



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Connell

Franklin County

For the period January 1, 2013 through December 31, 2015

Published November 28, 2016

Report No. 1017918





Washington State Auditor's Office

November 28, 2016

Mayor and City Council
City of Connell
Connell, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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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 Connell
Franklin County
January 1, 2013 through December 31, 2015**

Mayor and City Council
City of Connell
Connell, 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 Connell, Franklin County, Washington, as of and for the years ended December 31, 2015, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 17, 2016.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

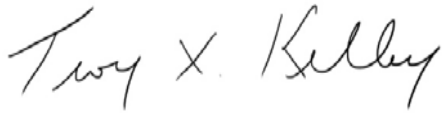
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 17, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Connell Franklin County January 1, 2013 through December 31, 2015

Mayor and City Council
City of Connell
Connell, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Connell, Franklin County, Washington, for the years ended December 31, 2015, 2014 and 2013, 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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Connell, for the years ended December 31, 2015, 2014 and 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Connell, as of December 31, 2015, 2014 and 2013, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

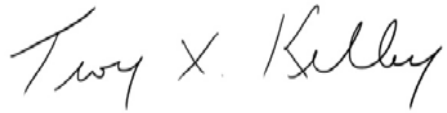
Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying 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 November 17, 2016 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 17, 2016

FINANCIAL SECTION

**City of Connell
Franklin County
January 1, 2013 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
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Schedule of Liabilities – 2013

City of Connell
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General Fund	101 Street
Beginning Cash and Investments				
30810	Reserved	971,898	726,178	-
30880	Unreserved	5,282,356	2,307,246	399,061
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,763,214	1,616,193	112,920
320	Licenses and Permits	44,410	44,410	-
330	Intergovernmental Revenues	345,069	205,169	112,314
340	Charges for Goods and Services	2,684,682	175,399	293
350	Fines and Penalties	73,620	33,562	-
360	Miscellaneous Revenues	181,392	101,703	3,025
Total Operating Revenues:		5,092,387	2,176,437	228,553
Operating Expenditures				
510	General Government	462,645	462,645	-
520	Public Safety	1,060,378	1,060,378	-
530	Utilities	1,769,624	-	-
540	Transportation	146,902	-	146,902
550	Natural and Economic Environment	53,721	42,752	-
560	Social Services	1,228	1,228	-
570	Culture and Recreation	271,774	271,774	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		3,766,272	1,838,777	146,902
Net Operating Increase (Decrease):		1,326,115	337,660	81,651
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	257,061	126,393	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	36,000	-	35,000
Total Nonoperating Revenues:		293,061	126,393	35,000
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	124,993	14,019	-
591-593	Debt Service	406,541	95,588	-
594-595	Capital Expenditures	483,964	234,562	63,178
597	Transfers-Out	36,000	36,000	-
Total Nonoperating Expenditures:		1,051,497	380,170	63,178
Net Increase (Decrease) in Cash and Investments:		567,678	83,884	53,473
Ending Cash and Investments				
5081000	Reserved	1,098,545	852,825	-
5088000	Unreserved	5,723,387	2,264,482	452,534
Total Ending Cash and Investments		6,821,932	3,117,307	452,534

The accompanying notes are an integral part of this statement.

104 Hotel/Motel Tax Fund	300 Capital Facilities Fund	401 Water Fund	402 Sewer Fund	403 Solid Waste Fund
-	-	245,721	-	-
70,954	177,211	1,047,262	1,169,185	111,436
-	-	-	-	-
14,903	19,198	-	-	-
-	-	-	-	-
-	17,713	9,874	-	-
-	-	1,401,678	789,191	318,121
-	-	22,370	17,687	-
423	18,565	9,519	47,268	888
15,325	55,475	1,443,441	854,146	319,009
-	-	-	-	-
-	-	-	-	-
-	-	847,499	596,453	325,672
-	-	-	-	-
10,969	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
10,969	-	847,499	596,453	325,672
4,356	55,475	595,942	257,693	(6,663)
-	-	130,668	-	-
-	-	-	-	-
-	1,000	-	-	-
-	1,000	130,668	-	-
-	-	110,973	-	-
-	-	310,952	-	-
30,159	36,950	51,835	67,279	-
-	-	-	-	-
30,159	36,950	473,761	67,279	-
(25,803)	19,525	252,850	190,414	(6,663)
-	-	245,721	-	-
45,151	196,736	1,300,111	1,359,599	104,773
45,151	196,736	1,545,831	1,359,599	104,773

