



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Algona

King County

For the period January 1, 2011 through December 31, 2013

Published October 23, 2014

Report No. 1012815





Washington State Auditor
Troy Kelley

October 23, 2014

Mayor and City Council
City of Algona
Algona, Washington

Report on Financial Statements

Please find attached our report on the City of Algona'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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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 Algona
King County
January 1, 2011 through December 31, 2013**

Mayor and City Council
City of Algona
Algona, 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 Algona, King County, Washington, as of and for the years ended December 31, 2013, 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 October 10, 2014.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

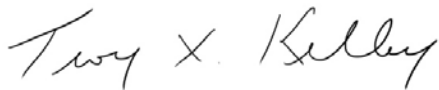
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

October 10, 2014

Independent Auditor's Report on Financial Statements

City of Algona King County January 1, 2011 through December 31, 2013

Mayor and City Council
City of Algona
Algona, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Algona, King County, Washington, for the years ended December 31, 2013, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Algona, for the years ended December 31, 2013, 2012 and 2011, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Algona, as of December 31, 2013, 2012 and 2011, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

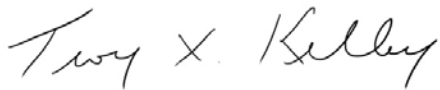
Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 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

October 10, 2014

Financial Section

**City of Algona
King County
January 1, 2011 through December 31, 2013**

FINANCIAL STATEMENTS

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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Liabilities – 2012
Schedule of Liabilities – 2011

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current Expense	101 Street Fund	103 Grant Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	2,780,034	161,795	530,827	179,123
30880	Beg Fund Bal-Unreserved	5,226,446	3,215,710	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	2,004,814	1,709,004	167,354	0
320	Licenses & Permits	138,882	131,211	7,671	0
330	Intergovernmental Revenues	561,249	132,137	301,777	0
340	Charges for Goods and Services	1,523,083	36,063	0	0
350	Fines & Penalties	68,517	68,517	0	0
360	Miscellaneous Revenues	30,227	23,284	1,059	0
Total Operating Revenues:		4,326,772	2,100,216	477,861	
Operating Expenditures					
510	General Government	485,713	485,713	0	0
520	Public Safety	1,264,729	1,264,729	0	0
530	Utilities	1,507,393	16,680	0	0
540	Transportation	211,457	0	211,457	0
550	Natural and Economic Environment	216,000	216,000	0	0
560	Social Services	20,052	20,052	0	0
570	Culture And Recreation	22,314	22,314	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		3,727,658	2,025,488	211,457	
Net Operating Increase (Decrease):		599,114	74,728	266,404	0
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	1,795	1,795	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		1,795	1,795		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	1,094	1,094	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	1,333,175	127,539	653,727	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		1,334,269	128,633	653,727	
Increase (Decrease) in Cash and Investments		-733,360	-52,110	-387,323	0
Ending Cash and Investments					
50810	End Fund Bal-Reserved	2,524,673	162,006	143,503	179,123
50880	End Fund Balance-Unreserved	4,748,445	3,163,389	1	0

The accompanying notes are an integral part of this Statement.

BARS Code		110 Park Impact Fund	306 Capitol Improvement Fund	401 Stormwater Mgmt Fund	402 Water/sewer Maintenance Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	8,028	1,329,558	185,104	385,599
30880	Beg Fund Bal-Unreserved	0	0	750,916	1,243,512
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	128,456	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	127,335	0
340	Charges for Goods and Services	0	0	229,078	1,257,942
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	36	1,960	777	3,063
Total Operating Revenues:		36	130,416	357,190	1,261,005
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	138,963	1,351,750
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:				138,963	1,351,750
Net Operating Increase (Decrease):		36	130,416	218,227	-90,745
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	282,040	269,869
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:				282,040	269,869
Increase (Decrease) in Cash and Investments		36	130,416	-63,813	-360,614
Ending Cash and Investments					
50810	End Fund Bal-Reserved	8,063	1,459,973	185,357	386,648
50880	End Fund Balance-Unreserved	0	0	686,850	881,849

The accompanying notes are an integral part of this Statement.

BARS Code		520 Unemployment Trust Fund
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	16,308
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	48
Total Operating Revenues:		48
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities	0
540	Transportation	0
550	Natural and Economic Environment	0
560	Social Services	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		
Net Operating Increase (Decrease):		48
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		
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:		
Increase (Decrease) in Cash and Investments		48
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	16,356

The accompanying notes are an integral part of this Statement.

