

Washington State Auditor's Office
Financial Statements Audit Report

City of Woodinville
King County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010900

Issue Date
December 23, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

December 23, 2013

Council
City of Woodinville
Woodinville, Washington

Report on Financial Statements

Please find attached our report on the City of Woodinville's financial statements.

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

Sincerely,

**TROY KELLEY
STATE AUDITOR**

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

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

Council
City of Woodinville
Woodinville, 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 Woodinville, King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 10, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

December 10, 2013

Independent Auditor's Report on Financial Statements

City of Woodinville King County January 1, 2012 through December 31, 2012

Council
City of Woodinville
Woodinville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Woodinville, King County, Washington, for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Purpose of this Report

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

TROY KELLEY
STATE AUDITOR

December 10, 2013

Financial Section

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

FINANCIAL STATEMENTS

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CITY OF WOODINVILLE

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS CODE		Total for All Funds	001 General	101 Street
Beginning Cash and Investments				
308.10	Reserved	\$2,356,745	\$2,204,573	\$0
308.80	Unreserved	\$23,446,163	\$14,215,948	\$804
388.80/588.80	Prior Period Adjustments (388.80 and 588.80)	0	0	0
Revenues and Other Sources:				
310	Taxes	9,769,877	7,554,143	
320	Licenses and Permits	374,533	191,265	
330	Intergovernmental	1,124,173	746,547	247,834
340	Charges for Goods and Services	2,121,698	162,610	
350	Fines and Penalties	11,125	11,125	
360	Miscellaneous	170,044	127,497	296
370	Capital Contributions			
390	Other Financing Sources	4,109,104		568,000
Total Revenues and Other Financing Sources		\$17,680,556	\$8,793,187	\$816,130
Total Resources		\$43,483,464	\$25,213,708	\$816,934
Operating Expenditures:				
510	General Government	2,422,313	2,399,000	
520	Public Safety	2,502,775	2,502,775	
530	Physical Environment	1,355,786	501,362	
540	Transportation	912,676	40,847	791,221
550	Economic Environment	1,294,787	179,094	
560	Mental and Physical Health			
570	Culture and Recreational	317,097		
Total Operating Expenditures		\$8,805,434	\$5,623,078	\$791,221
591-593	Debt Service	532,869		
594-595	Capital Expenditures	2,600,807	194,070	17,702
598	Other Expenditures			
Total Expenditures		\$11,939,111	\$5,817,148	\$808,924
597-599	Other Financing Uses	4,109,104	1,783,092	
Total Expenditures and Other Financing Uses		\$16,048,215	\$7,600,240	\$808,924
Excess (Deficit) of Resources Over Uses		27,435,249	17,613,469	8,010
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$2,371,773	\$2,195,665	\$0
508.80	Unreserved	\$25,063,475	\$15,417,804	\$8,010

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF WOODINVILLE

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS CODE		104	110	111
		Dev. Services	Adm. Tax	Park and Rec.
Beginning Cash and Investments				
308.10	Reserved	\$2,370	\$0	\$0
308.80	Unreserved	\$744	\$139,554	\$20,199
388.80/588.80	Prior Period Adjustments (388.80 and 588.80)	0	0	0
Revenues and Other Sources:				
310	Taxes		208,193	
320	Licenses and Permits	183,269		
330	Intergovernmental	15,581		
340	Charges for Goods and Services	557,271		142,766
350	Fines and Penalties			
360	Miscellaneous		358	(481)
370	Capital Contributions			
390	Other Financing Sources	346,000		161,700
Total Revenues and Other Financing Sources		\$1,102,121	\$208,551	\$303,985
Total Resources		\$1,105,235	\$348,105	\$324,183
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment			
540	Transportation			
550	Economic Environment	1,085,185		
560	Mental and Physical Health			
570	Culture and Recreational			317,097
Total Operating Expenditures		\$1,085,185	\$0	\$317,097
591-593	Debt Service			
594-595	Capital Expenditures			
598	Other Expenditures			
Total Expenditures		\$1,085,185	\$0	\$317,097
597-599	Other Financing Uses		92,500	
Total Expenditures and Other Financing Uses		\$1,085,185	\$92,500	\$317,097
Excess (Deficit) of Resources Over Uses		20,050	255,605	7,086
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$2,370	\$0	\$6,236
508.80	Unreserved	\$17,680	\$255,605	\$850

