

Washington State Auditor's Office
Financial Statements Audit Report

City of Harrington
Lincoln County

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1012240

Issue Date
July 21, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 21, 2014

Mayor and City Council
City of Harrington
Harrington, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style.

TROY KELLEY
STATE AUDITOR

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

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Schedule of Audit Findings and Responses

City of Harrington Lincoln County January 1, 2011 through December 31, 2012

1. The City should continue to improve its internal controls to ensure accurate and complete financial reporting.

Background

It is the responsibility of the City to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affected the City's ability to produce reliable financial statements.

During the prior two audits, we have communicated concerns to the Mayor, City Council and management about the City's internal controls over financial reporting.

Description of Condition

During the current audit, we identified the following weaknesses in internal controls that, when taken together, represent a significant deficiency:

- The City lacks procedures to ensure a monthly bank reconciliation is performed for all bank accounts and cash held in financial institutions is accurately reflected in the accounting records. During our audit we determined the Treasurer was not performing a monthly reconciliation of one of the City's primary bank accounts.
- The City does not have controls in place to ensure its annual financial reports are prepared in accordance with the current *Budgeting, Accounting and Reporting Systems* (BARS) manual and submitted in accordance with state law.
- The City lacked an effective review process to ensure amounts reported on the financial statements agreed to supporting records.

Cause of Condition

The City has a small staff and limited resources to dedicate to the financial reporting function. The City has had turnover in the Treasurer position. This employee is responsible for monitoring a portion of the City's accounting and financial reporting functions.

Effect of Condition

The City filed its annual report nine days after the deadline for 2011 and 76 days after the deadline for 2012. The submitted reports contained the following errors:

2011

- Managerial funds were not consolidated for reporting purposes as required. General government, street, cemetery, water and sewer financial activities were reported in multiple funds and should have been reported in only one fund for each activity.
- Inter-fund activities totaling \$96,000 were included in the financial reports. If the funds were properly consolidated, the transactions would have been eliminated.
- The City reported all of its cash balances as unreserved when at least \$299,000 in three funds should have been reported as reserved for specific purposes. The City also failed to include the required footnote disclosure related to reserved fund balances.
- Beginning cash balances did not agree to prior year ending balances by a total of \$225,000 in two funds.

2012

- Managerial funds were not consolidated for reporting purposes as required. General government, street, cemetery, water and sewer financial activities were reported in multiple funds and should have been reported in only one fund for each activity.
- Inter-fund activities totaling \$106,000 were included in the financial reports. If the funds were properly consolidated, the transactions would have been eliminated.
- The City reported all of its cash balances as unreserved when at least \$305,000 in three funds should have been reported as reserved for specific purposes. The City also failed to include the required footnote disclosure related to reserved fund balances.
- Beginning cash balances did not agree to prior year ending balances by a total of \$9,000 in two funds
- The City created a new fund to report garbage collection and did not report the fund's financial activity in its financial statements
- Beginning in 2012, clearing funds were no longer to be reported in the financial reports. The City continued to report its Claims Clearing and Payroll Clearing funds.

Recommendation

We recommend the City strengthen internal controls and dedicate the resources necessary to ensure the following:

- Timely reconciliations of all bank accounts on a monthly basis.
- The financial statements, footnotes, notes and schedules are prepared in compliance with the most current *Budgeting, Accounting and Reporting Systems* (BARS) manual guidance and submitted to our Office within 150 days after the close of the fiscal year.
- A knowledgeable and detailed review of the City's financial activities, financial statements, supporting schedules, and notes to ensure they are complete and accurate. The City may wish to consider the use of a checklist or other reviewing tool to catch errors. Examples of such checklists may be found on the Client Support section of our website, www.sao.wa.gov.

City's Response

In response to the State Auditor's recommendation for the 2011 and 2012 annual reports, the City has several comments. The cause of the condition is stated correctly, the current Treasurer took office on January 1, 2012. The training and the tasks devolving upon the Treasurer were immense. The City Clerk had to maintain all of her regular duties, as well as, explain to the new Treasurer the tasks that were needed to be done to produce the needed reports to keep the system working. This took away from the City Clerk's time and resulted in the failure to timely meet the deadline for the 2011 and 2012 annual reports. In 2012, not all of the tasks were able to be performed in the final correct fashion resulting in a need to produce corrected reports, which in turn affected the subsequent reports being done with the ripple effect of corrections needed taking much longer to have the correct data available.

This in turn, added to the City Clerk's duties and cut deeply into her already scarce available time to run the office, and produced an overload on the City Clerk requiring her to work beyond normal working hours, which she did. Unfortunately, there were other duties such as the update of the BARS manual which did not get done in a timely fashion. The City has always looked upon the State Auditor's Office as a source of help to get its reports correct, and has relied that corrections can be made to perfect the final report. To this end, 2012 resulted in the delays in completing the two annual reports.

The City is in the process of looking for a deputy clerk to assist the present financial team, and hopes that with this addition we can meet the recommendations set down as desirable by the State Auditor.

Auditor's Remarks

We wish to thank the City's staff and management for their cooperation and assistance during our audit. We look forward to reviewing the City's corrective action during the next audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2007 Revision - Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 3. Accounting Principles and Internal Controls, Section 3. Controls over Financial Reporting states:

This objective refers to fair presentation of financial statement and required schedules in all material respects in accordance in with the stated basis of accounting.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for

financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.