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 Fund	103 Grant Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	2,955,111	161,530	624,607	179,786
30880	Beg Fund Bal-Unreserved	5,822,409	3,542,628	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,919,715	1,688,449	156,314	0
320	Licenses & Permits	159,242	150,301	8,941	0
330	Intergovernmental Revenues	166,789	85,995	62,419	18,375
340	Charges for Goods and Services	1,431,805	13,501	0	0
350	Fines & Penalties	80,325	80,325	0	0
360	Miscellaneous Revenues	82,693	66,672	6,051	0
Total Operating Revenues:		3,840,569	2,085,243	233,725	18,375
Operating Expenditures					
510	General Government	433,951	430,976	0	0
520	Public Safety	1,231,761	1,231,761	0	0
530	Utilities And Environment	1,492,283	30,407	0	15,075
540	Transportation	210,783	0	210,783	0
550	Economic Environment	132,544	132,544	0	0
560	Mental & Physical Health	795	795	0	0
570	Culture And Recreation	52,769	52,769	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		3,554,886	1,879,252	210,783	15,075
Net Operating Increase (Decrease):		285,683	205,991	22,942	3,300
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	16,008	16,008	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	351,943	1,943	0	0
Total Nonoperating Revenues:		367,951	17,951		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	15,860	15,860	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	1,056,872	184,738	116,720	2,020
597	Transfers-Out	351,943	350,000	0	1,943
Total Nonoperating Expenditures:		1,424,675	550,598	116,720	3,963
Increase (Decrease) in Cash and Investments		-771,041	-326,656	-93,778	-663
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,271,353	161,795	530,827	0
50880	End Fund Balance-Unreserved	6,735,127	3,215,708	2	179,123

The accompanying notes are an integral part of this Statement.

BARS Code		110 Park Impact Fund	306 Capital Improvement Fun	401 Stormwater Mgmt Fund	402 Water/sewer Maintenance Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	27,976	1,260,835	184,795	515,582
30880	Beg Fund Bal-Unreserved	0	0	710,964	1,549,602
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	74,952	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	233,557	1,184,747
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	51	2,384	878	6,589
Total Operating Revenues:		51	77,336	234,435	1,191,336
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	142,539	1,304,262
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:				142,539	1,304,262
Net Operating Increase (Decrease):		51	77,336	91,896	-112,926
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	350,000
Total Nonoperating Revenues:					350,000
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	20,000	8,613	51,634	673,147
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		20,000	8,613	51,634	673,147
Increase (Decrease) in Cash and Investments		-19,949	68,723	40,262	-436,073
Ending Cash and Investments					
50810	End Fund Bal-Reserved	8,028	0	185,104	385,599
50880	End Fund Balance-Unreserved	0	1,329,558	750,917	1,243,511

The accompanying notes are an integral part of this Statement.

BARS Code		520 Unemployment Trust Fund
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	19,215
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	68
Total Operating Revenues:		68
Operating Expenditures		
510	General Government	2,975
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:		2,975
Net Operating Increase (Decrease):		-2,907
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		
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:		
Increase (Decrease) in Cash and Investments		-2,907
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	16,308

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 Fund	103 Grant Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	8,913,669	3,473,913	757,441	144,180
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,829,344	1,635,390	157,736	0
320	Licenses & Permits	153,389	149,091	4,298	0
330	Intergovernmental Revenues	184,554	69,321	62,415	52,818
340	Charges for Goods and Services	1,427,329	14,506	0	0
350	Fines & Penalties	77,504	77,504	0	0
360	Miscellaneous Revenues	48,503	29,636	9,476	0
Total Operating Revenues:		3,720,623	1,975,448	233,925	52,818
Operating Expenditures					
510	General Government	425,944	410,849	0	0
520	Public Safety	1,153,946	1,153,946	0	0
530	Utilities And Environment	1,419,275	11,874	0	17,212
540	Transportation	220,894	0	220,894	0
550	Economic Environment	81,525	81,525	0	0
560	Mental & Physical Health	717	717	0	0
570	Culture And Recreation	21,874	21,874	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		3,324,175	1,680,785	220,894	17,212
Net Operating Increase (Decrease):		396,448	294,663	13,031	35,606
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	18,238	18,238	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		18,238	18,238		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	18,355	18,355	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	532,484	64,306	145,866	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		550,839	82,661	145,866	
Increase (Decrease) in Cash and Investments		-136,153	230,240	-132,835	35,606
Ending Cash and Investments					
50810	End Fund Bal-Reserved	2,330,504	161,530	0	179,786
50880	End Fund Balance-Unreserved	6,447,012	3,542,623	624,606	0

The accompanying notes are an integral part of this Statement.

BARS Code		106 REET Fund	110 Park Impact Fund	401 Stormwater Mgmt Fund	402 Water/sewer Maintenance Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	1,243,952	68,573	841,262	2,350,110
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	36,218	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	231,273	1,181,550
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	2,364	51	870	6,034
Total Operating Revenues:		38,582	51	232,143	1,187,584
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	177,645	1,212,544
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:				177,645	1,212,544
Net Operating Increase (Decrease):		38,582	51	54,498	-24,960
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	21,699	40,648	0	259,965
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		21,699	40,648		259,965
Increase (Decrease) in Cash and Investments		16,883	-40,597	54,498	-284,925
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,260,835	27,976	184,795	515,582
50880	End Fund Balance-Unreserved	0	0	710,965	1,549,603

The accompanying notes are an integral part of this Statement.

BARS Code		520 Unemployment Trust Fund
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	34,238
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	72
Total Operating Revenues:		72
Operating Expenditures		
510	General Government	15,095
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:		15,095
Net Operating Increase (Decrease):		-15,023
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		
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:		
Increase (Decrease) in Cash and Investments		-15,023
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	19,215

The accompanying notes are an integral part of this Statement.

City of Algona
Notes to Financial Statements
Year Ended December 31, 2013

Note 1 - Summary of Significant Accounting Policies

The City of Algona 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 Algona was incorporated on September 12, 1955, and operates under the laws of the State of Washington applicable to a Code City with a Mayor-Council form of government. The City of Algona is a general-purpose government and provides Public Safety, Street and Road Maintenance, Parks and Recreation, Health and Social Services, Water and Sewer Service and General Administration Services. The City 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 Algona 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 Algona's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Algona:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Special Revenue Funds

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

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.

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that City of Algona 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 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 of Algona adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund 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 Expenses	Variance
001 - Current Expense			
Current Expense	2,489,743.00	2,154,119.58	335,623.42
Drug Fund	2,200.00		2,200.00
Total 001 - Current Expense	<u>2,491,943.00</u>	<u>2,154,119.58</u>	<u>337,823.42</u>
101 - Street Fund	575,441.00	865,184.87	-289,743.87
401 - Stormwater Mgmt Fund	451,980.00	421,001.78	30,978.22
402 - Water/sewer Maintenance Fund	1,475,377.00	1,621,617.23	-146,240.23
520 - Unemployment Trust Fund	5,000.00		5,000.00

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 of Algona's legislative body.

D. Cash

It is the City of Algona's 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 of Algona's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments See Note 2, *Investments*.

G. Capital Assets

The City doesn't currently have a capitalization policy. The capital assets of the City of Algona are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 240 days and is payable upon separation or retirement.

Compensatory time may be accumulated up to 80 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 720 hours. Upon separation or retirement employees do not receive payment for unused sick leave.

I. Other Financing Sources or Uses

The City of Algona's *Other Financing Sources or Uses* consist of pass through fees and insurance recoveries.

J. Risk Management

The City of Algona is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). 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, 2013, 91 municipalities/entities participate in the AWC 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 equipment breakdown insurance coverage. Equipment breakdown is included with the property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports 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. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for 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 Governmental 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.

K. Reserved Fund Balance

\$2,747.13 is reported in Fund #001 and is reserved for drug education.
 \$179,123.11 is in Fund #103 and is reserved for grant activities.
 \$117,394.74 is reported in Fund #001 and is for emergency purposes.
 \$1,459,973.48 is reported in Fund #306 and is reserved for Streets and capital improvements.
 \$8,063.29 is in Fund #110 and is reserved for capital park projects.
 \$21,309.70 is reported in Fund #001 and is reserved for LID purposes.
 \$20,554.04 is reported in Fund #001 and is reserved for LID purposes
 \$58,950.74 is reported in Fund #402 and is reserved for capital improvements.
 \$327,697.16 is reported in Fund #402 and is reserved for capital improvements.
 \$185,356.90 is reported in Fund #401 and is reserved for capital improvements.

Note 2 - Investments

The City of Algona's investments are insured, registered or held by the City of Algona or its agent in the City of Algona's name.

Investments are presented at fair market value.

Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	① City of Algona's own investments	② Investments held by the City of Algona as an agent for other local governments, individuals or private organizations.	③ Total
L.G.I.P.	\$6,766,527.34	\$ _____	\$6,766,527.34_

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 after the end of each month.