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF WOODINVILLE

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS CODE		114	115	116
		Park Impact	Hotel/Motel Tax	Traffic Impact
Beginning Cash and Investments				
308.10	Reserved	\$0	\$0	\$0
308.80	Unreserved	\$40,192	\$151,485	\$191,168
388.80/588.80	Prior Period Adjustments (388.80 and 588.80)			
Revenues and Other Sources:				
310	Taxes		53,850	
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services	6,300		15,529
350	Fines and Penalties			
360	Miscellaneous	57	290	300
370	Capital Contributions			
390	Other Financing Sources			
Total Revenues and Other Financing Sources		\$6,357	\$54,140	\$15,829
Total Resources		\$46,550	\$205,625	\$206,997
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment			
540	Transportation			
550	Economic Environment		30,509	
560	Mental and Physical Health			
570	Culture and Recreational			
Total Operating Expenditures		\$0	\$30,509	\$0
591-593	Debt Service			
594-595	Capital Expenditures			
598	Other Expenditures			
Total Expenditures		\$0	\$30,509	\$0
597-599	Other Financing Uses	16,000		51,662
Total Expenditures and Other Financing Uses		\$16,000	\$30,509	\$51,662
Excess (Deficit) of Resources Over Uses		30,550	175,116	155,335
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$0	\$0	\$0
508.80	Unreserved	\$30,550	\$175,116	\$155,335

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF WOODINVILLE

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS CODE		201	301	302
		Debt Service	Capital Improve.	Special Cap. Imp.
Beginning Cash and Investments				
308.10	Reserved	\$0	\$0	\$0
308.80	Unreserved	\$2,522	\$1,428,222	\$3,479,946
388.80/588.80	Prior Period Adjustments (388.80 and 588.80)		0	0
Revenues and Other Sources:				
310	Taxes		462,717	462,717
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services			
350	Fines and Penalties			
360	Miscellaneous		2,559	5,819
370	Capital Contributions			
390	Other Financing Sources	532,000		
Total Revenues and Other Financing Sources		\$532,000	\$465,276	\$468,536
Total Resources		\$534,522	\$1,893,498	\$3,948,482
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment			
540	Transportation			
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreational			
Total Operating Expenditures		\$0	\$0	\$0
591-593	Debt Service	532,869		
594-595	Capital Expenditures			
598	Other Expenditures			
Total Expenditures		\$532,869	\$0	\$0
597-599	Other Financing Uses		503,450	630,000
Total Expenditures and Other Financing Uses		\$532,869	\$503,450	\$630,000
Excess (Deficit) of Resources Over Uses		1,653	1,390,048	3,318,482
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$0	\$0	\$0
508.80	Unreserved	\$1,653	\$1,390,048	\$3,318,482

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF WOODINVILLE

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS CODE		303	316	351
		Cap. Street Resv.	Utility Taxes	SR 522/195th
Beginning Cash and Investments				
308.10	Reserved	\$0	\$0	\$0
308.80	Unreserved	\$560	\$2,040,621	\$1,315
388.80/588.80	Prior Period Adjustments (388.80 and 588.80)	0	0	0
Revenues and Other Sources:				
310	Taxes		998,105	
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services			
350	Fines and Penalties			
360	Miscellaneous	236	3,842	17
370	Capital Contributions			
390	Other Financing Sources	1,430,850		110,662
Total Revenues and Other Financing Sources		\$1,431,086	\$1,001,947	\$110,679
Total Resources		\$1,431,646	\$3,042,567	\$111,994
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment			
540	Transportation			
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreational			
Total Operating Expenditures		\$0	\$0	\$0
591-593	Debt Service			
594-595	Capital Expenditures	1,431,574		109,066
598	Other Expenditures			
Total Expenditures		\$1,431,574	\$0	\$109,066
597-599	Other Financing Uses		1,032,400	
Total Expenditures and Other Financing Uses		\$1,431,574	\$1,032,400	\$109,066
Excess (Deficit) of Resources Over Uses		72	2,010,167	2,928
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$0	\$0	\$0
508.80	Unreserved	\$72	\$2,010,167	\$2,928