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	001 General Fund	101 Street
Beginning Cash and Investments				
30810	Reserved	1,397,940	1,152,219	-
30880	Unreserved	4,986,386	2,084,866	298,204
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,777,285	1,584,046	163,097
320	Licenses and Permits	34,618	34,618	-
330	Intergovernmental Revenues	415,939	276,605	137,792
340	Charges for Goods and Services	2,463,152	145,228	289
350	Fines and Penalties	52,719	32,851	-
360	Miscellaneous Revenues	215,826	138,551	5,766
Total Operating Revenues:		4,959,539	2,211,900	306,944
Operating Expenditures				
510	General Government	408,314	408,314	-
520	Public Safety	1,046,187	1,046,187	-
530	Utilities	1,625,359	-	-
540	Transportation	142,507	-	142,507
550	Natural and Economic Environment	37,945	28,468	-
560	Social Services	1,153	1,153	-
570	Culture and Recreation	205,596	205,596	-
Total Operating Expenditures:		3,467,062	1,689,718	142,507
Net Operating Increase (Decrease):		1,492,478	522,182	164,437
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	739,911	106,520	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	28,400	-	28,400
Total Nonoperating Revenues:		768,311	106,520	28,400
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	583,541	520,385	-
591-593	Debt Service	1,157,006	94,866	-
594-595	Capital Expenditures	621,914	188,712	91,979
597	Transfers-Out	28,400	28,400	-
Total Nonoperating Expenditures:		2,390,860	832,363	91,979
Net Increase (Decrease) in Cash and Investments:		(130,072)	(203,661)	100,858
Ending Cash and Investments				
5081000	Reserved	971,898	726,178	-
5088000	Unreserved	5,282,356	2,307,246	399,061
Total Ending Cash and Investments		6,254,254	3,033,424	399,061

The accompanying notes are an integral part of this statement.

104 Hotel/Motel Tax Fund	300 Capital Facilities Fund	401 Water Fund	402 Sewer Fund	403 Solid Waste Fund
-	-	245,721	-	-
64,932	161,132	1,285,096	979,846	112,309
-	-	-	-	-
15,091	15,050	-	-	-
-	-	-	-	-
-	-	-	-	1,542
-	-	1,274,769	727,178	315,687
-	-	19,868	-	-
408	1,029	14,405	54,855	814
15,499	16,079	1,309,042	782,033	318,044
-	-	-	-	-
-	-	-	-	-
-	-	772,916	533,526	318,917
-	-	-	-	-
9,477	-	-	-	-
-	-	-	-	-
-	-	-	-	-
9,477	-	772,916	533,526	318,917
6,022	16,079	536,126	248,507	(873)
-	-	633,255	136	-
-	-	-	-	-
-	-	-	-	-
-	-	633,255	136	-
-	-	63,157	-	-
-	-	1,062,139	-	-
-	-	281,918	59,304	-
-	-	-	-	-
-	-	1,407,214	59,304	-
6,022	16,079	(237,833)	189,339	(873)
-	-	245,721	-	-
70,954	177,211	1,047,262	1,169,185	111,436
70,954	177,211	1,292,983	1,169,185	111,436

The accompanying notes are an integral part of this statement.

City of Connell
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	001 General Fund	101 Street
Beginning Cash and Investments				
30810	Reserved	1,324,283	1,078,843	-
30880	Unreserved	3,936,635	1,961,878	105,319
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,677,384	1,503,793	139,233
320	Licenses & Permits	36,508	36,508	-
330	Intergovernmental Revenues	653,567	223,695	404,618
340	Charges for Goods and Services	2,451,702	148,169	-
350	Fines & Penalties	55,664	34,822	-
360	Miscellaneous Revenues	267,390	77,269	6,005
Total Operating Revenues:		5,142,215	2,024,256	549,856
Operating Expenditures				
510	General Government	440,789	440,789	-
520	Public Safety	983,283	983,283	-
530	Utilities	1,511,945	1,011	-
540	Transportation	150,748	-	150,748
550	Natural and Economic Environment	14,683	6,760	-
560	Social Services	950	950	-
570	Culture And Recreation	192,481	192,481	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		3,294,879	1,625,274	150,748
Net Operating Increase (Decrease):		1,847,336	398,982	399,108
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	84,682	83,432	-
391-393	Debt Proceeds	210,181	-	-
397	Transfers-In	32,257	-	32,257
Total Nonoperating Revenues:		327,120	83,432	32,257
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	76,159	13,622	-
591-593	Debt Service	412,271	94,159	-
594-595	Capital Expenditures	530,363	146,015	238,478
597	Transfers-Out	32,257	32,257	-
Total Nonoperating Expenditures:		1,051,050	286,053	238,478
Net Increase (Decrease) in Cash and Investments:		1,123,406	196,361	192,887
Ending Cash and Investments				
5081000	Reserved	1,397,940	1,152,219	-
5088000	Unreserved	4,986,384	2,084,862	298,206
Total Ending Cash and Investments		6,384,324	3,237,081	298,206

The accompanying notes are an integral part of this statement.

104 Hotel/Motel Tax Fund	300 Capital Facilities Fund	401 Water Fund	402 Sewer Fund	403 Solid Waste Fund
-	-	245,440	-	-
59,132	139,854	851,942	713,420	105,090
-	-	-	-	-
13,446	20,912	-	-	-
-	-	-	-	-
-	-	25,254	-	-
-	-	1,276,422	711,137	315,974
-	-	20,842	-	-
278	365	140,007	40,392	3,074
13,724	21,277	1,462,525	751,529	319,048
-	-	-	-	-
-	-	-	-	-
-	-	743,630	455,476	311,828
-	-	-	-	-
7,923	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
7,923	-	743,630	455,476	311,828
5,801	21,277	718,895	296,053	7,220
-	-	1,200	50	-
-	-	210,181	-	-
-	-	-	-	-
-	-	211,381	50	-
-	-	62,537	-	-
-	-	318,112	-	-
-	-	116,192	29,678	-
-	-	-	-	-
-	-	496,841	29,678	-
5,801	21,277	433,435	266,425	7,220
-	-	245,721	-	-
64,933	161,131	1,285,097	979,845	112,310
64,933	161,131	1,530,818	979,845	112,310

The accompanying notes are an integral part of this statement.

City of Connell
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	633 State Remittance Fund
308	Beginning Cash and Investments	10,745	10,745
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	30,285	30,285
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	34,677	34,677
	Net Increase (Decrease) in Cash and Investments:	(4,392)	(4,392)
508	Ending Cash and Investments	6,353	6,353

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	633 State Remittance Fund
308	Beginning Cash and Investments	9,911	9,911
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	28,988	28,988
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	28,153	28,153
	Net Increase (Decrease) in Cash and Investments:	835	835
508	Ending Cash and Investments	10,745	10,745

The accompanying notes are an integral part of this statement.

City of Connell
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	633 State Remittance Fund
308	Beginning Cash and Investments	8,964	8,964
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	32,931	32,931
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	31,983	31,983
	Net Increase (Decrease) in Cash and Investments:	948	948
508	Ending Cash and Investments	9,912	9,912

The accompanying notes are an integral part of this statement.

CITY OF CONNELL
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **City of Connell** was incorporated on **November 28, 1910** and operates under the laws of the state of Washington applicable to a **Non-Charter Code City**. The **City of Connell** is a general purpose local government and provides **public safety, fire protection, street improvements, parks and recreation, general administrative services, sewer service, and a city owned water utility.**

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

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

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund (001)

This fund is the primary operating fund of the government. 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 specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

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.

FIDUCIARY FUND TYPES:

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

Agency Funds (600-699)

These funds are used to account assets that government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The **City of Connell** adopts annual appropriated budgets for **general, special revenue, capital project, enterprise, and agency** 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	Final Appropriated Amounts	Actual Expenditures	Variance
001 General Fund	\$3,324,600.00	\$2,228,947.09	\$1,095,652.91
002 General Reserve Fund	\$1,132,890.00	\$163,269.18	\$969,620.82
101 Street Fund	\$960,650.00	\$210,080.00	\$750,570.00
104 Hotel/Motel Tax Fund	\$74,150.00	\$41,128.65	\$33,021.35
111 General Support Fund	\$849,230.00	\$0.00	\$849,230.00
300 Capital Facilities Fund	\$414,850.00	\$36,949.99	\$377,900.01
401 Water Utility Dept Fund	\$2,150,860.00	\$1,320,834.79	\$830,025.21
402 Sewer Utility Dept Fund	\$1,875,300.00	\$663,731.55	\$1,211,568.45
403 Solid Waste Fund	\$410,100.00	\$325,671.91	\$84,428.09
414 DWSRF Loan (CTED)	\$27,590.00	\$27,584.12	\$5.88
415 Water/Sewer Bond Resrv	\$245,440.00	\$0.00	\$245,440.00
416 Water/Sewer Bond Rdm	\$322,530.00	\$224,355.00	\$98,175.00
633 State Remittance Fund	\$56,400.00	\$34,676.78	\$21,723.22

Note: Funds have been listed above as approved by ordinance and reflect all interfund transfers. For all other reporting purposes Funds 001, 002, and 111 are combined and reported on Fund 001, and Funds 401, 414, 415, and 416 are combined and reported on Fund 401. When reporting combined funds interfund transfers between combined funds are not reflected.

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 Connell's** legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Non union employees may accumulate up to 240 hours of vacation leave, union employees may only carry over 160 hours from one calendar year to the next. Vacation leave is payable upon separation or retirement of regular full-time employees.

Non union employees may accumulate up to 720 hours of sick leave, union employees may accumulate up to 132 days of sick leave. Upon an employee's eligibility for retirement, the City shall compensate the employee for accrued sick leave at 25% for 5-20 years of service or at 50% for service over and above 20 years of the employee's last recorded pay rate.

Employees with at least five (5) consecutive years of service who leave the City's employment in good standing without entering retirement, and have not been terminated with cause, are eligible to be compensated for accrued sick leave at the rate of 25%.

G. Long-Term Debt See Note 5, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of land sales, compensation for loss or impairment, and transfers-in and out between funds.

I. Risk Management

The City of Connell is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program 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 program was formed on September 1, 1988 when 34 cities 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 1, 2015 there are 210 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown, and crime protection; and liability, including general, automobile, and wrongful acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of wrongful acts and law enforcement liability which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible

for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,140,107.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for the first \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of pumps and motors \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminating participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended December 1, 2015, were \$627,702.49.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council.

Reservations on Ending Cash and Investments consist of:

Fund No. 111 – General Support Fund - Per Ordinance No. 828: Disbursements shall only be made by a unanimous Council vote or by a vote in which all Council members (whether present or not) except one Council member vote in favor of such disbursement.

Fund No. 415 – Water/Sewer Bond Reserve – USDA Bonds & Farm Bonds reserve requirements: reserve account requirement shall mean an amount equal to the Maximum Annual Debt service on all outstanding Bonds. These reserve funds are to be used to make the last annual payment of these outstanding bonds.

NOTE 2 – DEPOSITS AND INVESTMENTS

The City of Connell has an established policy for the investment of City Funds. It is the City's goal to have seventy-five percent (75%) or more of the City's entire cash and cash equivalent assets invested while maintaining a cash balance of \$1,000,000. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City of Connell or its agent in the government's name.

LGIP's are reported at fair market value and securities are reported at original face. Investments by type at December 31, 2015 are as follows:

Local Government Investment Pool	\$ 519,174.39
US Government Agency Securities	\$ 4,702,000.00
Public Fund Money Market Account	\$ 0
Total	\$ 5,221,174.39

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 Connell. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Connell's regular levy for the year 2015 was 3.03919351 per \$1,000 on an assessed valuation of \$145,612,972 for a total regular levy of \$442,546.00.

NOTE 4 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2015:

Borrowing Fund	Lending Fund	Balance 1/1/2015	New Loans	Repayments	Balance 12/31/2015
401	111	\$ 523,506.25		\$ 63,182.13	\$ 460,324.12
401	111	\$ 500,000.00		\$ 47,791.04	\$ 452,208.96
	Totals	\$1,023,506.25		\$110,973.17	\$ 912,533.08

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liability of the City of Connell and summarizes the City's debt transactions for year ended Dec 31, 2015.

The debt service requirements for the general obligation fund and revenue bonds, including both principle and interest, are as follows:

Year	Principal	Interest	Total
2016	\$ 166,505.40	\$ 92,135.33	\$ 258,640.73
2017	\$ 170,914.05	\$ 87,012.77	\$ 257,926.82
2018	\$ 175,524.21	\$ 81,688.74	\$ 257,212.95
2019	\$ 690,505.02	\$ 76,153.94	\$ 766,658.96
2020	\$ 151,831.96	\$ 44,890.71	\$ 196,722.67
2021-2025	\$ 981,391.01	\$ 141,462.08	\$ 1,122,853.09
2026-2030	\$ 290,860.06	\$ 9,851.03	\$ 300,711.09
2031-2035	\$ 228,468.33	\$ 5,140.54	\$ 233,608.87
2036-2040	\$ 228,468.34	\$ 2,284.68	\$ 230,753.02
2041	\$ 45,693.67	\$ 114.23	\$ 45,807.90
	\$ 3,130,162.06	\$ 540,734.04	\$ 3,670,896.10

NOTE 6 - PENSION PLANS

A. State Sponsored Pension Plans

Substantially all City of Connell full-time and qualifying part-time employees participate in the PERS or LEOFF plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The City also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2015 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	%	\$
PERS 2/3	.013159%	565,374
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	.017525%	-180,122
VFFRPF PD Rsrv	.22%	-41,950
VFFRPF Fire	.29%	-55,135
PERS 1 UAAL		

LEOFF Plan 2

The City also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

B. Local Government Pension Plans

NOTE 7 - OTHER DISCLOSURES

In the opinion of management, the City of Connell's insurance policies are adequate to pay all known or pending claims.

A lawsuit was filed against the City of Connell by Jeffrey McKee claiming a violation of the Open Public Records Act. Although the City did not believe that the case had any merit, the Connell City Council agreed to accept a settlement offer from Mr. McKee in the sum of \$463.80 and the lawsuit was dismissed.

Litigation has been threatened by a landowner that alleges that the City's denial of a right to maintain a pigeon farm within the City limits is violative of the law and the City municipal code. The claim is covered by insurance to an extent. The City does not believe that the claim is meritorious, but the ultimate result is uncertain.

HEALTH & WELFARE

The City of Connell is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP. The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination

will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

CITY OF CONNELL
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **City of Connell** was incorporated on **November 28, 1910** and operates under the laws of the state of Washington applicable to a **Non-Charter Code City**. The **City of Connell** is a general purpose local government and provides **public safety, fire protection, street improvements, parks and recreation, general administrative services, sewer service, and a city owned water utility.**

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

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

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

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This fund is the primary operating fund of the government. 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 government.

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.

FIDUCIARY FUND TYPES:

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

Agency Funds (600-699)

These funds are used to account assets that government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The **City of Connell** adopts annual appropriated budgets for **general, special revenue, capital project, enterprise, and agency** 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	Final Appropriated Amounts	Actual Expenditures	Variance
001 General Fund	\$2,856,900.00	\$2,032,081.21	\$824,818.79
002 General Reserve Fund	\$1,012,890.00	\$128,708.16	\$884,181.84
101 Street Fund	\$625,510.00	\$234,486.68	\$391,023.32
104 Hotel/Motel Tax Fund	\$65,150.00	\$9,476.88	\$55,673.12
111 General Management	\$1,221,420.00	\$500,000.00	\$721,420.00
300 Capital Facilities Fund	\$187,100.00	\$0.00	\$187,100.00
401 Water Utility Dept Fund	\$2,896,050.00	\$2,180,130.71	\$715,919.29
402 Sewer Utility Dept Fund	\$1,603,300.00	\$592,829.88	\$1,010,470.12
403 Solid Waste Fund	\$412,100.00	\$318,916.87	\$93,183.13
414 DWSRF Loan (CTED)	\$28,190.00	\$28,183.77	\$6.23
415 Water/Sewer Bond Resrv	\$245,440.00	\$0.00	\$245,440.00
416 Water/Sewer Bond Rdm	\$1,076,210.00	\$979,202.50	\$97,007.50
633 State Remittance Fund	\$56,400.00	\$28,153.37	\$28,246.63

Note: Funds have been listed above as approved by ordinance and reflect all interfund transfers. For all other reporting purposes Funds 001, 002, and 111 are combined and reported on Fund 001, and Funds 401, 414, 415, and 416 are combined and reported on Fund 401. When reporting combined funds interfund transfers between combined funds are not reflected.

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 Connell's** legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Non union employees may accumulate up to 240 hours of vacation leave, union employees may only carry over 160 hours from one calendar year to the next. Vacation leave is payable upon separation or retirement of regular full-time employees.

Non union employees may accumulate up to 720 hours of sick leave, union employees may accumulate up to 132 days of sick leave. Upon an employee's eligibility for retirement, the City shall compensate the employee for accrued sick leave at 25% for 5-20 years of service or at 50% for service over and above 20 years of the employee's last recorded pay rate.

Employees with at least five (5) consecutive years of service who leave the City's employment in good standing without entering retirement, and have not been terminated with cause, are eligible to be compensated for accrued sick leave at the rate of 25%.

G. Long-Term Debt See Note 5, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of land sales, compensation for loss or impairment, and transfers-in and out between funds.

I. Risk Management

The City of Connell is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program 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 program was formed on September 1, 1988 when 34 cities 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 1, 2014 there are 223 members in the program.

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection; and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,259,396, to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for the first \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of pumps and motors \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1, to December 1st beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year will begin on December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members/brokers with Canfield, who has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended December 1, 2014, were \$1,817,654.59.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council.

Reservations on Ending Cash and Investments consist of:

Fund No. 111 – General Support Fund - Per Ordinance No. 828: Disbursements shall only be made by a unanimous Council vote or by a vote in which all Council members (whether present or not) except one Council member vote in favor of such disbursement.

Fund No. 415 – Water/Sewer Bond Reserve – USDA Bonds & Farm Bonds reserve requirements: reserve account requirement shall mean an amount equal to the Maximum Annual Debt service on all outstanding Bonds. These reserve funds are to be used to make the last annual payment of these outstanding bonds.

NOTE 2 – DEPOSITS AND INVESTMENTS

The City adopted Resolution No. 2012-15 establishing a policy for the investment of City Funds. It is the City of Connell's goal to have seventy-five percent (75%) of the City's entire cash and cash equivalent assets invested. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City of Connell or its agent in the government's name.

Investments are reported at fair market value. Investments by type at December 31, 2014 are as follows:

Local Government Investment Pool	\$ 518,322.59
US Government Agency Securities	\$ 4,215,000.00
Public Fund Money Market Account	\$ 0
Total	\$ 4,733,322.59

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 Connell. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Connell's regular levy for the year 2014 was 2.98695492 per \$1,000 on an assessed valuation of \$145,380,835 for a total regular levy of \$434,246.

NOTE 4 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2014:

Borrowing Fund	Lending Fund	Balance 1/1/2014	New Loans	Repayments	Balance 12/31/2014
401	111	\$586,062.81		\$62,556.56	\$ 523,506.25
401	111		\$500,000		\$ 500,000.00
	Totals	\$586,062.81	\$500,000	\$62,556.56	\$1,023,506.25

NOTE 5 – DEBT SERVICE REQUIREMENTS

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

The debt service requirements for the general obligation fund and revenue bonds, including both principle and interest, are as follows:

Year	Revenue Bonds	Other Debt	Total Debt
2015	\$ 259,354.61	\$ 36,825.32	\$ 296,179.93
2016	\$ 258,640.73		\$ 258,640.73
2017	\$ 257,926.82		\$ 257,926.82
2018	\$ 257,212.95		\$ 257,212.95
2019	\$ 766,658.96		\$ 766,658.96
2020-2024	\$ 1,059,955.09		\$ 1,059,955.09
2025-2029	\$ 669,355.15		\$ 669,355.15
2030-2034	\$ 234,180.05		\$ 234,180.05
2035-2039	\$ 231,324.18		\$ 231,324.18
2040-2041	\$ 91,730.05		\$ 91,730.05
	\$ 4,086,338.59	\$ 36,825.32	\$ 4,123,163.91

NOTE 6 - PENSION PLANS

Substantially all City of Connell full-time and qualifying part-time employees participate in the PERS or LEOFF 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'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 8 - OTHER DISCLOSURES

In the opinion of management, the City of Connell's insurance policies are adequate to pay all known or pending claims.

A lawsuit has been filed against the City of Connell by Jeffrey McKee claiming a violation of the Open Public Records Act. The City does not believe that the case has any merit and is defending it.

CITY OF CONNELL
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **City of Connell** 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 Connell** was incorporated on **November 28, 1910** and operates under the laws of the state of Washington applicable to a Non-Charter Code City. The **City of Connell** is a general purpose government and provides public safety, fire protection, street improvements, parks and recreation, general administrative services and a city owned water utility. The **City of Connell** 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 Connell** 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 Connell'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 Connell**:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund (001)

This fund is the primary operating fund of the **City of Connell**. 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 specific revenue sources that are restricted or committed to expenditures for specified purposes of the **City of Connell**.

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.

FIDUCIARY FUND TYPES:

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

Agency Funds (600-699)

These funds are used to account assets that **City of Connell** 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 Connell** 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 Connell** adopts annual appropriated budgets for **general, special revenue, capital project, enterprise, and agency** 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	Final Appropriated Amounts	Actual Expenditures	Variance
001 General Fund	\$2,713,600.00	\$1,911,322.18	\$802,277.82
002 General Reserve Fund	\$987,430.00	\$134,664.62	\$852,765.38
101 Street Fund	\$531,850.00	\$389,226.31	\$142,623.69
104 Hotel/Motel Tax Fund	\$60,100.00	\$7,923.30	\$52,176.70
111 General Management	\$1,146,730.00	\$0.00	\$1,146,730.00
300 Capital Facilities Fund	\$145,550.00	\$0.00	\$145,550.00
401 Water Utility Dept Fund	\$1,921,620.00	\$1,239,868.94	\$681,751.06
402 Sewer Utility Dept Fund	\$1,348,950.00	\$485,153.24	\$863,796.76
403 Solid Waste Fund	\$386,800.00	\$311,829.21	\$74,970.79
414 DWSRF Loan (CTED)	\$28,790.00	\$28,783.43	\$6.57
415 Water/Sewer Bond Resrv	\$245,440.00	\$0.00	\$245,440.00
416 Water/Sewer Bond Rdm	\$333,050.00	\$235,120.93	\$97,929.07
633 State Remittance Fund	\$56,400.00	\$31,984.16	\$24,415.84
Note: Funds have been listed above as approved by ordinance and reflect all interfund transfers. For all other reporting purposes Funds 001, 002, and 111 are combined and reported on Fund 001, and Funds 401, 414, 415, and 416 are combined and reported on Fund 401. When reporting combined funds interfund transfers between combined funds are not reflected.			

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 Connell's** legislative body.

D. Cash

It is the **City of Connell'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 Connell** 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. Derivatives and Similar Transactions

There were no derivatives or similar transactions for the City of Connell for the 2013 fiscal period.

H. Capital Assets

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

I. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement of regular full-time employees.

Sick leave may be accumulated up to 720 hours. Upon an employee's eligibility for retirement, the City shall compensate the employee for accrued sick leave at 25% for 5-20 years of service or at 50% for service over and above 20 years of the employee's last recorded pay rate.

Employees with at least five (5) consecutive years of service who leave the City's employment in good standing without entering retirement, and have not been terminated with cause, are eligible to be compensated for accrued sick leave at the rate of 25%.

J. Long-Term Debt See Note 5, Debt Service Requirements.

K. Other Financing Sources or Uses

The City's Other Financing Sources or Uses consist of land sales, compensation for loss or impairment, and transfers-in and out between funds.

L. Risk Management

The City of Connell is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program 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 program was formed on September 1, 1988 when 34 cities 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 September 1, 2013, there are 236 members in the program.

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection; and liability, including general, automobile and wrongful acts, are included to fit member's various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,247,000, to cap the total claims paid by the program in one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for the first \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500 (\$10,000 for pumps and motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31 2013, were \$1,423,019.12.

M. Reserved Fund Balance

Fund No. 111 – General Support Fund - Per Ordinance No. 828: Disbursements shall only be made by a unanimous Council vote or by a vote in which all Council members (whether present or not) except one Council member vote in favor of such disbursement.

Fund No. 415 – Water/Sewer Bond Reserve – Farm Reserve account requirement: reserve account requirement shall mean an amount equal to the Maximum Annual Debt service on all outstanding Bonds.

NOTE 2 - INVESTMENTS

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

Investments are stated at fair market value.

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

Local Government Investment Pool	\$ 967,730.54
US Government Agency Securities	\$ 3,715,000.00
Public Fund Money Market Account	<u>\$50,725.83</u>
Total	\$4,733,456.37

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 Connell. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Connell's regular levy for the year 2013 was 3.169922 per \$1,000 on an assessed valuation of \$128,802,968 for a total regular levy of \$408,295.

NOTE 4 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2013:

Borrowing Fund	Lending Fund	Balance 1/1/2013	New Loans	Repayments	Balance 12/31/2013
401	111	\$648,000	\$	\$61,937.19	\$586,062.81
	Totals	\$648,000	\$0	\$61,937.19	\$586,062.81

NOTE 5 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liability of the City of Connell and summarizes the City's debt transactions for current fiscal year 2013.

The debt service requirements for the general obligation fund and revenue bonds, including both principle and interest, are as follows:

Year	Revenue Bonds	Other Debt	Total Debt
2014	\$ 265,340.99	\$ 90,964.40	\$ 356,305.39
2015	\$ 264,627.11	\$ 36,825.32	\$ 301,452.43
2016	\$ 263,913.24		\$ 263,913.24
2017	\$ 263,199.31		\$ 263,199.31
2018	\$ 262,485.46		\$ 262,485.46
2019-2023	\$ 1,594,135.51		\$ 1,594,135.51
2024-2028	\$ 1,148,758.32		\$ 1,148,758.32
2029-2033	\$ 768,551.19		\$ 768,551.19
2034-2038	\$ 765,695.39		\$ 765,695.39
2039-2043	\$ 671,566.40		\$ 671,566.40
2044	\$ 106,157.26		\$ 106,157.26
Totals	\$ 6,374,430.18	\$127,789.72	\$ 6,502,219.90

NOTE 6 - PENSION PLANS

Substantially all City of Connell full-time and qualifying part-time employees participate in the PERS or LEOFF 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'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 8 - OTHER DISCLOSURES

In the opinion of management, the City of Connell's insurance policies are adequate to pay all known or pending claims.

In December of 2011 the City received notice that a lawsuit had been started against the Connell Police Department for violations of the Washington Public Records Act. The matter was settled in February of 2013.

Correction to Schedule 9 2012 Annual Report: A correction was made in 2013 to the Schedule 9 2012 Annual Report that showed an addition of \$107,230.45, a reduction of \$1,620.00, and an ending Balance of \$105,610.45 for the Police Vehicle Lease. The reduction was actually an interest payment and was not a payment on the principal balance of the lease. The ending balance for the Police Vehicle Lease should have been \$107,230.45. For the Schedule 9 2013 Annual Report the beginning balance has been corrected to \$107,230.45.

City of Connell
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	Police Vehicle Lease	6/1/2015	36,461	-	36,461	-
263.51	Water Rights	4/29/2019	654,324	-	25,181	629,143
	Total General Obligation Debt/Liabilities:		690,784	-	61,642	629,143
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability		-	565,374	-	565,374
259.12	Compensated absences		76,094	20,353	-	96,447
263.82	DWSRF	10/1/2020	143,917	-	23,986	119,931
263.82	USDA	5/26/2040	1,016,182	-	158,128	858,053
263.82	Farm Bonds	2/1/2030	335,000	-	-	335,000
263.82	PW Trust Fund Water Improvements	6/1/2042	1,233,729	-	45,694	1,188,035
	Total Revenue and Other (non G.O.) Debt/Liabilities:		2,804,922	585,727	227,808	3,162,841
	Total Liabilities:		3,495,706	585,727	289,450	3,791,983

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
259.11	Compensated absences		39,073	7,218	-	46,291
263.51	Police Vehicle Lease	6/1/2015	72,199	-	35,739	36,461
263.51	Water Rights	4/29/2019	680,214	-	25,890	654,324
	Total General Obligation Debt/Liabilities:		791,487	7,218	61,629	737,075
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated absences		24,057	5,745	-	29,803
263.52	Public Works Vehicle/Equip Lease	4/1/2014	12,888	-	12,888	-
263.52	Public Works Vehicle/Equip Lease	4/1/2014	12,888	-	12,888	-
263.52	Public Works Vehicle/Equip Lease	4/1/2014	12,888	-	12,888	-
263.52	Public Works Vehicle/Equip Lease	4/1/2014	12,888	-	12,888	-
263.82	DWSRF	10/1/2020	167,903	-	23,986	143,917
263.82	USDA	5/26/2040	1,793,017	-	776,835	1,016,182
263.82	Farm Bonds	2/1/2030	435,000	-	100,000	335,000
263.82	PW Trust Fund Water Improvements	6/1/2042	1,279,423	-	45,694	1,233,729
	Total Revenue and Other (non G.O.) Debt/Liabilities:		3,750,953	5,745	998,068	2,758,631
	Total Liabilities:		4,542,440	12,963	1,059,697	3,495,706

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
259.11	Compensated absences		47,098	-	8,025	39,073
263.51	Police Vehicle Lease	6/1/2015	107,230	-	35,031	72,199
263.51	Water Rights	4/29/2019	704,073	-	23,859	680,214
	Total General Obligation Debt/Liabilities:		858,401	-	66,915	791,487
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated absences		20,017	4,040	-	24,057
263.52	Public Works Vehicle/Equip Lease	4/1/2014	25,161	-	12,273	12,888
263.52	Public Works Vehicle/Equip Lease	4/1/2014	25,161	-	12,273	12,888
263.52	Public Works Vehicle/Equip Lease	4/1/2014	25,161	-	12,273	12,888
263.52	Public Works Vehicle/Equip Lease	4/1/2014	25,161	-	12,273	12,888
263.82	DWSRF	10/1/2020	191,890	-	23,986	167,903
263.82	USDA	5/26/2040	1,820,145	-	27,129	1,793,017
263.82	Farm Bonds	2/1/2030	535,000	-	100,000	435,000
263.82	PW Trust Fund Water Improvements	6/1/2042	1,114,935	210,181	45,694	1,279,423
	Total Revenue and Other (non G.O.) Debt/Liabilities:		3,782,631	214,221	245,899	3,750,953
	Total Liabilities:		4,641,032	214,221	312,814	4,542,440

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov