in Cash and Investments:		<u>1,771,917</u>	<u>3,708,097</u>	<u>(1,223,891)</u>
Ending Cash and Investments				
50810	Reserved	8,742,317	124,145	901,072
50880	Unreserved	10,013,801	10,013,801	-

The accompanying notes are an integral part of this statement.

110 Public Art	120 Parks Impact Fee	121 Transp. Impact Fee	300 Transportation Capital	301 REET Fund	303 Parks Capital
67,481	1,458,097	416,398	883,853	1,678,074	19,264
-	-	-	-	-	-
-	-	-	140,000	-	-
-	-	-	-	1,125,789	-
-	-	-	-	-	-
-	-	-	1,963,900	-	64,071
-	385,919	741,652	-	-	-
-	-	-	-	-	-
417	6,837	4,884	18,500	13,522	-
417	392,756	746,536	1,982,400	1,139,311	64,071
-	-	-	667	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
50	-	-	-	-	-
50	-	-	667	-	-
367	392,756	746,536	1,981,734	1,139,311	64,071
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	378,000	-	1,435,250
-	-	-	378,000	-	1,435,250
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	3,383,189	-	1,518,018
-	1,098,079	-	-	403,171	-
-	1,098,079	-	3,383,189	403,171	1,518,018
367	(705,323)	746,536	(1,023,455)	736,140	(18,697)
67,848	752,774	1,162,934	398	2,414,214	567
-	-	-	-	-	-

The accompanying notes are an integral part of this statement.

401 SWM	501 Equipment Replacement
3,336,336	486,071
-	-
(56,185)	-
-	-
-	-
195,218	-
1,727,673	101,093
-	-
20,733	2,847
<u>1,943,624</u>	<u>103,940</u>
-	-
-	-
1,250,003	-
-	-
-	-
-	-
-	-
<u>1,250,003</u>	<u>-</u>
693,621	103,940
-	-
-	-
-	-
<u>-</u>	<u>-</u>
-	-
-	-
45,473	-
1,064,607	135,338
-	-
<u>1,110,080</u>	<u>135,338</u>
(416,459)	(31,398)
2,863,692	454,674
-	-

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, 2013

		Total for All Funds (Memo Only)	001 General	101 Street
Beginning Cash and Investments				
30810	Reserved	9,442,016	124,145	1,513,937
30880	Unreserved	5,707,621	5,707,621	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	8,727,544	7,845,658	-
320	Licenses & Permits	551,521	551,521	-
330	Intergovernmental Revenues	2,426,342	338,885	684,644
340	Charges for Goods and Services	2,934,347	644,067	462
350	Fines & Penalties	198,275	198,275	-
360	Miscellaneous Revenues	482,786	247,902	11,941
Total Operating Revenues:		15,320,816	9,826,308	697,047
Operating Expenditures				
510	General Government	3,224,623	3,187,851	-
520	Public Safety	3,539,506	3,539,506	-
530	Utilities	1,394,171	-	-
540	Transportation	1,746,145	420,342	1,185,803
550	Natural and Economic Environment	1,410,633	1,410,633	-
560	Social Services	-	-	-
570	Culture And Recreation	517,497	515,990	-
Total Operating Expenditures:		11,832,575	9,074,323	1,185,803
Net Operating Increase (Decrease):		3,488,241	751,986	(488,756)
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	2,458,847	2,458,847	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	2,488,850	-	1,136,000
Total Nonoperating Revenues:		4,947,697	2,458,847	1,136,000
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	1,200,182	1,200,182	-
591-593	Debt Service	45,473	-	-
594-595	Capital Expenditures	3,096,565	822,451	11,218
597	Transfers-Out	2,488,850	736,000	25,000
Total Nonoperating Expenditures:		6,831,070	2,758,634	36,218
Net Increase (Decrease) in Cash and Investments:		1,604,868	452,200	611,026
Ending Cash and Investments				
50810	Reserved	10,594,685	124,145	2,124,964
50880	Unreserved	6,159,820	6,159,820	-

The accompanying notes are an integral part of this statement.