- Correctly accounting for all financial events – Controls should ensure that:
 - Only valid transactions are recorded and reported.
 - All transactions occurred during the period are recorded and reported.
 - Transactions are recorded and reported at properly valued and calculated amounts.
 - Recorded and reported transactions accurately reflect legal rights and obligations.
 - Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

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 Harrington
Lincoln County
January 1, 2011 through December 31, 2012**

Mayor and City Council
City of Harrington
Harrington, 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 Harrington, Lincoln County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated July 14, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 1, that we consider to be a significant deficiency.

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.

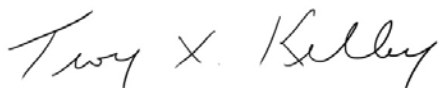
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

July 14, 2014

Independent Auditor's Report on Financial Statements

City of Harrington Lincoln County January 1, 2011 through December 31, 2012

Mayor and City Council
City of Harrington
Harrington, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Harrington, for the years ended December 31, 2012 and 2011, on the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

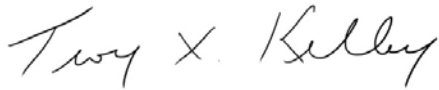
Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial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

Purpose of this Report

The report is intended for the information and use of the management and the Mayor and City 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 July 14, 2014 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

July 14, 2014

Financial Section

**City of Harrington
Lincoln County
January 1, 2011 through December 31, 2012**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2012
Fund Resources and Uses Arising from Cash Transactions – 2011
Notes to Financial Statements – 2012
Notes to Financial Statements – 2011

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2012
Schedule of Liabilities – 2011

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 Current Expense	101 Street	103 Criminal Justice
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	299,419	0	0	19,443
30880	Beg Fund Bal-Unreserved	462,781	125,438	-1,690	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	139,981	134,433	0	5,046
320	Licenses & Permits	163	163	0	0
330	Intergovernmental Revenues	34,022	22,864	9,724	1,434
340	Charges for Goods and Services	269,977	60	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	78,393	51,384	160	1
Total Operating Revenues:		522,535	208,903	9,884	6,481
Operating Expenditures					
510	General Government	67,553	67,553	0	0
520	Public Safety	17,062	17,062	0	0
530	Utilities And Environment	232,848	0	7,368	0
540	Transportation	55,709	0	55,709	0
550	Economic Environment	756	756	0	0
560	Mental & Physical Health	115	115	0	0
570	Culture And Recreation	71,414	65,758	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		445,458	151,244	63,077	0
Net Operating Increase (Decrease):		77,078	57,659	-53,193	6,481
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	2,698	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	88,702	5,000	58,500	0
Total Nonoperating Revenues:		91,400	5,000	58,500	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	8,182	8,026	0	0
591-593	Debt Service	57,702	0	0	0
594-595	Capital Expenditures	15,055	0	0	0
597	Transfers-Out	88,702	69,202	1,500	5,000
Total Nonoperating Expenditures:		169,640	77,228	1,500	5,000
Increase (Decrease) in Cash and Investments		-1,163	-14,569	3,807	1,481
Ending Cash and Investments					
50810	End Fund Bal-Reserved	305,626	0	0	20,926
50880	End Fund Balance-Unreserved	455,412	110,868	2,117	0

The accompanying notes are an integral part of this Statement.

BARS Code		104 Cemetery	105 Library	401 Water	403 Sewer
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	264,445	0	0	0
30880	Beg Fund Bal-Unreserved	252,271	893	38,065	47,804
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	2,750	0	84,912	182,254
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	25,514	970	69	294
Total Operating Revenues:		28,264	970	84,981	182,549
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	32,740	0	74,966	117,773
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	5,657	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		32,740	5,657	74,966	117,773
Net Operating Increase (Decrease):		-4,476	-4,687	10,015	64,776
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	2,656	43	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	7,500	13,000	0
Total Nonoperating Revenues:		2,656	7,543	13,000	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	68	88
591-593	Debt Service	0	0	0	57,702
594-595	Capital Expenditures	0	2,055	0	13,000
597	Transfers-Out	0	0	13,000	0
Total Nonoperating Expenditures:		0	2,055	13,068	70,790
Increase (Decrease) in Cash and Investments		-1,820	801	9,947	-6,014
Ending Cash and Investments					
50810	End Fund Bal-Reserved	268,667	0	0	0
50880	End Fund Balance-Unreserved	246,228	1,695	48,012	41,790

The accompanying notes are an integral part of this Statement.

BARS Code		409 Capital Improve.	420 Garbage Fund
Beginning Cash and Investments			
30810	Beg Fund Bal-Reserved	15,531	0
30880	Beg Fund Bal-Unreserved	0	0
38800/58800	Prior Period Adjustments, net	0	0
Operating Revenues			
310	Taxes	501	0
320	Licenses & Permits	0	0
330	Intergovernmental Revenues	0	0
340	Charges for Goods and Services	0	0
350	Fines & Penalties	0	0
360	Miscellaneous Revenues	2	0
Total Operating Revenues:		503	0
Operating Expenditures			
510	General Government	0	0
520	Public Safety	0	0
530	Utilities And Environment	0	0
540	Transportation	0	0
550	Economic Environment	0	0
560	Mental & Physical Health	0	0
570	Culture And Recreation	0	0
598	Intergovernmental Payments	0	0
Total Operating Expenditures:		0	0
Net Operating Increase (Decrease):		503	0
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	0	0
391-393	Debt Proceeds	0	0
397	Transfers-In	0	4,702
Total Nonoperating Revenues:		0	4,702
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	0	0
591-593	Debt Service	0	0
594-595	Capital Expenditures	0	0
597	Transfers-Out	0	0
Total Nonoperating Expenditures:		0	0
Increase (Decrease) in Cash and Investments		503	4,702
Ending Cash and Investments			
50810	End Fund Bal-Reserved	16,034	0
50880	End Fund Balance-Unreserved	0	4,702