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF WOODINVILLE

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS CODE		354 Parks Cap. Projects	358 Facilities Cap. Projects	361 Samm. Bridge Replacement
Beginning Cash and Investments				
308.10	Reserved	\$149,802	\$0	\$0
308.80	Unreserved	\$350	\$193,077	\$747
388.80/588.80	Prior Period Adjustments (388.80 and 588.80)	0	0	0
Revenues and Other Sources:				
310	Taxes	30,151		
320	Licenses and Permits			
330	Intergovernmental			89,916
340	Charges for Goods and Services			
350	Fines and Penalties			
360	Miscellaneous	282	395	688
370	Capital Contributions			
390	Other Financing Sources	26,000	267,892	666,000
Total Revenues and Other Financing Sources		\$56,433	\$268,287	\$756,604
Total Resources		\$206,585	\$461,365	\$757,351
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment			
540	Transportation			
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreational			
Total Operating Expenditures		\$0	\$0	\$0
591-593	Debt Service			
594-595	Capital Expenditures	13,185	131,250	251,116
598	Other Expenditures			
Total Expenditures		\$13,185	\$131,250	\$251,116
597-599	Other Financing Uses			
Total Expenditures and Other Financing Uses		\$13,185	\$131,250	\$251,116
Excess (Deficit) of Resources Over Uses		193,400	330,114	506,235
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$167,503	\$0	\$0
508.80	Unreserved	\$25,897	\$330,114	\$506,235

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF WOODINVILLE

FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS CODE		410 Surface Water Management	501 Equipment Rental	505 Unemployment Comp. Reserve
Beginning Cash and Investments				
308.10	Reserved	\$0	\$0	
308.80	Unreserved	\$652,120	\$856,363	\$30,225
388.80/588.80	Prior Period Adjustments (388.80 and 588.80)	0	0	
Revenues and Other Sources:				
310	Taxes			
320	Licenses and Permits			
330	Intergovernmental	24,294		
340	Charges for Goods and Services	1,111,215	102,694	23,313
350	Fines and Penalties			
360	Miscellaneous	26,384	1,508	
370	Capital Contributions			
390	Other Financing Sources			
Total Revenues and Other Financing Sources		\$1,161,893	\$104,202	\$23,313
Total Resources		\$1,814,013	\$960,565	\$53,538
Operating Expenditures:				
510	General Government			23,313
520	Public Safety			
530	Physical Environment	854,423		
540	Transportation		80,608	
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreational			
Total Operating Expenditures		\$854,423	\$80,608	\$23,313
591-593	Debt Service			
594-595	Capital Expenditures	452,844		
598	Other Expenditures			
Total Expenditures		\$1,307,267	\$80,608	\$23,313
597-599	Other Financing Uses			
Total Expenditures and Other Financing Uses		\$1,307,267	\$80,608	\$23,313
Excess (Deficit) of Resources Over Uses		506,746	879,957	30,225
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$0	\$0	\$0
508.80	Unreserved	\$506,746	\$879,957	\$30,225

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF WOODINVILLE

FIDUCIARY FUND RESOURCES AND USES

ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

	Total for All	
	Fiduciary	631 Deposit
Beginning Cash and Investments	\$51,513	\$51,513
Prior Period Adjustments	0	0
Revenue and Other Financing Sources	19,077	19,077
Total Resources	\$70,589	\$70,589
Expenditures And Other Financing Uses	38,831	38,831
Excess (Deficit) of Resources Over Uses	\$31,758	\$31,758
Nonrevenues (Except 384)	0	0
Nonexpenditures (Except 584)	0	0
Ending Cash and Investments	\$31,759	31,759

The Accompanying Notes Are An Integral Part Of This Statement.

City of Woodinville, Washington
Notes to the Financial Statements
January 1, 2012 through December 31, 2012

NOTE 1 - Summary Of Accounting Policies

The City of Woodinville reports financial activity using the revenue and expenditure classifications, statements, and schedules 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 Woodinville was incorporated on March 31, 1993 and operates under the laws of the State of Washington applicable to a non-charter code city with a Council-Manager form of government. A City Manager administers and a seven member City Council establishes policies, with one of its members serving as Mayor. The City Council is elected at large to four-year terms.

Reporting Entity

The City of Woodinville, hereafter referred to as the "City", is a general-purpose government and provides the following services: public safety, street improvement, parks and recreation, general administration, and planning/permitting services. The City of Woodinville uses single-entry cash basis accounting which is a departure from general accepted accounting principles (GAAP).