110 Public Art	120 Parks Impact Fee	121 Transp. Impact Fee	300 Transportaion Capital	301 REET Fund	303 Parks Capital
68,541	1,610,442	240,540	427,542	1,965,805	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	881,886	-
-	-	-	-	-	-
-	-	-	1,001,765	-	26,119
-	135,144	421,701	-	-	-
-	-	-	-	-	-
447	10,432	2,157	173,267	12,312	-
<u>447</u>	<u>145,576</u>	<u>423,858</u>	<u>1,175,032</u>	<u>894,198</u>	<u>26,119</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	140,000	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,507	-	-	-	-	-
<u>1,507</u>	<u>-</u>	<u>-</u>	<u>140,000</u>	<u>-</u>	<u>-</u>
(1,059)	145,576	423,858	1,035,032	894,198	26,119
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	918,100	-	409,750
-	-	-	<u>918,100</u>	<u>-</u>	<u>409,750</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,496,821	-	416,605
-	297,921	248,000	-	1,181,929	-
-	<u>297,921</u>	<u>248,000</u>	<u>1,496,821</u>	<u>1,181,929</u>	<u>416,605</u>
(1,059)	(152,345)	175,858	456,311	(287,731)	19,264
67,481	1,458,097	416,398	883,853	1,678,074	19,264
-	-	-	-	-	-

The accompanying notes are an integral part of this statement.

401 SWM	501 Equipment Replacement
3,000,461	490,603
-	-
-	-
-	-
-	-
374,929	-
1,683,323	49,650
-	-
21,121	3,208
<u>2,079,373</u>	<u>52,858</u>
-	36,772
-	-
1,394,171	-
-	-
-	-
-	-
-	-
<u>1,394,171</u>	<u>36,772</u>
685,202	16,086
-	-
-	-
25,000	-
<u>25,000</u>	<u>-</u>
-	-
45,473	-
328,853	20,617
-	-
<u>374,326</u>	<u>20,617</u>
335,876	(4,531)
3,336,336	486,071
-	-

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, 2014

		Total for All Funds (Memo Only)	650 Trust/Agency	660 Flexible Spending Fund	670 Transportation Benefit District
308	Beginning Cash and Investments	484,330	330,935	7,217	146,178
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	323,250	-	-	323,250
380-390	Other Increases and Financing Sources	122,457	116,422	6,036	-
510-570	Expenditures	460,500	-	-	460,500
580-590	Other Decreases and Financing Uses	48,745	42,709	6,036	-
Net Increase (Decrease) in Cash and Investments:		(63,537)	73,713	0	(137,250)
508	Ending Cash and Investments	420,793	404,648	7,217	8,928

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, 2013

		Total for All Funds (Memo Only)	650 Trust/Agency	660 Flexible Spending Fund	670 Transportation Benefit District
308	Beginning Cash and Investments	252,406	247,205	5,201	-
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	-	-	-	-
380-390	Other Increases and Financing Sources	258,345	100,434	6,733	151,178
510-570	Expenditures	-	-	-	-
580-590	Other Decreases and Financing Uses	26,422	16,704	4,717	5,000
Net Increase (Decrease) in Cash and Investments:		231,923	83,730	2,016	146,178
508	Ending Cash and Investments	484,330	330,935	7,217	146,178

The accompanying notes are an integral part of this statement.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, development services, land use and planning, street maintenance and improvements, parks maintenance and improvements, and general administrative services.

The City of Kenmore reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its cash, investments, revenues and expenditures. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. 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. The Strategic Opportunities fund was created in 2013 to provide resources that would enable the City to make key investments or take advantage of strategic opportunities as they present themselves. The Sammamish River Bridge Fund was created in anticipation of maintenance, study, evaluation, design, future rehabilitation, and/or replacement of the bridge. The Kenmore Village Fund, (previously known as the Capital Projects Fund), is primarily a property management activity with non restricted revenues. These funds are 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 and in 2013 was renamed as the Transportation Capital Fund. 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 Transportation Capital Fund (previously known as 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 Real Estate Excise Tax Fund (previously known as the Municipal Capital Reserve Fund) and the newly created Park Capital Fund. The Capital Projects Fund was changed in use and title to the Kenmore Village Fund and has been combined with the General Fund for financial presentation purposes beginning in 2013.