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2011

BARS Code		Total for All funds*	001 Current Expense	101 Street	103 Criminal Justice
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	293,213	0	0	18,442
30880	Beg Fund Bal-Unreserved	438,666	106,777	2,974	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	134,353	128,911	0	4,554
320	Licenses & Permits	438	438	0	0
330	Intergovernmental Revenues	32,301	21,958	8,898	1,445
340	Charges for Goods and Services	324,612	56,346	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	38,704	11,129	908	1
Total Operating Revenues:		530,408	218,782	9,806	6,000
Operating Expenditures					
510	General Government	78,766	78,766	0	0
520	Public Safety	15,631	15,631	0	0
530	Utilities And Environment	254,508	46,722	0	0
540	Transportation	58,470	0	58,470	0
550	Economic Environment	775	775	0	0
560	Mental & Physical Health	101	101	0	0
570	Culture And Recreation	18,355	11,942	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		426,606	153,937	58,470	0
Net Operating Increase (Decrease):		103,802	64,845	-48,664	6,000
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	5	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	56,000	5,000	44,000	0
Total Nonoperating Revenues:		56,005	5,000	44,000	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	28,169	184	0	0
591-593	Debt Service	29,716	0	0	0
594-595	Capital Expenditures	15,605	0	0	0
597	Transfers-Out	56,000	51,000	0	5,000
Total Nonoperating Expenditures:		129,490	51,184	0	5,000
Increase (Decrease) in Cash and Investments		30,317	18,661	-4,664	1,000
Ending Cash and Investments					
50810	End Fund Bal-Reserved	299,419	0	0	19,443
50880	End Fund Balance-Unreserved	462,780	125,438	-1,691	0

The accompanying notes are an integral part of this Statement.

BARS Code		104 Cemetery	105 Library	401 Water	403 Sewer
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	260,130	0	0	0
30880	Beg Fund Bal-Unreserved	265,625	2,330	26,028	34,932
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	2,125	0	85,828	180,313
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	26,195	27	440	3
Total Operating Revenues:		28,320	27	86,268	180,316
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	36,310	0	74,233	97,243
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	6,413	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		36,310	6,413	74,233	97,243
Net Operating Increase (Decrease):		-7,990	-6,386	12,035	83,073
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	5	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	7,000	0	0
Total Nonoperating Revenues:		0	7,005	0	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	27,985
591-593	Debt Service	0	0	0	29,716
594-595	Capital Expenditures	1,050	2,055	0	12,500
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		1,050	2,055	0	70,201
Increase (Decrease) in Cash and Investments		-9,040	-1,436	12,035	12,872
Ending Cash and Investments					
50810	End Fund Bal-Reserved	264,445	0	0	0
50880	End Fund Balance-Unreserved	252,271	893	38,065	47,804

The accompanying notes are an integral part of this Statement.

BARS Code		409 Capital Improve.
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	14,641
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	888
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	1
Total Operating Revenues:		889
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities And Environment	0
540	Transportation	0
550	Economic Environment	0
560	Mental & Physical Health	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		0
Net Operating Increase (Decrease):		889
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		0
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		0
Increase (Decrease) in Cash and Investments		889
Ending Cash and Investments		
50810	End Fund Bal-Reserved	15,531
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harrington 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 Harrington was incorporated on 1902 and operates under the laws of the state of Washington applicable to a fourth class code city with a mayor-council form of government. The City of Harrington is a general purpose government and provides utilities, street and cemetery services. The City of Harrington uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City of Harrington 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-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Harrington 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 Harrington:

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

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These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Harrington.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds

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

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

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

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

Agency Funds

These funds are used to account 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 Harrington also 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

The City adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
001 Current Expense Fund:	\$261,070.00	\$218,245.41	\$42,824.59
002 Treasurer's Reserve	\$ 30,000.00	\$ 0.00	\$30,000.00
003 Developmental Reserve	\$ 100,177.00	\$ 44,423.64	\$55,753.36
100 Street Construction	\$ 60,531.00	\$ 0.00	\$60,531.00
101 Street	\$120,591.00	\$ 63,077.16	\$57,513.84
102 Arterial Street	\$4,670.00	\$1,500.00	\$ 3,170.00
103 Criminal Justice	\$ 20,198.00	\$ 5,000.00	\$ 15,198.00
104 Cemetery	\$ 51,475.00	\$ 33,828.33	\$ 17,646.67
105 Library	\$ 11,770.00	\$ 7,711.13	\$ 4,058.87
106 Cemetery Endowment	\$406,590.00	\$ 2,655.64	\$403,934.36
107 Cemetery Improvement	\$ 14,670.00	\$ 493.21	\$ 14,176.79
109 Intergovernmental Res.	\$ 10,007.00	\$ 0.00	\$ 10,007.00
401 Water	\$119,856.00	\$ 88,034.04	\$ 31,821.96
402 Water Reserve	\$ 18,000.00	\$ 0.00	\$ 18,000.00
403 Sewer	\$255,500.00	\$188,562.45	\$ 66,937.55
404 Water Deposit	\$ 569.00	\$ 0.00	\$ 569.00
405 Sewer Reserve	\$ 18,000.00	\$ 0.00	\$ 18,000.00
407 Sewer Bond Redemption	\$ 126,715.00	\$ 57,701.58	\$ 69,013.42
408 Sewer Construction	\$ 13.39	\$ 0	\$ 13.39
409 Capital Improvement	\$ 18,306.00	\$ 0.00	\$ 18,306.00
410 Sewer Bond Repayment	\$ 34,907.00	\$ 0.00	\$ 34,907.00
420 Garbage	\$70,965.00	\$50,633.21	\$20,331.79
Total	\$1,754,580.39	\$769,891.90	\$984,688.49

Budgeted amounts are authorized to be transferred between (departments within any fund/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 legislative body.