The combined financial statements do not include the financial position or results of operations of the following organizations:

Woodinville Water and Sewer District - Washington State authorizes water and sewer special purpose districts. Its own Board of Commissioners governs the Woodinville Water District. It may levy special benefit assessments, which are subject to county and state authorization, and are submitted to the voters for approval. The City is not financially responsible for the district's deficit, nor is it entitled to its surplus. Therefore, it is not a component unit of the City.

Woodinville Fire and Rescue District - A Washington State recognized special purpose district, the Woodinville Fire and Rescue District, is governed by its own elected Board of Five (5) Commissioners and has its own taxing authority. Therefore, it is not a component unit of the City.

A. Fund Accounting

The accounts of the City 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 single entity 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 individual fund types currently used by the City are described as follows:

Governmental Fund Types

General Fund

This fund is the primary operating fund of the City. 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 and derived from specific taxes, grants, or other sources, which are designated to finance particular activities of the City.

Debt Service Funds

This fund accounts for the accumulation of resources to pay principal, interest and related costs on certain general, long-term debt.

Capital Projects Funds

These funds account for financial resources, which are designated for the acquisition or construction of general government capital improvements, other than those financed by proprietary funds.

Proprietary Fund Types

Enterprise Funds

This fund accounts for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

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

Fiduciary Fund Types

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

Private Purpose Trust Funds

This fund report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

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 only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital 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 and Budgetary Accounting

The City of Woodinville budgets its funds in accordance with the Revised Code of Washington (RCW) 35A.33. Biennial appropriated budgets are adopted for the general fund, special revenue funds, debt service fund, capital projects funds, proprietary funds, and internal service funds on the cash basis of accounting. The financial statements include budgetary comparisons for all funds.

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

For the purpose of financial reporting the following budgeted funds are rolled-up (combined) with applicable financial statement funds:

Funds Rolled Up for Financial Statement Reporting

Budgeted Funds	Financial Statement Funds
001 General 103 Contingency 112 City Hall Replacement 113 Strategic Budget Reserve 503 Equipment Replacement	001 General
410 Surface Water Management 412 Surface Water Capital Projects	410 Surface Water Management

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 fiscal period end.

Fund	2011/2012 Actual Expenditures	2011/2012 Biennial Appropriated Amounts	Variance
001 General	\$14,616,174	\$16,917,104	\$2,300,930
101 Street	\$1,547,885	\$1,700,048	\$152,163
104 Developmental Services	\$2,173,304	\$2,371,254	\$197,950
110 Admission Tax	\$185,000	\$395,000	\$210,000
111 Parks & Rec Special	\$639,560	\$755,409	\$115,849
114 Park Impact Fee	\$16,000	\$22,000	\$6,000
115 Hotel/Motel Tax	\$48,674	\$80,000	\$31,326
116 Traffic Impact	\$790,806	\$930,312	\$139,506
201 Debt Service	\$1,064,076	\$1,064,076	\$0
301 Capital Improvement	\$709,450	\$958,000	\$248,550
302 Special Capital Improvement	\$870,000	\$3,711,000	\$2,841,000
303 Capital Street Reserve	\$3,121,827	\$3,406,000	\$284,173
316 Utility Tax	\$2,270,838	\$2,974,000	\$703,162
338 SR202/148th	\$711	\$711	\$0
339 SR522/202*	\$166,176	\$166,176	\$0
351 SR522/195th	\$879,363	\$1,015,000	\$135,637
354 Parks & Rec CIP	\$330,894	\$399,000	\$68,106
358 Facility CIP	\$145,506	\$500,000	\$354,494
361 Sammamish Bridge Repl.	\$696,209	\$7,159,000	\$6,462,791
410 Surface Water	\$2,392,269	\$2,831,341	\$439,072
501 Equipment Rental	\$151,496	\$190,000	\$38,504
505 Unemployment Comp Reserve	\$84,068	\$184,000	\$99,932
622 Affordable Housing Trust	\$0	\$0	\$0

Department Directors are authorized to transfer budgeted amounts between object classes within departments; 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's legislative body.

Procedures for Adopting the Original Budget

The City's budget procedures are mandated by Chapter 35A.33 RCW. The steps in the budget process are as follows:

- a. Prior to November 1, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City Departments during the preceding months, and balanced with revenue estimates.
- b. The City Council conducts public hearings on the proposed budget in November and December.
- c. The Council makes its adjustments to the proposed budget and adopts, by ordinance, a final balanced budget no later than December 31.
- d. Within 30 days of adoption, the final budget is available to the public.

D. Cash

The City's policy is 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 and the State Public Deposit Protection Commission.

F. Investments

See Investment NOTE 3

G. Capital Assets

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

H. Compensated Absences

The maximum number of unused vacation hours an employee may carry forward from one calendar year to the next is limited to two times the employee's annual accrual. Any leave accruals exceeding the maximum carryover on December 31st of each year will automatically be forfeited. Vacation pay is payable upon resignation, retirement, or death. Sick leave may accumulate without a ceiling and is not payable upon resignation, retirement, or death.

I. Long Term Debt

See Long-Term Debt NOTE 6

J. Other Financing Sources & Uses

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

The following schedule shows operating transfers for fiscal year 2012:

Fund Description		Transfers-In	Transfers-Out
001	General	\$0	\$1,783,092
101	Street	\$568,000	\$0
104	Developmental Services	\$346,000	\$0
110	Admission Tax	\$0	\$92,500
111	Parks & Rec Special	\$161,700	\$0
114	Park Impact Fee	\$0	\$16,000
115	Hotel/Motel Tax	\$0	\$0
116	Traffic Impact	\$0	\$51,662
201	Debt Service	\$532,000	\$0
301	Capital Improvement	\$0	\$503,450
302	Special Cap Improve	\$0	\$630,000
303	Capital Street Reserve	\$1,430,850	\$0
316	Utility Tax	\$0	\$1,032,400
351	SR522/195th	\$110,662	\$0
354	Parks & Rec CIP	\$26,000	\$0
358	Facility CIP	\$267,892	\$0
361	Sammamish Bridge Repl.	\$666,000	\$0
410	Surface Water Management	\$0	\$0
501	Equipment Rental	\$0	\$0
505	Unemployment Comp. Reserve	\$0	\$0
631	Deposit	\$0	\$0
		\$4,109,104	\$4,109,104

K. Risk Management

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

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

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

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

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

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

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

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

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.

L. Reserved and Designated Fund Balance

Reserved fund balances are both restricted resources and internally committed resources.

- **Restricted resources** are the amounts of cash and investments not available for spending due to the restrictions imposed on City by external parties (e.g., grantors, creditors, etc.).
- **Internally committed resources** are resources with limitations imposed by the City Council through a formal action (ordinance or resolution) that require a similar formal action on the same level to remove them.

Designated fund balances are resources with limitations resulting from intended use (informal action) by either legislators or managers. Designated fund balances are reported as part of the unreserved fund balance.

At the end of December 31, 2012, the City of Woodinville has a reserved fund balance of \$2,371,773 and a designated fund balance of \$1,256,323.

Reserved	001 General	104 Development Services	111 Park and Rec.	354 Parks Capital Project
Brick & Tile			6,236	
Cable PEG Fees	19,540			
City Hall Replacement	452,541			
JAG Property	86,321			
Parks Levy				130,503
Seized Assets	15,942			
Strategic Budget Reserve	1,621,322			
Tree Fund		2,370		37,000
Reserved Total	\$2,195,665	\$2,370	\$6,236	\$167,503

Brick & Tile

Per Ordinance 316 Sale of bricks and tiles, are to be spent as directed for improvements to Wilmot Park, and the costs associated with the brick and tile campaign.

Cable PEG Fees

The collection of cable PEG Fees are part of the provisions required in the cable television franchise agreement. The agreement requires the cablecasting company to collect an education and government fee, which can only be used for the purchase of cablecasting.

City Hall Replacement (established with Ordinance 274)

The funds are designated be used for the repair, other than ordinary repair and maintenance, and replacement of major components of the City Hall, excluding any equipment that would be replaced from the Equipment Replacement Fund.

JAG (Jail Advisory Group) Property

Per the City of Bellevue's Council minutes:

The Jail Advisory Group (JAG) designated the City of Bellevue lead agency for maintaining and disposing of three parcels of land abutting 116th Avenue N.E. just north of NE 12th St. These parcels were provided to cities through negotiation of the Jail Services Agreement with King County in 2002. As lead agency, Bellevue was holding the proceeds from the sale of the property on behalf of all King County cities. The total amount of proceeds is approximately \$13.1 million. The cities, through the Jail Oversight Assembly, have directed distribution of the proceeds to each city signing the Proceeds Agreement based on a methodology that utilizes an average of each city's assessed valuation and jail population.

Based upon the Oversight Assembly's approved methodology, the City of Woodinville's share of the remaining proceeds is \$86,321. Based upon the 2002 Jail Services Agreement (JSA - contract #'s 04-066 and 09-091) with King County, the proceeds must be used for the purpose of providing or contracting for secure jail beds. The City of Woodinville, however, maintains discretion over the specific use of its share of the proceeds, provided the funds are used in a manner consistent with the Jail Services Agreement.

Parks Levy

On August 21, 2007, the voters of King County approved Proposition 2, the Parks Expansion Levy, a new \$0.05, six-year, inflation adjusted property tax lid lift to expand park and recreation opportunities. One cent of the five-cent levy proceeds is to be distributed to cities in King County for specific purposes.

The Revised Code of Washington requires that funds collected or received as a result of drug-related confiscation must be expended on drug investigation related expenditures. Revenues are generated by asset seizures, confiscated/forfeited property, court dispositions requiring assessments and restitution for investigation costs. Expenditures are costs incurred for pre-hearing conferences, supplies, equipment, training and other narcotics-related investigation expenses.

Strategic Budget Reserve (established with Ordinance 334)

The funds are designated as a buffer against unanticipated and unexpected economic shortfalls that could affect normal operations. First-line funding is set at 15% of the annual operating expense. It is now fully funded.

Tree Fund

The Tree Fund is established under WMC 21.15. It was approved by the City Council as part of Ordinance 478 in March of 2009. The purpose of it is to establish a fund for developers, who cannot plant enough trees on their property to meet code by allowing them to pay into a separate tree fund. The fees must be used based on the criteria in WMC 21.15.050.

Designated	001 General	110 Admission Tax
Equipment Replacement	1,056,323	
Sports Field Replacement		200,000
Designated Total	\$1,056,323	\$200,000

Equipment Replacement (established with Ordinance 77)

The funds are designated for the replacement of fixed assets not accounted for in the Equipment Rental Fund (501).

Sports Fields Replacement

The funds are designated for the replacement of the Woodinville Sports Fields synthetic turf at the end of its useful life.

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.

NOTE 3 - Investments

The City's investments are insured, registered or held by the City or its agent in the City's name. Investments by type at December 31, 2012 are as follows:

	<u>Balance</u>
Local Government Investment Pool	\$25,287,170

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 within the month that the funds are received 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 the year 2012 was \$1.20856 per \$1,000 on an assessed valuation of \$2,469,817,013 for a total regular levy of \$2,984,922.

NOTE 5 – Interfund Loans And Advances

There was no interfund loan activity during 2012.

NOTE 6 - Long-Term Debt

The accompanying Schedule of Long Term Debt (09) provides a listing of the outstanding debt of the City and summarizes the City's debt transactions for 2012. The debt service requirements, including interest are as follows:

At December 31, 2012, the City had \$3,204,401 in outstanding limited tax general obligation (LTGO) bond debt.

LTGO Bonds			
Year	Principal	Interest	Total Debt Service Obligation
2012	\$403,461	\$129,408	\$532,869
2013	\$413,862	\$114,425	\$528,287
2014	\$433,606	\$98,971	\$532,577
2015	\$452,384	\$82,798	\$535,182
2016	\$455,324	\$66,078	\$521,402
2017-2020	\$1,449,225	\$122,964	\$1,572,189
Total	\$3,607,862	\$614,644	\$4,222,506

On May 28, 1997, the City issued \$1,675,000 in Limited Tax General Obligation Bonds (5%-5.65%), and used the proceeds to extinguish an interfund loan that was established to purchase a three-acre site. These bonds are backed up by the full faith and credit of the City of Woodinville. Advanced refunding in 2005 left \$165,000 as the remaining unrefunded portion and the bond fully matured at the end of 2007.

On July 5, 2000 the City issued \$4,990,000 in Limited Tax General Obligation Bonds, and used the proceeds to construct a new City Hall. These bonds are backed up by the full faith and credit of the City of Woodinville. Advanced refunding in 2005 left \$1,025,000 as the remaining unrefunded portion of the bond, and the bond fully matured at the end of 2010.

In August of 2005, the City issued \$4,555,392 in Limited Tax General Obligation advance refunding bonds to advance refund the City's existing general obligation bonds. The refunding bonds have a maturity date of December 2020, and an interest rate of 3.69%

NOTE 7 - Pension Plans

A. Department of Retirement Systems - Public Employees' Retirement System (PERS) Plans

Substantially all City's full-time and qualifying part-time employees participate in PERS Plan 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's financial statements. Contributions to the systems by both employee and employer are based upon 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 to:

Department of Retirement Systems
Communications Unit
PO Box 48380

B. Municipal Employees Benefit Trust (MEBT)

All City regular full-time and qualifying regular part-time employees also participate in the City's defined contribution plan. By ordinance, City Council established the City of Woodinville Employees' Retirement System in lieu of Social Security as authorized by the Federal Social Security Act (Subchapter II, 42 USCA Section 401, et. seq) and other applicable federal and state laws (RCW 41.48.050) to be effective March 31, 1993.

All regular full-time and part-time employees of the City who would normally have been eligible for coverage and benefits under the Social Security system are required to participate. Both the City and the participants are required to contribute an amount equal to the current Federal Insurance Contributions Act tax rate; provided that, the contributions shall be reduced by the amount of any Medicare contribution required by Code Section 3101 (b) (6), and 3111 (b) (6), or any other relevant statute. In 2009, the Plan was amended where all non-regular employees, including council members, are now covered under the Federal Old Age, Survivors, Disability and Health Insurance Act (Social Security).

City contributions shall also be reduced by the amount of insurance premiums necessary to fund the Employer's survivor and disability insurance programs for the then current year. Employee contributions are pre-tax and the tax rates for the Plan correspond to the FICA rate. The City's contributions for fiscal year 2012 were \$141,779 which represents its full liability based on the rate of 6.2% less the reductions for Employer's survivor and disability insurance premiums. The City's MEBT covered payroll for the year ending December 31, 2012, was \$2,644,660. There were no significant benefit changes in 2012. Assets of the Plan are not the property of the City, but are maintained in Trust at Northwest Plan Services, Inc.; therefore, the assets are not included in the accompanying financial statements.

Actuarial determinations are not required because each participant shall, at his/her normal retirement, instruct the Trustee to (a) acquire a nonforfeitable, non-transferable annuity contract, (b) pay his/her retirement benefit from his/her account (no contributions by the City or the Participant shall be added to his account after retirement), (c) pay a single sum in cash. In the event a participant terminates, the Trustee shall be instructed to pay the full amount of the participant's contributions plus the vested portion credited to his/her account.

NOTE 8 – Contingencies and Litigations

As of December 31, 2012, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims nor lawsuits, would affect materially the financial condition of the City.

Pending litigations, claims and other matters are as follows:

Roundabout Tract Y Adverse Possession. In 2007, Gorman claimed adverse possession ownership rights to Tract Y associated with the City's Roundabout road improvement project. In 2009 the Court dismissed the suit. In 2011 the Court of Appeals ruled that Gorman was entitled to take his suit to trial. This determination was later affirmed by the Supreme Court. Currently Gorman has taken no action to schedule the suit for trial. Tract Y was required to be dedicated by the owner of the Woodinville Village Property and the current owner of the property would be brought into the lawsuit to indemnify the City were it necessary for the City to purchase the property by condemnation or inverse condemnation.

Woodinville Village Development Agreement. The City contends that the money owed from a development agreement is superior to a Deed of Trust lien on the Woodinville Village property currently held by Woodinville Village Partners, LLC. No additional liability will accrue to the City if it is unsuccessful in the lawsuit.

Cell Tower Lease. The City contends that Crown Castle owes unpaid lease fees and is in breach of the lease agreement. A settlement agreement is under negotiation between the City and Crown Castle. No liability will accrue to the City if it is unsuccessful in its claim for back rent.

Utility Taxes Overpayment. New Cingular Wireless has claimed that it overpaid utility taxes to multiple Washington municipalities from November 2005 to September 2010 by remitting utility taxes on Internet services. Municipalities are prohibited by State and Federal law from collecting taxes on Internet services. The city was recently dismissed from the lawsuit brought by New Cingular without prejudice (meaning the lawsuit could be refilled). The amount of refund sought by New Cingular is not significant.

ID. No.	Description	Maturity Date	Beginning Balance 01/01/2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2012
251.11	LTGO Refunding 1997 & 2000 Bonds	12/1/2020	\$3,607,862	\$0	\$403,461	591.10.71	\$3,204,401
259.11	Compensated Absences		\$333,313	\$201,419	\$263,203	n/a	\$271,530
			\$3,941,175	\$201,419	\$666,664		\$3,475,931



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

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

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

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

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

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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Quality Assurance
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