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 Surface Water Capital Fund and 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.

Agency Funds

These funds are used to account for assets that the City holds for others in an agency capacity. The City's Trust and Agency Fund, Flexible Spending Fund and the Kenmore Transportation Benefit District Fund are agency funds of the Fiduciary Fund type.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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.

C. Budgets

The City of Kenmore adopts biennial appropriated budgets for all funds except the Trust and Agency Fund and the Flexible Spending Fund. 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.

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 Strategic Opportunities Fund Sammamish River Bridge Fund Kenmore Village Fund	General Fund
Surface Water Management Fund Surface Water Capital Fund Swamp Creek Basin Fund	Surface Water Management Fund

Interfund activity between funds combined for financial statement purposes has been eliminated.

The 2013-2014 biennial budgeted expenditures were amended on March 25, 2013, December 2, 2013, May 12, 2014 and December 15, 2014 as follows:

Fund	2013-2014 Amended Biennium Budget as of 12/31/2013	2014 Budget Amendments	2013-2014 Amended Biennium Budget as of 12/31/2014
General Fund	\$25,636,232	\$332,943	\$25,969,175
Street Fund	3,279,126	840,000	4,119,126
Public Art Fund	1,000	766	1,766
Park Impact Fee Fund	1,059,000	781,000	1,840,000
Transportation Impact Fee Fund	822,500	0	822,500
Real Estate Excise Tax Fund	2,757,050	0	2,757,050
Park Capital Fund	1,797,000	811,000	2,608,000
Transportation Capital Fund	12,246,837	0	12,246,837
Surface Water Management Fund	7,057,148	42,366	7,099,514
Equipment Replacement Fund	276,250	5,246	281,496
Kenmore Transportation Benefit District	535,000	0	535,000

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

Fund	2013-2014 Amended Biennium Budget as of 12/31/2014	2013 Actual Expenditures	2014 Actual Expenditures	Variance
General Fund	\$25,969,175	\$11,832,956	9,985,898	4,150,321
Street Fund	4,119,126	1,222,020	2,269,191	627,915
Public Art Fund	1,766	1,507	50	209
Park Impact Fee Fund	1,840,000	297,921	1,098,079	444,000
Transportation Impact Fee Fund	822,500	248,000	0	574,500
Real Estate Excise Tax Fund	2,757,050	1,181,929	403,171	1,171,950
Park Capital Fund	2,608,000	416,605	1,518,018	673,377
Transportation Capital Fund	12,246,837	1,636,821	3,243,855	7,366,161
Surface Water Management Fund	7,099,514	1,766,497	2,416,268	2,916,749
Equipment Replacement Fund	281,496	57,389	135,338	88,769
Kenmore Transportation Benefit District	535,000	5,000	460,500	69,500

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 and Investments

See Note 3. Deposits and Investments

E. Capital Assets

Capital assets are long-lived assets of the City with an initial cost of \$15,000 or more and are recorded as expenditures when purchased.

F. Compensated Absences

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

Sick leave may be accumulated indefinitely 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. Payments are recognized as expenditures when paid.

The projected December 31, 2014 liability for compensated absences is \$236,711.

G. Long-Term Debt

See Note 6, Debt Service Requirements

H. 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. The following table displays interfund transfers during 2014:

Transfers From:		Transfers To:	
General Fund	\$364,000	Street Fund	\$138,000
Street Fund	86,000	Transportation Capital Fund	378,000
Park Impact Fee Fund	1,098,079	Park Capital Fund	1,435,250
Real Estate Excise Tax Fund	403,171		
TOTAL	\$1,951,250	TOTAL	\$1,951,250

I. 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 175 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.

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.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts. 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. All 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 reported at original cost. Cash and Investments by type as of December 31, 2014 are as follows:

<u>Investments</u>	<u>Balance</u>
U.S. Government Securities	\$6,824,460
Certificates of Deposit	<u>3,342,554</u>
Total	\$10,167,014

<u>Cash</u>	
Local Govt. Investment Pool	\$5,745,252
Bank and petty cash balance	3,257,420
Flexible Spending balance	<u>7,217</u>
Total	\$9,009,889
Total Cash & Investments	<u>\$19,176,903</u>

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property tax 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 levy for 2014 was \$1.56420 per \$1,000 on an assessed valuation of \$2,785,642,567 for a total regular levy of \$4,323,323.

NOTE 5 – INTERFUND LOANS AND ADVANCES

There were no interfund loans or advances in 2014.

NOTE 6 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2014.

Upon incorporation in 1998, the City of Kenmore assumed its proportional share of 1996 King County Revenue Bonds. As of December 31, 2014, remaining debt service, including principal and interest is \$90,946.

Year	Principal	Interest	Total
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 2014.

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 – PRIOR YEAR ADJUSTMENT

The City has a biennial budget which allows and provides appropriations for two years (2013 and 2014). The 2013 Financial Statements included an entry for cost allocation which was estimated at the time of closing. The actual calculation was performed and recorded in 2014. The City recorded the difference (\$140,000) as a prior year adjustment for 2013.

NOTE 9 – JOINT VENTURES AND RELATED PARTIES

Emergency Services Coordinating Agency

The Emergency Services Coordinating Agency (ESCA) was established by an inter-local agreement in 1994 to provide joint organization of emergency management. The Agency's jurisdiction includes the cities of Brier, Edmonds, Kenmore, Lake Forest Park, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodinville and the town of Woodway. The Agency assists its member cities and town in managing emergency responses and disaster preparedness. An appointed, 10-member Board of Directors governs the Agency. The Board is composed of the Mayors from the 10 member cities and town or his or her designee. The Agency's six employees coordinate the planning, mitigation, response and recovery efforts of its member agencies.

Each member city is responsible for contributing to operating revenue based on population. The City of Kenmore's contribution to the ESCA operating budget was \$48,964 in 2014.

As of 12/31/2014, the City's cash equity interest was estimated to be \$28,908, or 11%. On June 25, 2014, Agency members passed resolution (2015-3) to dissolve ESCA during the 2015 fiscal year.

Financial information for ESCA can be obtained from the Agency's administrative office at 2901 228th St SW, Ste. A, Brier, WA 98036.

A Regional Coalition for Housing

In November 1992, King County and the cities of Bellevue, Redmond, and Kirkland joined together to establish A Regional Coalition for Housing (ARCH). Since its inception, the Cities of Beau Arts Village, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Mercer Island, Newcastle, Sammamish, Woodinville, and Yarrow Point have joined ARCH.

The purpose of ARCH is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by combining public funding with private-sector resources. Operating funding is provided by the member cities. ARCH identifies and prioritizes projects which the

member cities fund directly through their own grants, Community Development Block Grants, and HUD grants. ARCH is governed by an Executive Board composed of the chief executive officer from each member. The Executive Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board.

Each member city is responsible for contributing operating revenues as determined from the ARCH annual budget. Contributions from the member cities are based on each member's population. The City of Kenmore's contribution in 2014 was \$25,956 in 2014 (4.3 percent of the Coalition's \$601,989 budget).

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution the agreement, as amended, provides for distribution of net position among members based on the percentage of the total annual contributions during the period of the Agreement paid by each member. The City's share of cash or investments is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16225 NE 87th Street, Redmond, WA 98052.

eCityGov Alliance

On March 25, 2002, the City of Bellevue City Council unanimously adopted a resolution establishing the eCityGov Alliance between the City of Bellevue and the Cities of Bothell, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish and Snoqualmie. Since then, additional cities and agencies have joined. The Alliance establishes on-line services through a jointly operated internet portal. In 2014 eCityGov Alliance became a non-profit corporation.

Expenditures consist of capital and operations costs as specified in the budget adopted by the eCityGov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. Revenues consist of annual membership fees from the members of the eCityGov Alliance. The City of Kenmore paid membership dues of \$42,659 in 2014.

The interlocal agreement may be terminated if Principals holding at least 66% of the weighted vote of all of the Principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1) property contributed without charge by any member shall revert to the contributor; (2) all property purchased after the effective date of the interlocal agreement shall be distributed to the Principals based upon each Principal's proportional ownership interest at the time of the sale of the property. The City's share of assets is deemed immaterial and thus not reflected in the financial statements.

Budget monitoring information may be obtained from City of Bellevue, Information Technology Department, c/o Mollie Purcell, P.O. Box 90012, Bellevue, WA 98009-9012

NOTE 10 – OTHER DISCLOSURES AND SUBSEQUENT EVENTS

Kenmore Transportation Benefit District

On April 16, 2012 the Kenmore City Council adopted Ordinance No. 12-0339 which established the Kenmore Transportation Benefit District (TBD), an independent taxing district, effective April 26, 2012. The District is a governmental special purpose entity governed by a Board of Directors created for the sole purpose of providing and funding transportation improvements within the District. The seven member board is comprised of the seven members of the Kenmore City Council and the boundaries of the District are identical to the City of Kenmore city limits.

The TBD Board approved a \$20 Vehicle License Fee on November 20, 2012 which was assessed on vehicle registrations in Kenmore beginning June 1, 2013. An inter-local agreement obligates the TBD to transfer the fees

to the City to fund transportation improvements and maintenance for City streets. In 2014 the TBD transferred \$458,000 to the City.

The Transportation Benefit District is a separate legal entity and a separate annual report has been prepared for the City of Kenmore Transportation Benefit District. More information about the Kenmore TBD, including financial statements, can be found on the City of Kenmore website at www.Kenmorewa.gov.

Kenmore Village

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. Early in 2014 a Rescission of Purchase and Sale Agreement was executed by both parties resulting in termination of the agreement. In March 2015, several remaining parcels of the lower lot were sold to MainStreet Property Group LLC for \$970,000.

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. The sale closed in May 2014. MainStreet is developing over 200 units of quality multifamily apartments, a portion of which will be affordable housing. Construction is underway.

Property Acquisition

In June 2014, the City purchased waterfront property and land at 7353 NE 175th Street in the amount of \$640,000 plus closing costs.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2013

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, development services, land use and planning, street maintenance and improvements, parks maintenance and improvements, 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. The Strategic Opportunities fund was created in 2013 to provide resources that would enable the City to make key investments or take advantage of strategic opportunities as they present themselves. The Sammamish River Bridge Fund was created in anticipation of maintenance, study, evaluation, design, future rehabilitation, and/or replacement of the bridge. The Kenmore Village Fund, (previously known as the Capital Projects Fund), is primarily a property management activity with non restricted revenues. These funds are 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 and in 2013 was renamed as the Transportation Capital Fund. 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 Transportation Capital Fund (previously known as 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 Real Estate Excise Tax Fund (previously known as the Municipal Capital Reserve Fund) and the newly created Park Capital Fund. The Capital Projects Fund was changed in use and title to the Kenmore Village Fund and has been combined with the General Fund for financial presentation purposes beginning in 2013.

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 Surface Water Capital Fund and 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.

Agency Funds

These funds are used to account for assets that the City holds for others in an agency capacity. The City's Trust and Agency Fund, Flexible Spending Fund and the Kenmore Transportation Benefit District Fund are agency funds of the Fiduciary Fund type.

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 except the Trust and Agency Fund and the Flexible Spending Fund. 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.

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 Strategic Opportunities Fund Sammamish River Bridge Fund Kenmore Village Fund	General Fund
Surface Water Management Fund Surface Water Capital Fund Swamp Creek Basin Fund	Surface Water Management Fund

Interfund activity between funds combined for financial statement purposes has been eliminated.

The 2013-2014 biennial appropriated expenditures were amended on March 25 and December 2, 2013 as follows:

Fund	2013-2014 Adopted Budget	2013 Budget Amendments	Amended 2013-2014 Appropriated Expenditures
General Fund	22,103,309	3,532,923	25,636,232
Street Fund	3,840,126	-561,000	3,279,126
Public Art Fund	1,000	0	1,000
Park Impact Fee Fund	220,000	839,000	1,059,000
Transportation Impact Fee Fund	792,500	30,000	822,500
Real Estate Excise Tax Fund	2,167,250	589,800	2,757,050
Park Capital Fund	620,000	1,177,000	1,797,000
Transportation Capital Fund	10,900,750	1,346,087	12,246,837
Surface Water Management Fund	6,540,126	517,022	7,057,148
Equipment Replacement Fund	276,250	0	276,250
Transportation Benefit District	535,000	0	535,000

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

Fund	Amended 2013-2014 Appropriated Expenditures	2013 Actual Expenditures	Variance
General Fund	25,636,231	11,832,956	13,803,275
Street Fund	3,279,126	1,222,020	2,057,106
Public Art Fund**	1,000	1,507	-507
Park Impact Fee Fund	1,059,000	297,921	761,079
Transportation Impact Fee Fund	822,500	248,000	574,500
Real Estate Excise Tax Fund	2,757,050	1,181,929	1,575,121
Park Capital Fund	1,797,000	416,605	1,380,395
Transportation Capital Fund	12,246,837	1,636,821	10,610,016
Surface Water Management Fund	7,057,148	1,766,497	5,290,651
Equipment Replacement Fund	276,250	57,389	218,861
Transportation Benefit District	535,000	5,000	530,000

** The 2013-2014 budget for this fund was amended by the City Council in 2014 to increase the appropriations. 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 (WPDPCC).

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 with an initial cost of \$15,000 or more 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.

The projected December 31, 2013 liability for compensated absences is \$223,780.

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. The following table displays interfund transfers during 2013:

Transfers From:		Transfers To:	
General Fund	\$736,000	Street Fund	\$1,136,000
Street Fund	25,000	Transportation Capital Fund	918,100
Park Impact Fee Fund	297,921	Park Capital Fund	409,750
Transportation Impact Fee Fund	248,000	Surface Water Management Fund	25,000
Real Estate Excise Tax Fund	1,181,929		
TOTALS	\$2,488,850		\$2,488,850

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 162 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.

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 except for the Public Art Fund as noted above.

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, 2013 are as follows:

<u>Investments</u>	<u>Balance</u>
U.S. Government Securities	\$7,850,646
Certificates of Deposit	<u>2,526,148</u>
Total	\$10,376,794
<u>Cash</u>	
Local Govt. Investment Pool	\$1,241,499
Bank and petty cash balance	5,613,314
Flexible Spending balance	<u>7,217</u>
Total	\$6,862,030
Total Cash & Investments	<u>\$17,238,824</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 levy for 2013 was \$1.64499 per \$1,000 on an assessed valuation of \$2,585,486,453 for a total regular levy of \$4,218,730.

NOTE 5 – INTERFUND LOANS AND ADVANCES

There was one interfund loan approved by the City Council in 2012 which was repaid in 2013. The following table displays interfund loan activity during 2013:

Borrowing Fund	Lending Fund	Balance 1/1/2013	New Loans	Repayments	Balance 12/31/2013
Capital Projects Fund	General Fund	\$1,200,000	\$0	\$1,200,000	\$0
	TOTALS	\$1,200,000	\$0	\$1,200,000	\$0

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, 2013, remaining debt service, including principal and interest is \$136,419.

Year	Principal	Interest	Total
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 2013.

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 – Joint Ventures

Emergency Services Coordinating Agency

The Emergency Services Coordinating Agency (ESCA) was established by an inter-local agreement in 1994 to provide joint organization of emergency management. The Agency's jurisdiction includes the cities of Brier, Edmonds, Kenmore, Lake Forest Park, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodinville and the town of Woodway. The Agency assists its member cities and town in managing emergency responses and disaster preparedness. An appointed, 10-member Board of Directors governs the Agency. The Board is composed of the Mayors from the 10 member cities and town or his or her designee. The Agency's six employees coordinate the planning, mitigation, response and recovery efforts of its member agencies. Each member city is responsible for contributing to operating revenue based on population. The City of Kenmore's contribution to the ESCA operating budget was \$49,476 in 2013.

Financial information for ESCA can be obtained from the Agency's administrative office at 2901 228th St SW, Ste. A, Brier, WA 98036.

A Regional Coalition for Housing (ARCH)

In November 1992, King County and the cities of Bellevue, Redmond, and Kirkland joined together to establish A Regional Coalition for Housing (ARCH). Since its inception, the Cities of Beau Arts Village, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Mercer Island, Newcastle, Sammamish, Woodinville, and Yarrow Point have joined ARCH.

The purpose of ARCH is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by combining public funding with private-sector resources. Operating funding is provided by the member cities. ARCH identifies and prioritizes projects which the member cities fund directly through their own grants, Community Development Block Grants, and HUD grants. ARCH is governed by an Executive Board composed of the chief executive officer from each member. The Executive Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board. Each member city is responsible for contributing operating revenues as determined from the ARCH annual budget. Contributions from the member cities are based on each member's population. The City of Kenmore's contribution in 2013 was \$25,564 (4.3 percent of the Coalition's budget).

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution the agreement, as amended, provides for distribution of net position among members based on the percentage of the total annual contributions during the period of the Agreement paid by each member. The City's share of cash or investments is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16225 NE 87th Street, Redmond, WA 98052.

eCityGov Alliance

On March 25, 2002, the City of Bellevue City Council unanimously adopted a resolution establishing the eCityGov Alliance between the City of Bellevue and the Cities of Bothell, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish and Snoqualmie. Since then, additional cities and agencies have joined. The Alliance establishes on-line services through a jointly operated internet portal. In 2014 eCityGov Alliance became a non-profit corporation.

Expenditures consist of capital and operations costs as specified in the budget adopted by the eCityGov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. Revenues consist of annual membership fees from the members of the eCityGov Alliance. The City of Kenmore paid membership dues of \$24,689 in 2013.

The interlocal agreement may be terminated if Principals holding at least 66% of the weighted vote of all of the Principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1) property contributed without charge by any member shall revert to the contributor; (2) all property purchased after the effective date of the interlocal agreement shall be distributed to the Principals based upon each Principal's proportional ownership interest at the time of the sale of the property. The City's share of assets is deemed immaterial and thus not reflected in the financial statements.

Budget monitoring information may be obtained from City of Bellevue, Information Technology Department, c/o Mollie Purcell, P.O. Box 90012, Bellevue, WA 98009-9012

NOTE 9 – OTHER DISCLOSURES AND SUBSEQUENT EVENTS

On April 16, 2012 the 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 was assessed on vehicle registrations in Kenmore beginning June 1, 2013.

In April 2013, The City closed on the sale of one 1.24 acre parcel in Kenmore Village to Kenmore Camera for the 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 was \$1.8M. Early in 2014 a Rescission of Purchase and Sale Agreement was executed by both parties resulting in termination of the agreement.

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 160 or more units of quality multifamily apartments in downtown Kenmore, a portion of which will be affordable housing. The sale closed in May 2014 and construction is expected to begin right away.

In July 2013, the City purchased property at 6532 NE Bothell Way in the amount of \$776,000. On May 19, 2014, the City Council authorized a Purchase and Sale Agreement for purchase of waterfront property and land at 7353 NE 175th Street in the amount of \$640,000 plus closing costs.

City of Kenmore
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
259.11	Compensated Absences		223,780	14,816	1,885	236,711
	Total General Obligations:		223,780	14,816	1,885	236,711
Revenue Obligations						
252.11	Revenue Bonds to King County	5/12/2016	126,249	-	39,897	86,352
	Total Revenue Obligations:		126,249	-	39,897	86,352
	Total Liabilities:		350,029	14,816	41,782	323,063

City of Kenmore
Schedule of Liabilities
For the Year Ended December 31, 2013

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations						
252.11	Revenue Bonds to King County	5/12/2016	164,100	-	37,851	126,249
259.12	Compensated Absences		189,022	37,707	2,949	223,780
Total Revenue Obligations:			353,122	37,707	40,800	350,029
Total Liabilities:			353,122	37,707	40,800	350,029

City of Kenmore
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA-7907 522 West A	1,231,515	-	1,231,515	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA-7878 Citywide Safety Improvements	207,869	-	207,869	
Total Highway Planning and Construction Cluster:				1,439,384	-	1,439,384	
Total Federal Awards Expended:				1,439,384	-	1,439,384	

The accompanying notes are an integral part of this schedule.

CITY OF KENMORE
MCAG1268
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS
For the Year Ended December 31, 2014

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 in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
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