D. Cash

It is the city policy to invest all temporary cash surpluses. The amount is included in the 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 deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation.

F. Investments (see Investments Note No. 3)

G. Derivatives and Similar Transactions

No activity for the current fiscal year.

H. Capital Assets

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

I. Compensated Absences

Vacation leave: At the end of each year any unused vacation is either voided or the employee at the discretion of the Mayor is compensated for unused days.

Sick leave: Employees will not be paid for any unused leave upon leaving City service for any reason.

J. Long Term Debt

A. Schedule of Long-Term Debt (2011)

The accompanying Schedule of Long-Term Debt (2011) provides a listing of the outstanding debt of the City of Harrington and summarizes the City of Harrington's debt transactions for the year 2011. The debt service requirements, including interest, are as follows:

Year	Revenue Bonds	Total Debt
2013	57,701.58	57,701.58
2014	57,701.58	57,701.58
2015	57,701.58	57,701.58
2016	57,701.58	57,701.58
2017	46,561.08	46,561.08
2018-2022	207,297.90	207,297.90
2023-2027	191,556.36	191,556.36
2028-2032	163,660.00	163,660.00
2033-2037	191,556.36	191,556.36
2038-2042	163,660.00	163,660.00
2043-2045	81,612.03	81,612.03
TOTALS	\$1,276,710.05	\$1,276,710.05

B. Long Term Debt - Notes

- 1) The City Council passed on October 8, 1997 Loan Resolution #97-117 providing authority for the Mayor to sign documents incurring an indebtedness of \$300,000.00 with interest set at the time the loan is approved. The Council also authorized the Mayor to sign and accept matching Grant funds in the amount of \$543,200.00. These funds are to be used for the purpose of Sewer Collection System Improvements. The USDA-RD assumed the administration of the bond loan proceeds as provided for in the initial conditions of the grant. The USDA-RD bond loan collections are for forty years with payments made semi-annually in the amount of \$8,121.00 with an interest rate of 4.5%. This loan will be paid off by the user fees and charges over 40 years and is a revenue debt not subject to statutory debt limits, although revenue bonds have been issued.

2) Retirement of Long Term Bond Debt (USDA-RD) is as follows:

Interest Paid in 2012	Principal Paid in 2012	Outstanding Indebtedness	Year Ending December 31 st
\$3,344.67	\$12,897.33	\$62,904.73	2012

3) Retirement of Long Term Bond Debt (USDA-RD) is as follows:

The City Council passed on May 11, 2005 Ordinance No. 449 providing authority for the Mayor to sign documents incurring an indebtedness of \$626,800.00 with interest set at the time the loan is approved. The Council also authorized the Mayor to sign and accept matching grant funds in the amount of \$1,702,200. These funds are to be used for the purpose of Sewer Waste Water System Improvements. The USDA-RD assumed the administration of the bond loan proceeds as provided for in the initial conditions of the grant. The USDA-RD bond loan collections are for forty years with payments made semi-annually in the amount of \$8,121.00 with an interest rate of 4.25%. This loan will be paid off by the user fees and charges over 40 years and is a revenue debt not subject to statutory debt limits, although revenue bonds have been issued. This loan has a semi-annual electronic deduction of \$16,366.00 to the City treasurer's account starting in November 2005.

4) Retirement of Long Term Bond Debt (USDA-RD) Phase II is as follows:

Interest Paid in 2012	Principal Paid in 2012	Outstanding Indebtedness	Year Ending December 31 st
\$24,640.82	\$8,091.18	\$573,761.25	2012

The City Council passed on September 15, 2005 Loan Resolution #152-2005 providing for the Mayor to sign documents incurring an indebtedness of \$181,500.00 with interest set at the time the loan is approved. The Council also authorized the Mayor to sign and accept matching grant funds in the amount of \$181,500.00. These funds are to be used for the purpose of Waste Water Treatment Plant Improvements. The Washington State Department of Ecology assumed the administration of the bond loan proceeds and provided for in the initial conditions of the grant. The amount set at 1/40 of the amount used, with an interest rate of 0.0%. This loan will be paid off by the user fees and charges over 40 years and is a revenue debt not subject to statutory debt limits, although revenue bonds have been issued. This loan is completed and while the final amount of indebtedness is known, the Dec. 31, 2007 outstanding Debt of \$95,402.94 (2A) is shown separately as combined loan payments rate was not set by DOE. However, the amounts on the Schedule of Long-Term Debt are presented in this annual report (as parts 2A and 2B) so as to include the final full debt repayment required by this loan for 20 years. We expect a revised schedule combining these amounts will not be issued by DOE in the future, and the City's next annual report (2012) will continue to show the separate parts of the loan.