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

The City of Algona's regular levy for the year 2013 was \$2.10 per \$1,000 on an assessed valuation of \$344,129,200 for a total regular levy of \$722,671.

Note 4 - Pension Plans

Substantially all Algona's full-time and qualifying part-time employees participate in PERS1, PERS2, PERS3 or LEOFF2 plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Algona'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
Olympia, WA 98504-8380

Note 5- Other Disclosures

The City of Algona and the residents in the north region of the City are currently the effected party in a chemical contamination incident by the Boeing Company. The Dept. of Ecology, Department of Health, Boeing/Landau, and the City along with its contracted Environmental Engineer's (ICFI) are currently in the process of determining the entire area of the plume, and the effect it is, or will have on the citizens. The outcome is undetermined as of the time of this report.

The City of Algona has one LEOFF 1 retiree. The 2013 expenditures for medical benefits and expenses were \$12,397.56. The current age of the retiree is 71 years.

The Street Fund is over budget by \$289,743.87 due to a TIB grant driven project. The budget was never amended to account for the project.

The Water/Sewer Maintenance Fund is over budget by \$146,240.23 due to higher levels of service than expected. The budget was not amended to account for increased expenses as service levels and revenues increased.

CITY OF ALGONA
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The City of Algona reports financial activity using the revenues and expenditures 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 Algona was incorporated on September 12, 1955, and operates under the laws of the State of Washington applicable to a Code City with a Mayor-Council form of government. The City of Algona is a general-purpose government and provides Public Safety, Street and Road Maintenance, Parks and Recreation, Health and Social Services, Water and Sewer Service and General Administration Services. The City 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 Algona 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's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Algona:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the City of Algona. 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 restricted or committed to expenditures for specified purposes of the City of Algona.

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.

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.

(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 Algona 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 State of America.

(C) Budgets

The City of Algona adopts annual appropriated budget for all funds. These budgets are appropriated at the fund 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 budget 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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - Current Expense			
Current Expense	2,518,642.00	2,429,845.56	88,796.44
Drug Fund	<u>2,200.00</u>	-	<u>2,200.00</u>
Total 001 - Current Expense	<u>2,520,842.00</u>	<u>2,429,845.56</u>	<u>90,996.44</u>
101 - Street Fund	684,505.00	327,504.69	357,000.31
103 - Grant Fund	29,350.00	19,037.80	10,312.20
110 - Park Impact Fund	20,000.00	20,000.00	
306 - Capital Improvement Fun	20,000.00	8,613.35	11,386.65
401 - Stormwater Mgmt Fund	270,218.00	194,173.21	76,044.79
402 - Water/sewer Maintenance Fund			
Water/sewer Maintenance Fund	1,550,916.00	1,494,559.92	56,356.08
Water Capt'l Improve Fund	500,000.00	482,839.58	17,160.42
Sewer Capt'l Improve Fund	-	<u>8.55</u>	<u>-8.55</u>
Total 402 - Water/sewer Maintenance Fund	<u>2,050,916.00</u>	<u>1,977,408.05</u>	<u>73,507.95</u>
520 - Unemployment Trust Fund	5,000.00	2,975.00	2,025.00

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

(D) CASH

It is the City of Algona's 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. The City has advance deposits of \$1,500 with the U.S. Postmaster for bulk mailing and \$500 with the U.S. Postal Service for postal meter postage. These amounts represent approximately one quarter of postage expenses for bulk mailing and postal meter postage.

(E) DEPOSITS

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

(F) INVESTMENTS

See Investment Note No. 2

(G) CAPITAL ASSESTS

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

(H) COMPENSATED ABSENCES

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement.

Compensatory time may be accumulated up to 80 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 720 hours. Upon separation or retirement employees do not receive payment for unused sick leave.

(I) OTHER FINANCING SOURCES OR USES

The City of Algona's "Other Financing Sources or Uses" consist of Operating transfers, Special Assessment bond proceeds and major insurance claim reimbursements.

(J) RISK MANAGEMENT

The City of Algona is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). 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 AWC 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. Since AWC RMSA is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for 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 Governmental 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.

(K) RESERVED FUND BALANCE

\$2,747.13 is reported in Fund #001 and is reserved for drug education.

\$179,123.11 is in Fund #103 and is reserved for grant activities.

\$117,214.30 is reported in Fund #001 and is for emergency purposes.

\$1,329,557.95 is reported in Fund #306 and is reserved for Streets and capital improvements.

\$8,027.25 is in Fund #110 and is reserved for capital park projects.

\$21,309.70 is reported in Fund #001 and is reserved for LID purposes.

\$20,523.72 is reported in Fund #001 and is reserved for LID purposes

\$58,405.74 is reported in Fund #402 and is reserved for capital improvements.

\$327,193.71 is reported in Fund #402 and is reserved for capital improvements.

\$185,103.76 is reported in Fund #401 and is reserved for capital improvements.

NOTE 2 - INVESTMENTS

The City of Algona's investments are insured, registered or held by the City of Algona or its agent in the City of Algona's name.

Investments are presented at fair market value.

Investments by type on December 31, 2012 are as follows:

Local Government Investment Pool \$ 7,255,294

NOTE 3 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed via the ACH on a weekly basis.

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 when taxes are levied.

The City of Algona's regular levy for 2012 was \$1.81927 per \$1,000 on an assessed valuation of \$344,268,391 for a total regular levy of \$643,232.

NOTE 4 - PENSION PLANS

Substantially all City of Algona full-time and qualifying part-time employees participate in the PERS 1, 2 and 3 and LEOFF 1 and 2 plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Algona's financial statements. Contributions to the system 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 5 – OTHER DISCLOSURES

The Sewer Capital Improvement Fund (405) is in the negative by \$8.55. This was a transaction for a side sewer permit issued in October, and not reported until Dec. 11th. The \$8.55 was the B&O portion paid to the Department of Revenue. This amount is immaterial and just noted for accurate disclosure.

The City of Algona and the residents in the north region of the City are currently the effected party in a chemical contamination incident by the Boeing Company. The Dept. of Ecology, Department of Health, Boeing/Landau, and the City along with its contracted Environmental Engineer's (ICFI) are currently in the process of determining the entire area of the plume, and the effect it is, or will have on the citizens. The outcome is undetermined as of the time of this report.

The City of Algona has one LEOFF 1 retiree. The 2012 expenditures for medical benefits and expenses were \$14,437.32. The current age of the retiree is 70 years.

CITY OF ALGONA
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The City of Algona reports financial activity using the revenues and expenditures 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 Algona was incorporated on September 12, 1955, and operates under the laws of the State of Washington applicable to a Code City with a Mayor-Council form of government. The City of Algona is a general-purpose government and provides Public Safety, Street and Road Maintenance, Parks and Recreation, Health and Social Services, Water and Sewer Service and General Administration Services. The City 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 Algona 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's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Algona:

Governmental Fund Types:

GENERAL (CURRENT EXPENSE) FUND (001)

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

SPECIAL REVENUE FUNDS (100-199)

These funds account for revenues that are restricted or committed to expenditures for specified purposes of the City of Algona.

CAPITAL PROJECTS FUNDS (300-399)

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

PROPRIETARY FUND TYPES

ENTERPRISE FUNDS (400-499)

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

(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 Algona 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 State of America.

(C) BUDGETS

The City of Algona adopts annual appropriated budget for all funds. These budgets are appropriated at the fund 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 budget 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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - Current Expense	2,111,811.00	1,763,441.98	348,369.02
101 - Street Fund	565,579.00	366,759.63	198,819.37
103 - Grant Fund	24,960.00	17,212.26	7,747.74
110 - Park Impact Fund	43,400.00	40,647.72	2,752.28
306 - Capital Improvement Fund	21,452.00	21,699.32	-247.32
401 - Stormwater Mgmt Fund	169,092.00	177,645.43	-8,553.43
402 - Water/sewer Maintenance Fund	1,734,336.00	1,472,509.65	261,826.35
520 - Unemployment Trust Fund	15,095.00	15,095.00	

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

(D) CASH

It is the City of Algona's 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. The City has advance deposits of \$1,500 with the U.S. Postmaster for bulk mailing and \$500 with the U.S. Postal Service for postal meter postage. These amounts represent approximately one quarter of postage expenses for bulk mailing and postal meter postage.

(E) DEPOSITS

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

(F) INVESTMENTS

See Investment Note No. 3.

(G) CAPITAL ASSETS

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

(H) COMPENSATED ABSENCES

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement.

Compensatory time may be accumulated up to 80 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 720 hours.

(I) LONG TERM DEBT

See Long-Term Debt Note No. 6.

(J) OTHER FINANCING SOURCES OR USES

The City of Algona's "Other Financing Sources or Uses" consist of Operating transfers, Special Assessment bond proceeds and major insurance claim reimbursements.

(K) RISK MANAGEMENT

The City of Algona is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). 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 \$250,000 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 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 Governmental Agreement.

The Interlocal Governmental Agreement was revised in 2009 and approved by membership in 2010. In accordance with WAC 82.60.02023, the pool elected its first board of directors, comprised of elected officials that are member 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 Algona

(L) COMPONENT UNIT

The Algona Economic Development Corporation (AEDC) was created on April 13, 1984, by a charter issued from the City of Algona, under the authority of Chapter 39.84 RCW. The AEDC was established for the purpose of issuing tax-exempt non-recourse industrial revenue bonds as a means of financing acquisition and/or construction of facilities for private companies locating within the Algona City limits. The AEDC has a five-member board of directors who serve without compensation. Directors are appointed by the Mayor of Algona to staggered four-year terms.

In 1998, the City of Algona adopted Ordinance No. 848 restructuring the board of directors and terms of office of the AEDC. The Algona City Council members serve as the board of directors of the AEDC. Term limits are the same as those of the council members.

All outstanding bond issues were paid in full January 2003. No new bonds have been issued.

The corporation generated no revenue income in 2011, and had a net asset of \$39,764.45 at December 31, 2011. Per GASB 14, "The Financial Reporting Entity", the City has chosen to include the entity in the City's financial statements utilizing the discreet presentation method.

A copy of the Economic Development Corporation's financial statement is available at the City of Algona located at 402 Warde Street, Algona, WA 98001.

(M) RESERVED FUND BALANCE

\$2,747.13 is reported in Fund #001 and is reserved for drug education.
\$179,785.66 is in Fund #103 and is reserved for grant activities.
\$116,987.55 is reported in Fund #001 and is for emergency purposes.
\$1,260,834.76 is in Fund #106 and is reserved for Streets and capital improvements.
\$27,976.30 is in Fund #110 and is reserved for capital park projects.
\$21,309.70 is reported in Fund #001 and is reserved for LID purposes.
\$20,485.98 is reported in Fund #001 and is reserved for LID purposes
\$189,487.20 is reported in Fund #402 and is reserved for capital improvements.
\$326,094.53 is reported in Fund #402 and is reserved for capital improvements.
\$184,794.90 is reported in Fund #401 and is reserved for capital improvements.

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 of Algona's investments are insured, registered or held by the City of Algona or its agent in the City of Algona's name.

Investments are presented at fair market value.

Investments by type on December 31, 2011 are as follows:

Local Government Investment Pool	\$ 7,241,143.07
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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 via the ACH on a weekly basis.

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 when taxes are levied.

The City of Algona's regular levy for 2011 was \$1.59113 per \$1,000 on an assessed valuation of \$399,982,941 for a total regular levy of \$635,814.

NOTE 5 – INTERFUND LOANS AND ADVANCES

None

NOTE 6 - LONG-TERM DEBT

The City of Algona has no outstanding long-term debt except for compensated absences presented in the accompanying Schedule 9.

NOTE 7 - PENSION PLANS

Substantially all City of Algona full-time and qualifying part-time employees participate in the PERS 1,2 and 3 and LEOFF 1 and 2 plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Algona's financial statements. Contributions to the system 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 8 – OTHER DISCLOSURES

The City of Algona has an interlocal agreement with the City of Auburn for approximately \$450,000 to pay for the construction of a water storage tower in Lakeland Hills. This project has not been executed.

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	259.11	compensated absences-gov		33,651	5,908		39,559
Total General Obligations:				33,651	5,908		39,559
Revenue Obligations							
	259.12	compensated absences-Prop		9,017	2,952		11,969
Total Revenue Obligations:				9,017	2,952		11,969
Total Liabilities:				42,668	8,860		51,528

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
General Obligations							
	259.11	compensated absences-gov		35,235		1,584	33,651
Total General Obligations:				35,235		1,584	33,651
Revenue Obligations							
	259.12	compensated absences-Prop		10,572		1,555	9,017
Total Revenue Obligations:				10,572		1,555	9,017
Total Liabilities:				45,807		3,139	42,668

City of Algona
Schedule of Liabilities
For the year ended December 31, 2011

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2011	Additions	Reductions	Ending Balance December 31, 2011
General Obligations							
	259.11	compensated absences-gov		31,114			35,235
Total General Obligations:				31,114			35,235
Revenue Obligations							
	259.12	compensated absences-Prop		15,642			10,572
Total Revenue Obligations:				15,642			10,572
Total Liabilities:				46,756			45,807

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov