

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

City of Kenmore
King County

Audit Period
January 1, 2008 through December 31, 2008

Report No. 1002142

Issue Date
September 21, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 21, 2009

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
January 1, 2008 through December 31, 2008**

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Federal Summary

**City of Kenmore
King County
January 1, 2008 through December 31, 2008**

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 unqualified 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 significant 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 significant deficiencies that we consider to be material weaknesses.

We issued an unqualified 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 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 qualified 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 in Accordance
with *Government Auditing Standards*

**City of Kenmore
King County
January 1, 2008 through December 31, 2008**

Council
City of Kenmore
Kenmore, Washington

We have audited the financial statements of the City of Kenmore, King County, Washington, as of and for the year ended December 31, 2008, and have issued our report thereon dated September 2, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies

in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended for the information and use of management, the Council, federal awarding agencies and pass-through entities. 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, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2009

Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Kenmore
King County
January 1, 2008 through December 31, 2008**

Council
City of Kenmore
Kenmore, Washington

COMPLIANCE

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 are applicable to its major federal program for the year ended December 31, 2008. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Council, federal awarding agencies and pass-through entities. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2009

Independent Auditor's Report on Financial Statements

**City of Kenmore
King County
January 1, 2008 through December 31, 2008**

Council
City of Kenmore
Kenmore, Washington

We have audited the accompanying financial statements of the City of Kenmore, King County, Washington, for the year ended December 31, 2008. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the City prepares its financial statements on 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 comprehensive basis of accounting other than generally accepted accounting principles.

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 year ended December 31, 2008, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was 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 Schedule of Long-Term Debt is 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2009

Financial Section

**City of Kenmore
King County
January 1, 2008 through December 31, 2008**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2008
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SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2008
Schedule of Expenditures of Federal Awards – 2008
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CITY OF KENMORE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For The Year Ended December 31, 2008

BARS CODE		General Fund #001		Street Fund #101	
		Budget	Actual	Budget	Actual
	Beginning Net Cash and Investments	\$3,272,032	\$ 2,529,775	\$2,143,354	1,824,860
	Revenues and Other Sources				
310	Taxes	7,386,942	8,582,731		
320	Licenses and Permits	641,112	547,364		
330	Intergovernmental	434,620	433,746	12,442,604	2,454,418
340	Charges for Goods and Services	584,291	518,031		
350	Fines and Forfeits		152,659		
360	Miscellaneous	159,700	356,980	7,100	29,653
390	Other Financing Sources	246,090		3,020,176	2,956,092
	Total Revenues and Other Sources	9,452,755	10,591,511	15,469,880	5,440,163
	Total Resources	12,724,787	13,121,286	17,613,234	7,265,023
	Operating Expenditures:				
510	General Government	2,182,580	2,151,087		
520	Security of Persons and Property	3,257,760	3,057,107		
530	Physical Environment	416,081	389,222		
540	Transportation			1,320,415	1,317,918
550	Economic Environment	2,064,819	2,029,298		
560	Mental and Physical Health				
570	Culture and Recreational	572,028	524,756		
	Total Operating Expenditures	8,493,268	8,151,471	1,320,415	1,317,918
591-93	Debt Service				
594-95	Capital Outlay	64,342	38,553	16,021,495	8,318,538
	Total Expenditures	8,557,610	8,190,023	17,341,910	9,636,456
597-599	Other Financing Uses	1,721,472	1,721,472	86,400	-
	Total Expenditures and Other Uses	10,279,082	9,911,495	17,428,310	9,636,456
	Excess (Deficit) of Resources Over Uses	2,445,705	3,209,791	184,924	(2,371,433)
380	Nonrevenues (Except 384)		5,038,467		2,600,000
580	Nonexpenditures (Except 584)		5,500,000		
	Ending Net Cash and Investments	\$2,445,705	\$2,748,258	\$184,924	\$228,567

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, 2008

BARS CODE		Arterial Street Fund #102		Municipal Capital Projects Fund #301	
		Budget	Actual	Budget	Actual
	Beginning Net Cash and Investments	\$508,306	1,743	\$7,403,784	2,716,022
	Revenues and Other Sources				
310	Taxes			1,215,000	820,022
320	Licenses and Permits				
330	Intergovernmental	13,035,796	14,221,886		64,044
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	923,316	22,986	314,660	220,694
390	Other Financing Sources	1,196,420	1,196,420		
	Total Revenues and Other Sources	15,155,532	15,441,291	1,529,660	1,104,760
	Total Resources	15,663,838	15,443,034	8,933,444	3,820,782
	Operating Expenditures:				
510	General Government			450	75
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	-	-	450	75
591-93	Debt Service		127,176		
594-95	Capital Outlay	15,608,274	10,178,587	4,947,170	643,504
	Total Expenditures	15,608,274	10,305,762	4,947,620	643,579
597-599	Other Financing Uses			195,492	2,375,162
	Total Expenditures and Other Uses	15,608,274	10,305,762	5,143,112	3,018,741
	Excess (Deficit) of Resources Over Uses	55,564	5,137,272	3,790,332	802,042
380	Nonrevenues (Except 384)		8,200,000		6,900,000
580	Nonexpenditures (Except 584)		11,905,000		5,300,000
	Ending Net Cash and Investments	\$55,564	\$1,432,272	\$3,790,332	\$2,402,042

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, 2008

BARS CODE		Capital Projects Fund #302		Surface Water Management Fund #401	
		Budget	Actual	Budget	Actual
	Beginning Net Cash and Investments	\$11,150,886	11,598,180	\$3,877,397	4,113,561
	Revenues and Other Sources				
310	Taxes	10,338	11,125		
320	Licenses and Permits				
330	Intergovernmental		12,500	19,440	193,732
340	Charges for Goods and Services			766,420	766,047
350	Fines and Forfeits				
360	Miscellaneous	899,820	978,954	91,620	140,489
390	Other Financing Sources	1,150,000	1,150,000		
	Total Revenues and Other Sources	2,060,158	2,152,579	877,480	1,100,269
	Total Resources	13,211,044	13,750,759	4,754,877	5,213,830
	Operating Expenditures:				
510	General Government	138,300	142,043		
520	Security of Persons and Property				
530	Physical Environment		7,798	667,313	539,269
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreational				
	Total Operating Expenditures	138,300	149,840	667,313	539,269
591-93	Debt Service			47,740	
594-95	Capital Outlay	5,812,500	1,584,332	436,470	532,174
	Total Expenditures	5,950,800	1,734,172	1,151,523	1,071,442
597-599	Other Financing Uses			349,570	277,350
	Total Expenditures and Other Uses	5,950,800	1,734,172	1,501,093	1,348,792
	Excess (Deficit) of Resources Over Uses	7,260,244	12,016,586	3,253,784	3,865,037
380	Nonrevenues (Except 384)				
580	Nonexpenditures (Except 584)				
	Ending Net Cash and Investments	\$7,260,244	\$12,016,586	\$3,253,784	\$3,865,037

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, 2008

Special Revenue Fund	Public Art Fund #110		Park Impact Fee Fund #120	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$64,877	65,239	\$640,501	842,540
Revenues and Other Financing Sources	3,244	2,640	179,923	140,084
Total Resources	68,121	67,878	820,424	982,624
Expenditures and Other Financing Uses	500	500	470,000	6,284
Excess (Deficit) of Resources Over Uses	67,621	67,378	350,424	976,340
Nonrevenues (Except 384)	0	0	0	0
Nonexpenditures (Except 584)	0	0	0	0
Ending Net Cash and Investments	\$67,621	\$67,378	\$350,424	\$976,340

Special Revenue Fund	Transportation Impact Fee Fund #121			
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$833,963	988,063		
Revenues and Other Financing Sources	210,540	158,024		
Total Resources	1,044,503	1,146,088		
Expenditures and Other Financing Uses	1,000,000	1,000,000		
Excess (Deficit) of Resources Over Uses	44,503	146,088		
Nonrevenues (Except 384)	0	0		
Nonexpenditures (Except 584)	0	0		
Ending Net Cash and Investments	\$44,503	\$146,088		

Fund Type:	Strategic Reserve Fund #450			
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$955,582	946,346		
Revenues and Other Financing Sources	104,922	111,287		
Total Resources	1,060,504	1,057,633		
Expenditures and Other Financing Uses	0	0		
Excess (Deficit) of Resources Over Uses	1,060,504	1,057,633		
Nonrevenues (Except 384)	0	0		
Nonexpenditures (Except 584)	0	0		
Ending Net Cash and Investments	\$1,060,504	\$1,057,633		

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, 2008

Internal Service Fund	Equipment Replacement Fund #501		Budget	Actual
	Budget	Actual		
Beginning Net Cash and Investments	\$429,718	\$440,823		
Revenues and Other Financing Sources	80,995	79,220		
Total Resources	510,713	520,042		
Expenditures and Other Financing Uses	92,950	9,685		
Excess (Deficit) of Resources Over Uses	417,763	510,358		
Nonrevenues (Except 384)	0	0		
Nonexpenditures (Except 584)	0	0		
Ending Net Cash and Investments	\$417,763	\$510,358		

Trust & Agency Funds	Trust & Agency Fund #650		Budget	Actual
	Budget	Actual		
Beginning Net Cash and Investments	\$0	291,199		
Revenues and Other Financing Sources	0	0		
Total Resources	0	291,199		
Expenditures and Other Financing Uses	0	0		
Excess (Deficit) of Resources Over Uses	0	291,199		
Nonrevenues (Except 384)	0	27,626		
Nonexpenditures (Except 584)	0	49,716		
Ending Net Cash and Investments	\$0	\$269,109		

Fund Type:			Budget	Actual
	Budget	Actual		
Beginning Net Cash and Investments				
Revenues and Other Financing Sources				
Total Resources				
Expenditures and Other Financing Uses				
Excess (Deficit) of Resources Over Uses				
Nonrevenues (Except 384)				
Nonexpenditures (Except 584)				
Ending Net Cash and Investments				

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

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 revenues that are legally restricted or designated to finance particular activities of the City of Kenmore.

Capital Project Funds

These funds account for financial resources, which are designated for the acquisition or construction of general government capital projects.

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.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

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

Biennial appropriated budgets are adopted for all governmental and proprietary funds. The financial statements include budgetary comparisons for those funds.

Biennial appropriated budgets are adopted at the fund level. The budgets constitute the legal authority for expenditures at that level. Biennial appropriations for all funds lapse at the end of the two year fiscal period.

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.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

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. Fixed Assets

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

H. 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.

I. Long-Term Debt

See Note 6.

J. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of operating transfers in and operating transfers out.

Operating transfers were made in accordance with the adopted annual budget. The following table displays interfund transfers during 2008:

Transfers From:		Transfers To:	
General Fund	\$1,721,472	Street Fund	\$2,956,092
Municipal Capital Fund	2,375,162	Arterial Street Fund	1,196,420
Transportation Impact Fee Fund	1,000,000	Capital Projects Fund	1,150,000
Surface Water Management Fund	277,350	Strategic Reserve Fund	71,472
TOTALS	\$5,373,984		\$5,373,984

K. 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.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

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 129 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 in the 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 sub limits 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.

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.

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.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

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.

Cash and Investments by type as of December 31, 2008 are as follows:

<u>Investments</u>	<u>Balance</u>
U.S. Government Securities	\$4,003,280
Certificates of Deposit	<u>5,882,122</u>
Total	<u>\$9,885,402</u>
<u>Cash</u>	
Local Govt. Investment Pool	2,009,658
Bank and petty cash balance	<u>13,824,607</u>
Total Cash and Investments	<u>\$25,719,667</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 2008 was \$1.325 per \$1,000 of assessed valuation that totaled \$2,919,522,233. For 2008, the total regular levy was \$3,876,913.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2008:

Borrowing Fund	Lending Fund	Balance 1/1/2008	New Loans	Repayments	Balance 12/31/2008
Arterial Street Fund	Municipal Capital Fund	\$4,900,000	\$3,700,000	\$6,900,000	\$1,700,000
Arterial Street Fund	General Fund	\$1,005,000	\$4,500,000	\$5,005,000	\$ 500,000
Street Fund	General Fund	\$0	\$1,000,000	\$0	\$1,000,000
Street Fund	Municipal Capital Fund	\$0	\$1,600,000	\$0	\$1,600,000
	TOTALS	\$5,905,000	\$10,800,000	\$11,905,000	\$4,800,000

NOTE 6 – LONG-TERM DEBT

Upon incorporation in 1998, the City of Kenmore assumed its proportional share of 1996 King County Revenue Bonds. As of December 31, 2008, remaining debt service, including principal and interest is \$363,784.

Year	Principal	Interest	Total
2009	\$30,890	\$14,583	\$45,473
2010	\$32,413	\$13,060	\$45,473
2011	\$34,143	\$11,330	\$45,473
2012	\$35,950	\$9,523	\$45,473
2013-2016	\$164,099	\$17,793	\$181,892

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 2008.

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.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

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

Disposition and Development Agreement

In June 2006, the City of Kenmore and Kenmore Partners LLC executed an Exclusive Negotiating and Plan Preparation agreement to provide for planning, design and development of the City owned 9.6 acre downtown site and possible acquisition of the site. Ordinance 07-0262 passed by Council 7/9/07 authorized the City Manager to execute the Disposition and Development Agreement (DDA) with Kenmore Partners. The DDA, and subsequent amendments #1 through #5, outline the key components and milestones for sale of the City-owned, 9.6-acre site known as Kenmore Village to Kenmore Partners for redevelopment. Kenmore Village is anticipated to be a mixed-use “village” of housing, significant retail, open space and a central gathering space, completed in three phases, that will be the centerpiece of a newly revitalized downtown Kenmore.

In June 2009, a proposed administrative amendment (#6) to the DDA will be considered. Given the current uncertainty in the real estate market, capital market and economy, additional time is needed for the City and Kenmore Partners to negotiate and fully consider substantive amendments to the DDA, such as extending closing dates. Terms of the DDA indicate Phase 1 closing December 15, 2009 but it is likely that this date will be extended. Substantive amendments to the DDA will require a public hearing anticipated in the fall of 2009.

City Hall Construction Project

On March 9, 2009, the City Council awarded a bid for construction of a new city hall in the amount of \$8,581,897. A total project budget of \$14,421,721 was also approved.

The new Kenmore City Hall will provide an enlarged facility that will include Council Chambers, community meeting room, city administration offices and space within the building for future expansion. The building is to be an “essential facility” designed to a higher seismic performance than standard buildings, and include emergency power generation. The Council Chambers and executive session room are intended to function as an emergency operation center. Additionally, the Council Chambers, community meeting room and conference rooms will serve as a resource to the residents of Kenmore for community and club events.

The site development includes a temporary skate park to replace the one being displaced by the Kenmore Village development. The site provides for 39 underground and 22 above ground parking spaces and is located in the city of Kenmore's emerging downtown core along 68th Avenue NE between NE 181st and NE 182nd Streets. The project is expected to be completed in spring 2010.

CITY OF KENMORE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2008

Also, on April 6, 2009, the City Council approved Ordinance No. 09-0296 authorizing a limited tax general obligation bond in the principal amount not to exceed \$4,000,000 for the purpose of financing a portion of the construction costs of the new city hall. The term of the bond is five years.

CITY OF KENMORE, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
For The Year Ending December 31, 2008

GO DEBT
 REVENUE DEBT
 ASSESSMENT DEBT
 REFUNDED DEBT
 OTHER DEBT

I.D. NO. AND CLASS DESCRIPTION	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	BEGINNING OUTSTANDING DEBT	AMOUNT ISSUED IN CURRENT YR.	BARS CODE FOR RECEIPT	RECEIVING FUND NUMBER	AMOUNT REDEEMED IN CURRENT YR.	BARS CODE FOR REDEMPTION	REDEEMING FUND NUMBER	ENDING OUTSTANDING DEBT
REVENUE BONDS TO KING COUNTY (City of Kenmore assumed these upon incorporation in 1998)	SURFACE WATER MGT	1996	2016	\$326,843	\$0	N/A	N/A	(\$29,348)	401.000.031.539.39.7900	401	\$ 297,495
TOTAL				\$326,843	\$0			(\$29,348)			\$297,495

**CITY OF KENMORE
MCAG 1268**

Schedule 16

**SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
For the Year Ended December 31, 2008**

1	2	3	4	5	
Grantor: Pass-Through Grantor Program Title	Federal Program Name	Federal CFDA Number	Other Identification Number	Current Year Expenditures from Pass Through Awards	Footnote Reference
Department of Homeland Security:					
Washington State Military Dept.	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1825-DR-WA	49,220	2
Washington State Military Dept.	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1734-DR-WA	113,821	2
TOTAL DEPARTMENT OF HOMELAND SECURITY				163,040	
Department of Justice					
Washington State Dept of CTED	Edward Byrne Memorial Justice Assistance Grant Program Safe and Drug-Free Communities Unit Justice Assistance Grant Local Distribution Program	16.738	IAA No. F07-66201-121	6,856	2
TOTAL DEPARTMENT OF JUSTICE				6,856	
Department of Transportation National Highway Traffic Safety Administration (NHTSA):					
Washington Traffic Safety Commission	Occupant Protection	20.602	Night Time Seat Belt Enforcement	3,981	2
TOTAL DEPARTMENT OF TRANSPORTATION				3,981	
FHWA:					
Washington State Dept of Transportation Phase II	Highway Planning and Construction	20.205	STPH 0522(044) LA 6145	375,078	2
Washington State Dept of Transportation Overlay and 83rd PI NE Signal	Highway Planning and Construction	20.205	STPH 0522(044) #GCA5044	87,939	2
Washington State Dept of Transportation Phase I	Highway Planning and Construction	20.205	STPF 0522(043) LA6138	896,047	2
Washington State Dept of Transportation Phase I	Highway Planning and Construction	20.205	STPFSTPULSTPE0522(048) LA6408	3,317,028	2
TOTAL FHWA				4,676,091	
TOTAL FEDERAL AWARDS EXPENDED				4,849,968	

The accompanying notes to the Schedule of Expenditures of Federal Awards 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, 2008**

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 - INDIRECT COST RATE

The amounts expended do not include indirect cost recovery.

NOTE 4 - AMOUNTS AWARDED TO SUBRECIPIENTS

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

NOTE 5 - 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 in cooperation 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 our 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 continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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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Deputy Chief of Staff
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Director of Audit
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