5) DOE 2A Retirement of Long Term Bond Debt (WA State DOE) is as follows:

Interest Paid in 2012	Principal Paid in 2012	Outstanding Indebtedness	Year Ending December 31 st
0.00	\$5,300.16	\$68,902.14	2012

6) DOE 2B Retirement of Long Term Bond Debt (WA State DOE) is as follows:

Interest Paid in 2012	Principal Paid in 2012	Outstanding Indebtedness	Year Ending December 31 st
0.00	\$3,427.42	\$46,270.02	2012

C. Special Assessment Debt

1) Assessment debt is excluded from Long Term Debt above because debt service requirements for special assessment bonds will be met by the collection of LID assessments receivable that have been levied against property owners. The assessments are liens against the property and subject to foreclosure. In 1992 the City acquired title to the assessed property belonging to Jack Maselli in lieu of payment of his assessment. The City Council accepted title in Resolution 83-92 and agreed to make the payments from the Current Expense Fund until the property is either sold or disposed of. City basis in the Maselli property as of December 31, 2009 is \$3,709.31 which includes all payments made on the rolls. No LID special assessment debt remains.

2) The debt obligations listed above ((J., A.); (J., B.)) constitute the City's total long term debt and are reflected in the long term debt summary table in the Notes.

D. Short Term Debt

The City of Harrington has no reportable short term debt.

K. Other Financing Sources or Uses

The City of Harrington's *Other Financing Sources or Uses* consist of (AWC RSMA).

L. Risk Management

The City of Harrington is a member of the Association of Washington Cities Risk Management Service Agency (AWC RSMA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance and/or joint self-insuring, and /or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2012, 91 municipalities/entities participate in the RMSA Pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Lexington with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA is a cooperative program; the members of the AWC RMSA are jointly liable.

Members contract to remain in the AWC RMSA pool a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved unreported, and in-process claims for the period they were signatory to the Interlocal Government Agreement. The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

M. Reserved Fund Balance

The city's Reserved Fund Balances consist of the following:

103 Criminal Justice - \$20,926

This is the accumulated amount from 1% sales tax, MVET, CJ Special Programs, DUI – Cities. This is used to help pay for the Law Enforcement Contract with Lincoln County.

104 Cemetery - \$268,667

This is the accumulated amount from donations, opening & closing fees as well as the sale of grave spaces. This is used to maintain the cemeteries during the year.

409 Capital Improvement - \$16,034

This is an accumulated amount from the Local Real Estate Excise tax received. This is reserved for capital projects.

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 Harrington that have not been corrected by an Ordinance amending the City's 2011 budget to reflect the changes.

Note 3. Investments

The City investments are either insured, registered or held by the City or its agent in the City of Harrington name.

Investments are presented at attached Schedule of Investments listing Operation of Investments
Investments by type at December 31, 2011 are as follows:

Type of Investment	(City/County/District's) own investments	Investments held by (City/County/District) as an agent for other local governments, individual or private organizations.	Total
L.G.I.P.	\$0.00	\$0.00	\$0.00
U.S. Gov. Securities	\$269,000.00		\$269,000.00
Other			
Total	\$269,000.00	\$0.00	\$269,000.00

NOTE 3- PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

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

The City regular levy for the year 2012 was \$ 3.3750 per \$1,000 on an assessed valuation of \$ 14,985,306 for a total regular levy of \$50,309.71.

NOTE 4 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2011:

Borrowing Fund	Lending Fund	Balance 1/1/2012	New Loans	Repayments	Balance 12/31/2012
		\$0.00	\$	\$	\$0.00
	Totals	\$0.00	\$	\$	\$0.00

NOTE 5 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in PERS I or PERS II 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 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
Olympia, WA 98504-8380

NOTE 6 - OTHER DISCLOSURES

In the implementation of the checkbook system (APC Account for Claims and Payroll) the City of Harrington established a base checking balance of \$35,000.00 for the combined claims, payroll and the minimum required balance required by the U.S. Bank. This was done at the initial setup in 2003. The City in 2011 was using a rotating system of IFT deposits and IFT clearing which was not conducive to verifying outstanding check balances at the end of each bank statement; but did allow a balance on the Treasurer's monthly statement (IFT System).

This changed in December 2010 with the institution of e-checks by the IRS and Department of Revenue. The transition between using Revenue Autopay and the manual card IRS deposit to a working e-check system resulted in a brief period of uncertainty on how the funds were being debited to the City. By going to an outstanding bank balance instead of the IFT System on the treasurer's report along with establishing a working notebook for the monthly reconciliation of the APC account was the solution that was needed.

This was complicated by the untimely passing of Karla Novotny the City Treasurer on Dec 3, 2011 and delay until the appointment of Tera Cronrath as the new Treasurer by the City Council on January 11, 2012 in making this changeover. The need to review Karla's worksheets and Treasurer's checkbook required the services of a CPA to track and bring everything into proper balance. Following this transition the establishing of the notebook for verification of the APC account with the bank statements was done using a one time adjustment needed to correct any differences needed to bring the new notebook into balance.

The City Finance Committee met, and after careful discussion it was decided to place a note in the 2011 annual report that the 2011 Treasurer's Reports would be allowed as written using the IFT System and not restate all of the Treasurer's reports for the time period needing correction and to make available the outstanding checks on the APC Account from the notebook.

The City has two working change funds established November 1980 of \$30.00 for the Clerk (Ordinance 227) and \$15.00 for the Librarian (Ordinance 228) which are not accounted for in the Treasurer's reports. These accounts make occasional deposits to the Current Expense Fund and Library Fund as miscellaneous income. The Clerk's cash fund is balanced on a weekly basis and the Librarians semi-annually to insure that deposits have been made and that the initial amounts are accounted for. The amounts involved are minor, and the City has had no problems involving these accounts for many years.

The signatures of all members of the City Finance Committee are on all accounts to allow for the occasional need when TWO signatures are needed and the normal signature person is temporarily absent.

The Committee felt that the State Auditor's work on the annual report would be an adequate review where

an outside member of the Committee who normally reviews the reports on a monthly basis but is a signatory on the accounts would provide adequate review.

The City in December 14, 2011 established by Ordinance 478 a separate Garbage Fund (420) to segregate revenue collected on the recommendation of the State Auditor in 2011 becoming effective January 1, 2012.

The 2012 schedule of investments and checking accounts were attached to the Accountability Audit of the State Auditor as part of Schedule 22.

The city has two petty cash funds which are not reported as part of the City's beginning or ending cash balances. Established by Ordinance number 237 is the Clerk's Petty Cash Account for \$ 30.00. This amount of \$ 30.00 is shown as part of the revenues of \$ 100.00 in the Sewer Fund Miscellaneous listing at BARS Code 369.90.00. The ending balance of \$ 30.00 is shown as part of the ending cash balance of \$6,400.00 for the entire fund. The Librarian's Petty Cash Account of \$ 15.00 established by Ordinance Number 238 is shown as part of the revenues of \$ 75.00 in the Library Fund Miscellaneous 369.90.00 BARS listing. The ending balance of \$ 15.00 is included in the ending cash balance of \$ 1,100.00 for the Library Fund. The amounts do not contribute materially to the city's cash position, as the funds remain static throughout the year, and all monies in excess of the beginning balance are reported in the appropriate funds line item sources of revenue, resulting in an accurate accounting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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 Harrington also 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.

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The City adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
001 Current Expense Fund:	\$234,620.00	\$207,632.33	\$26,987.67
002 Treasurer's Reserve	\$ 30,000.00	\$ 0.00	\$30,000.00
003 Developmental Reserve	\$ 50,677.00	\$ 0.00	\$50,677.00
100 Street Construction	\$ 60,531.00	\$ 0.00	\$60,531.00
101 Street	\$107,450.00	\$ 58,514.39	\$48,935.61
102 Arterial Street	\$ 5,190.00	\$ 0.00	\$ 5,190.00
103 Criminal Justice	\$ 21,914.00	\$ 5,000.00	\$ 16,914.00
104 Cemetery	\$ 79,915.00	\$ 31,487.49	\$ 48,427.51
105 Library	\$ 10,130.00	\$ 8,474.30	\$ 1,655.70
106 Cemetery Endowment	\$465,381.00	\$ 0.00	\$465,381.00
107 Cemetery Improvement	\$ 20,117.00	\$ 7,050.50	\$ 13,066.50
109 Intergovernmental Res.	\$ 10,007.00	\$ 0.00	\$ 10,007.00
401 Water	\$117,140.00	\$ 74,289.93	\$ 42,850.07
402 Water Reserve	\$ 18,000.00	\$ 0.00	\$ 18,000.00
403 Sewer	\$195,200.00	\$185,544.82	\$ 9,655.18
404 Water Deposit	\$ 569.00	\$ 0.00	\$ 569.00
405 Sewer Reserve	\$ 9,000.00	\$ 6,500.00	\$ 2,500.00
407 Sewer Bond Redemption	\$ 63,715.00	\$ 68,001.58	\$ -4,286.58
408 Sewer Construction	\$ 6,013.39	\$ 6,000.00	\$ 13.39
409 Capital Improvement	\$ 17,946.00	\$ 0.00	\$ 17,946.00
410 Sewer Bond Repayment	\$ 24,607.00	\$ 0.00	\$ 24,607.00
Total	\$1,548,122.39	\$658,495.34	\$889,627.05

Budgeted amounts are authorized to be transferred between (departments within any fund/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 legislative body.

D. Cash

It is the city policy to invest all temporary cash surpluses. The amount is included in the 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 deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation.

F. Investments (See Investments Note No. 3)

G. Derivatives and Similar Transactions

No activity for the current fiscal year

H. Capital Assets

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

I. Compensated Absences

Vacation leave: At the end of each year any unused vacation is either voided or the employee at the discretion of the Mayor is compensated for unused days.

Sick leave: Employees will not be paid for any unused leave upon leaving City service for any reason.

J. Long Term Debt

A. Schedule of Long-Term Debt (2011)

The accompanying Schedule of Long-Term Debt (2011) provides a listing of the outstanding debt of the City of Harrington and summarizes the City of Harrington's debt transactions for the year 2011. The debt service requirements, including interest, are as follows:

Year	Revenue Bonds	Total Debt
2012	57,701.58	57,701.58
2013	57,701.58	57,701.58
2014	57,701.58	57,701.58
2015	57,701.58	57,701.58
2016	57,701.58	57,701.58
2017	46,561.08	46,561.08
2018-2022	207,297.90	207,297.90
2023-2027	191,556.36	191,556.36
2028-2032	163,660.00	163,660.00
2033-2037	191,556.36	191,556.36
2038-2042	163,660.00	163,660.00
2043-2045	81,612.03	81,612.03
TOTALS	\$1,334,411.63	\$1,334,411.63

B. Long Term Debt - Notes

1) The City Council passed on October 8, 1997 Loan Resolution #97-117 providing authority for the Mayor to sign documents incurring an indebtedness of \$300,000.00 with interest set at the time the loan is approved. The Council also authorized the Mayor to sign and accept matching Grant funds in the amount of \$543,200.00. These funds are to be used for the purpose of Sewer Collection System Improvements. The USDA-RD assumed the administration of the bond loan proceeds as provided for in the initial conditions of the grant. The USDA-RD bond loan collections are for forty years with payments made semi-annually in the amount of \$8,121.00 with an interest rate of 4.5%. This loan will be paid off by the user fees and charges over 40 years and is a revenue debt not subject to statutory debt limits, although revenue bonds have been issued.

2) Retirement of Long Term Bond Debt (USDA-RD) is as follows:

Interest Paid in 2011	Principal Paid in 2011	Outstanding Indebtedness	Year Ending December 31 st
\$3,742.55	\$12,499.45	\$75,802.06	2011

3) Retirement of Long Term Bond Debt (USDA-RD) is as follows:

The City Council passed on May 11, 2005 Ordinance No. 449 providing authority for the Mayor to sign documents incurring an indebtedness of \$626,800.00 with interest set at the time the loan is approved. The Council also authorized the Mayor to sign and accept matching grant funds in the amount of \$1,702,200. These funds are to be used for the purpose of Sewer Waste Water System Improvements. The USDA-RD assumed the administration of the bond loan proceeds as provided for in the initial conditions of the grant. The USDA-RD bond loan collections are for forty years with payments made semi-annually in the amount of \$8,121.00 with an interest rate of 4.25%. This loan will be paid off by the user fees and charges over 40 years and is a revenue debt not subject to statutory debt limits, although revenue bonds have been issued. This loan has a semi-annual electronic deduction of \$16,366.00 to the City treasurer's account starting in November 2005.

4) Retirement of Long Term Bond Debt (USDA-RD) Phase II is as follows:

Interest Paid in 2011	Principal Paid in 2011	Outstanding Indebtedness	Year Ending December 31 st
\$24,974.03	\$7,757.97	\$581,852.43	2011

The City Council passed on September 15, 2005 Loan Resolution #152-2005 providing for the Mayor to sign documents incurring an indebtedness of \$181,500.00 with interest set at the time the loan is approved. The Council also authorized the Mayor to sign and accept matching grant funds in the amount of \$181,500.00. These funds are to be used for the purpose of Waste Water Treatment Plant Improvements. The Washington State Department of Ecology assumed the administration of the bond loan proceeds and provided for in the initial conditions of the grant. The amount set at 1/40 of the amount used, with an interest rate of 0.0%. This loan will be paid off by the user fees and charges over 40 years and is a revenue debt not subject to statutory debt limits, although revenue bonds have been issued. This loan is completed and while the final amount of indebtedness is known, the Dec. 31, 2007 outstanding Debt of \$95,402.94 (2A) is shown separately as combined loan payments rate was not set by DOE. However, the amounts on the Schedule of Long-Term Debt are presented in this annual report (as parts 2A and 2B) so as to include the final full debt repayment required by this loan for 20 years. We expect a revised schedule combining these amounts will not be issued by DOE in the future, and the City's next annual report (2012) will continue to show the separate parts of the loan.

5) DOE 2A Retirement of Long Term Bond Debt (WA State DOE) is as follows:

Interest Paid in 2011	Principal Paid in 2011	Outstanding Indebtedness	Year Ending December 31 st
0.00	\$5,300.16	\$74,202.30	2011

6) DOE 2B Retirement of Long Term Bond Debt (WA State DOE) is as follows:

Interest Paid in 2011	Principal Paid in 2011	Outstanding Indebtedness	Year Ending December 31 st
0.0	\$3,427.42	\$49,697.44	2011

C. Special Assessment Debt

- 1) Assessment debt is excluded from Long Term Debt above because debt service requirements for special assessment bonds will be met by the collection of LID assessments receivable that have been levied against property owners. The assessments are liens against the property and subject to foreclosure. In 1992 the City acquired title to the assessed property belonging to Jack Maselli in lieu of payment of his assessment. The City Council accepted title in Resolution 83-92 and agreed to make the payments from the Current Expense Fund until the property is either sold or disposed of. City basis in the Maselli property as of December 31, 2009 is \$3,709.31 which includes all payments made on the rolls. No LID special assessment debt remains.
- 2) The debt obligations listed above ((J., A.); (J., B.)) constitute the City's total long term debt and are reflected in the long term debt summary table in the Notes.

C. Short Term Debt

The City of Harrington has no reportable short term debt.

K. Other Financing Sources or Uses

The City of Harrington's *Other Financing Sources or Uses* consist of (AWC RSMA).

L. Risk Management

The City of Harrington is a member of the Association of Washington Cities Risk Management Service Agency (AWC RSMA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance and/or joint self-insuring, and /or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2011, 86 municipalities/entities participate in the RMSA Pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. AWC RMSA, itself, pays out of its own funds all claims up to \$250,00 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is

purchased through Lexington with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA is a cooperative program; the members of the AWC RMSA are jointly liable.

Members contract to remain in the RMSA Pool a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved unreported, and in-process claims for the period they were signatory to the Interlocal Government Agreement.

The Interlocal Governmental Agreement was revised in 2009 and approved by members in 2010. In accordance with WAC 82.60.02023, the Pool elected its first Board of Directors, comprised of elected officials that are members of AWC RMSA, elected at large.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

The specific financials of the AWC RMSA can be obtained from the AWC RMSA Annual Report on file with the City of Harrington.

M. Reserved Fund Balance

The city's Reserve Fund Balances consist of the following:

103 Criminal Justice - \$19,443

This is the accumulated amount from 1% sales tax, MVET, CJ Special Programs, DUI – Cities. Used to pay for Law Enforcement services with Lincoln County.

104 Cemetery - \$264,445

This is the accumulated amount from donations, opening & closing costs as well as the sale of grave spaces. This is used to maintain the cemeteries during the year.

409 Capital Improvement - \$15,531

This is an accumulated amount from the Local Real Estate Excise tax received. This is reserved for capital projects.

Grand Total Reserved Funds: \$299,419

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 Harrington that have not been corrected by an Ordinance amending the City's 2011 budget to reflect the changes.

Note 3 - Investments

The City investments are either insured, registered or held by the City or its agent in the City of Harrington name.

Investments are presented at attached Schedule of Investments listing Operation of Investments
Investments by type at December 31, 2011 are as follows:

Type of Investment	(City/County/District's) own investments	Investments held by (City/County/District) as an agent for other local governments, individual or private organizations.	Total
L.G.I.P.	\$0.00	\$0.00	\$0.00
U.S. Gov. Securities	\$269,000.00		\$269,000.00
Other			
Total	\$269,000.00	\$0.00	\$269,000.00

NOTE 4- PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

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

The City regular levy for the year 2011 was \$ 3.33467 per \$1,000 on an assessed valuation of \$ 14,789,460 for a total regular levy of \$49,318.

NOTE 5- INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2011:

Borrowing Fund	Lending Fund	Balance 1/1/2011	New Loans	Repayments	Balance 12/31/2011
		\$0.00	\$	\$	\$0.00
	Totals	\$0.00	\$	\$	\$0.00

NOTE 6 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in PERS I or PERS II 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 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
Olympia, WA 98504-8380

NOTE 7 - OTHER DISCLOSURES

In the implementation of the checkbook system (APC Account for Claims and Payroll) the City of Harrington established a base checking balance of \$35,000.00 for the combined claims, payroll and the minimum required balance required by the U.S. Bank. This was done at the initial setup in 2003. The City in 2011 was using a rotating system of IFT deposits and IFT clearing which was not conducive to verifying outstanding check balances at the end of each bank statement; but did allow a balance on the Treasurer's monthly statement (IFT System).

This changed in December 2010 with the institution of e-checks by the IRS and Department of Revenue. The transition between using Revenue Autopay and the manual card IRS deposit to a working e-check system resulted in a brief period of uncertainty on how the funds were being debited to the City. By going to an outstanding bank balance instead of the IFT System on the treasurer's report along with establishing a working notebook for the monthly reconciliation of the APC account was the solution that was needed.

This was complicated by the untimely passing of Karla Novotny the City Treasurer on Dec 3, 2011 and delay until the appointment of Tera Cronrath as the new Treasurer by the City Council on January 11, 2012 in making this changeover. The need to review Karla's worksheets and Treasurer's checkbook required the services of a CPA to track and bring everything into proper balance. Following this transition the establishing of the notebook for verification of the APC account with the bank statements was done using a one time adjustment needed to correct any differences needed to bring the new notebook into balance.

The City Finance Committee met, and after careful discussion it was decided to place a note in the 2011 annual report that the 2011 Treasurer's Reports would be allowed as written using the IFT System and not restate all of the Treasurer's reports for the time period needing correction and to make available the outstanding checks on the APC Account from the notebook.

The City has two working change funds established November 1980 of \$30.00 for the Clerk (Ordinance 227) and \$15.00 for the Librarian (Ordinance 228) which are not accounted for in the Treasurer's reports. These accounts make occasional deposits to the Current Expense Fund and Library Fund as miscellaneous income. The Clerk's cash fund is balanced on a weekly basis and the Librarians semi-annually to insure that deposits have been made and that the initial amounts are accounted for. The amounts involved are minor, and the City has had no problems involving these accounts for many years.

The signatures of all members of the City Finance Committee are on all accounts to allow for the occasional need when TWO signatures are needed and the normal signature person is temporarily absent.

The Committee felt that the State Auditor's work on the annual report would be an adequate review where an outside member of the Committee who normally reviews the reports on a monthly basis but is a signatory on the accounts would provide adequate review.

The City in December 14, 2011 established by Ordinance 478 a separate Garbage Fund (420) to segregate revenue collected on the recommendation of the State Auditor in 2011 becoming effective January 1, 2012.

The 2011 schedule of investments and checking accounts were attached to the Accountability Audit of the State Auditor as part of Schedule 22.

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Schedule of Liabilities

Year Ending Dec. 31, 2012

ID. No.	Description	Maturity/Payment Due Date 1/1/2012	Beginning Balance 1/1/2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2012 (1)-(2)-(3)
263.81	Rural Dev.	2039	75,802.06	0	12,897.33		62,904.73
263.81	Rural Dev.	2045	581,852.43	0	8,091.18		573,761.25
263.81	DOE 2A	2025	74,202.30	0	5,300.16		68,902.14
263.81	DOE 2B	2026	49,697.44	0	3,427.42		46,270.02
			781,554.23		29,716.09		751,838.14
Total			781,554.23	0	29,716.09		751,838.14

The accompanying notes to the financial statements are an integral part of this schedule.

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Schedule of Liabilities

Year Ending Dec. 31, 2011

ID. No.	Description	Maturity/Payment Due Date 1/1/2011	Beginning Balance 01/01/2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2011 (1)+(2)-(3)
263.81	Rural Dev.	2039	88,301.50	0	12,499.45		75,802.06
263.81	Rural Dev.	2045	589,610.40	0	7,757.97		581,852.43
263.81	DOE 2A	2025	79,502.46	0	5,300.00		74,202.30
263.81	DOE 2B	2026	53,124.86	0	3,427.42		49,697.44

Total

810,539.22

0

28,984.84

781,554.23

The accompanying notes to the financial statements are an integral part of this schedule.



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 Performance Audit
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