

Washington State Auditor's Office
Financial Statements Audit Report

City of Connell
Franklin County

Audit Period
January 1, 2010 through December 31, 2012

Report No. 1010698

Issue Date
November 4, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

November 4, 2013

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,

TROY KELLEY
STATE AUDITOR

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Franklin County
January 1, 2010 through December 31, 2012**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**City of Connell
Franklin County
January 1, 2010 through December 31, 2012**

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, 2012, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 22, 2013.

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.

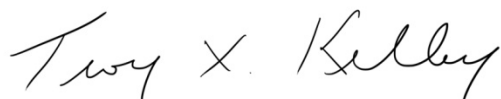
COMPLIANCE AND OTHER MATTERS

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 22, 2013

Independent Auditor's Report on Financial Statements

**City of Connell
Franklin County
January 1, 2010 through December 31, 2012**

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, 2012, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Connell, for the years ended December 31, 2012, 2011 and 2010, on the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

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

Purpose of this Report

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

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

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

TROY KELLEY
STATE AUDITOR

October 22, 2013

Financial Section

**City of Connell
Franklin County
January 1, 2010 through December 31, 2012**

FINANCIAL STATEMENTS

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City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2012

1 Of 3

BARS CODE		Total For All Funds	001 - General Fund	101 - Street
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	1,694,617.00	1,443,000.00	0.00
308.80	Unreserved	3,332,639.97	1,087,966.55	306,740.15
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	1,661,209.93	1,500,091.78	118,078.66
320	Licenses and Permits	49,906.29	49,906.29	0.00
330	Intergovernmental	1,624,385.85	259,427.97	105,190.37
340	Charges for Goods and Services	2,385,222.30	143,364.08	1,333.33
350	Fines and Penalties	58,864.01	36,776.96	0.00
360	Miscellaneous	253,463.60	73,827.26	247.29
370	Capital Contributions	0.00	0.00	0.00
390	Other Financing Sources	337,732.29	5,770.22	20,000.00
	Total Revenues and Other Financing Sources	6,370,784.27	2,069,164.56	244,849.65
Total Resources		11,398,041.24	4,600,131.11	551,589.80
Operating Expenditures				
510	General Government	391,655.16	391,655.16	0.00
520	Public Safety	947,575.45	947,575.45	0.00
530	Physical Environment	1,455,279.29	12,426.92	0.00
540	Transportation	118,119.08	0.00	118,119.08
550	Economic Environment	48,298.55	48,298.55	0.00
560	Mental and Physical Health	1,311.12	1,311.12	0.00
570	Culture and Recreational	190,038.10	171,052.18	0.00
Total Operating Expenditures		3,152,276.75	1,572,319.38	118,119.08
591-593	Debt Service	538,296.03	59,062.50	0.00
594-595	Capital Outlay	3,313,977.61	76,964.47	47,276.32
Total Expenditures		7,004,550.39	1,708,346.35	165,395.40
597-599	Other Financing Uses	300,875.72	20,000.00	280,875.72
Total Expenditures and Other Financing Uses		7,305,426.11	1,728,346.35	446,271.12
Excess (Deficit) of Resources Over Uses		4,092,615.13	2,871,784.76	105,318.68
380	Nonrevenues (Except 384)	1,282,445.83	165,170.58	0.00
580	Nonexpenditures (Except 584)	114,143.55	(3,765.28)	0.00
Ending Cash and Investments:				
508.10	Reserved	1,324,282.96	1,078,842.64	0.00
508.80	Unreserved	3,936,634.45	1,961,877.98	105,318.68

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2012

2 Of 3

BARS CODE		104 - Hotel/Motel Tax Fund	300 - Capital Facilities Fund	401 - Water Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	251,617.00
308.80	Unreserved	57,299.24	117,410.59	940,427.77
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	20,748.96	22,290.53	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	746,682.15	498,545.86
340	Charges for Goods and Services	0.00	0.00	1,218,478.37
350	Fines and Penalties	0.00	0.00	22,087.05
360	Miscellaneous	69.50	152.87	135,020.51
370	Capital Contributions	0.00	0.00	0.00
390	Other Financing Sources	0.00	280,875.72	31,086.35
	Total Revenues and Other Financing Sources	20,818.46	1,050,001.27	1,905,218.14
<i>Total Resources</i>		<i>78,117.70</i>	<i>1,167,411.86</i>	<i>3,097,262.91</i>
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	0.00	0.00	0.00
530	Physical Environment	0.00	0.00	702,607.03
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	18,985.92	0.00	0.00
	Total Operating Expenditures	18,985.92	0.00	702,607.03
591-593	Debt Service	0.00	0.00	478,560.22
594-595	Capital Outlay	0.00	1,027,557.87	1,884,876.02
	Total Expenditures	18,985.92	1,027,557.87	3,066,043.27
597-599	Other Financing Uses	0.00	0.00	0.00
	<i>Total Expenditures and Other Financing Uses</i>	<i>18,985.92</i>	<i>1,027,557.87</i>	<i>3,066,043.27</i>
Excess (Deficit) of Resources Over Uses		59,131.78	139,853.99	31,219.64
380	Nonrevenues (Except 384)	0.00	0.00	1,116,740.25
580	Nonexpenditures (Except 584)	0.00	0.00	50,577.71
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	245,440.32
508.80	Unreserved	59,131.78	139,853.99	851,941.86

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2012

3 Of 3

BARS CODE		402 - Sewer Fund	403 - Solid Waste Fund	
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	0.00
308.80	Unreserved	746,580.53	76,215.14	0.00
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	0.00	0.00	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	14,539.50	0.00
340	Charges for Goods and Services	705,564.18	316,482.34	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	44,004.21	141.96	0.00
370	Capital Contributions	0.00	0.00	0.00
390	Other Financing Sources	0.00	0.00	0.00
	Total Revenues and Other Financing Sources	749,568.39	331,163.80	0.00
<i>Total Resources</i>		<i>1,496,148.92</i>	<i>407,378.94</i>	<i>0.00</i>
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	0.00	0.00	0.00
530	Physical Environment	437,956.62	302,288.72	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
	Total Operating Expenditures	437,956.62	302,288.72	0.00
591-593	Debt Service	673.31	0.00	0.00
594-595	Capital Outlay	277,302.93	0.00	0.00
	Total Expenditures	715,932.86	302,288.72	0.00
597-599	Other Financing Uses	0.00	0.00	0.00
	<i>Total Expenditures and Other Financing Uses</i>	<i>715,932.86</i>	<i>302,288.72</i>	<i>0.00</i>
Excess (Deficit) of Resources Over Uses		780,216.06	105,090.22	0.00
380	Nonrevenues (Except 384)	535.00	0.00	0.00
580	Nonexpenditures (Except 584)	67,331.12	0.00	0.00
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	713,419.94	105,090.22	0.00

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-5

FUDICIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2012

1 Of 1

BARS CODE		Total For All Funds	633 - State Remittance Fund	
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	0.00
308.80	Unreserved	4,503.39	4,503.39	0.00
	Prior Period Adjustments (388.80 and 588.80)	0.00	0.00	0.00
Total Revenues and Other Financing Sources		0.00	0.00	0.00
Total Resources		4,503.39	4,503.39	0.00
Total Expenditures and Other Financing Uses		22,831.19	22,831.19	0.00
Excess (Deficit) of Resources Over Uses		(18,327.80)	(18,327.80)	0.00
380	Nonrevenues (Except 384)	36,551.22	36,551.22	0.00
580	Nonexpenditures (Except 584)	9,259.25	9,259.25	0.00
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	8,964.17	8,964.17	0.00

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2011

1 Of 3

BARS CODE		Total For All Funds	001 - General Fund	101 - Street
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	1,854,445.43	1,577,823.11	0.00
308.80	Unreserved	2,960,537.21	1,541,443.85	195,096.81
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	1,552,992.15	1,400,619.32	126,392.46
320	Licenses and Permits	85,385.06	85,385.06	0.00
330	Intergovernmental	457,008.12	308,549.31	136,952.71
340	Charges for Goods and Services	2,450,952.90	163,815.85	0.00
350	Fines and Penalties	43,018.78	32,191.69	0.00
360	Miscellaneous	341,033.49	45,789.87	260.28
370	Capital Contributions	4,565.57	0.00	0.00
390	Other Financing Sources	857,576.44	15,722.26	60,550.39
	Total Revenues and Other Financing Sources	5,792,532.51	2,052,073.36	324,155.84
Total Resources		10,607,515.15	5,171,340.32	519,252.65
Operating Expenditures				
510	General Government	438,083.91	438,083.91	0.00
520	Public Safety	869,187.05	869,187.05	0.00
530	Physical Environment	1,506,050.74	20,990.13	0.00
540	Transportation	149,259.77	335.67	148,924.10
550	Economic Environment	62,449.14	62,449.14	0.00
560	Mental and Physical Health	994.40	994.40	0.00
570	Culture and Recreational	173,696.58	160,497.35	0.00
Total Operating Expenditures		3,199,721.59	1,552,537.65	148,924.10
591-593	Debt Service	233,709.02	50,056.07	0.00
594-595	Capital Outlay	491,585.68	223,537.62	36,761.65
Total Expenditures		3,925,016.29	1,826,131.34	185,685.75
597-599	Other Financing Uses	841,854.18	167,027.43	26,826.75
Total Expenditures and Other Financing Uses		4,766,870.47	1,993,158.77	212,512.50
Excess (Deficit) of Resources Over Uses		5,840,644.68	3,178,181.55	306,740.15
380	Nonrevenues (Except 384)	667,184.80	17,804.80	0.00
580	Nonexpenditures (Except 584)	1,480,572.51	665,019.80	0.00
Ending Cash and Investments:				
508.10	Reserved	1,694,617.00	1,443,000.00	0.00
508.80	Unreserved	3,332,639.97	1,087,966.55	306,740.15

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2011

2 Of 3

BARS CODE		104 - HOTEL/MOTEL TAX FUND Actual Amount	300 - Capital Facilities Fund Actual Amount	401 - Water Fund Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	276,622.32
308.80	Unreserved	55,207.80	0.00	530,713.27
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	15,187.16	10,793.21	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	11,506.10	0.00
340	Charges for Goods and Services	0.00	0.00	1,222,454.41
350	Fines and Penalties	0.00	0.00	10,827.09
360	Miscellaneous	103.51	140.34	267,035.15
370	Capital Contributions	0.00	0.00	0.00
390	Other Financing Sources	0.00	133,303.79	648,000.00
	Total Revenues and Other Financing Sources	15,290.67	155,743.44	2,148,316.65
<i>Total Resources</i>		<i>70,498.47</i>	<i>155,743.44</i>	<i>2,955,652.24</i>
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	0.00	0.00	0.00
530	Physical Environment	0.00	0.00	724,119.92
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	13,199.23	0.00	0.00
	Total Operating Expenditures	13,199.23	0.00	724,119.92
591-593	Debt Service	0.00	0.00	182,312.99
594-595	Capital Outlay	0.00	38,332.85	109,516.31
	Total Expenditures	13,199.23	38,332.85	1,015,949.22
597-599	Other Financing Uses	0.00	0.00	648,000.00
	<i>Total Expenditures and Other Financing Uses</i>	<i>13,199.23</i>	<i>38,332.85</i>	<i>1,663,949.22</i>
Excess (Deficit) of Resources Over Uses		57,299.24	117,410.59	1,291,703.02
380	Nonrevenues (Except 384)	0.00	0.00	649,230.00
580	Nonexpenditures (Except 584)	0.00	0.00	748,888.25
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	251,617.00
508.80	Unreserved	57,299.24	117,410.59	940,427.77

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2011

3 Of 3

BARS CODE		402 - Sewer Fund	403 - Solid Waste Fund	
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	0.00
308.80	Unreserved	560,084.29	77,991.19	0.00
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	0.00	0.00	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	0.00	0.00
340	Charges for Goods and Services	753,714.40	310,968.24	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	21,083.52	6,620.82	0.00
370	Capital Contributions	4,565.57	0.00	0.00
390	Other Financing Sources	0.00	0.00	0.00
	Total Revenues and Other Financing Sources	779,363.49	317,589.06	0.00
<i>Total Resources</i>		<i>1,339,447.78</i>	<i>395,580.25</i>	<i>0.00</i>
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	0.00	0.00	0.00
530	Physical Environment	460,961.58	299,979.11	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
	Total Operating Expenditures	460,961.58	299,979.11	0.00
591-593	Debt Service	1,339.96	0.00	0.00
594-595	Capital Outlay	64,051.25	19,386.00	0.00
	Total Expenditures	526,352.79	319,365.11	0.00
597-599	Other Financing Uses	0.00	0.00	0.00
	<i>Total Expenditures and Other Financing Uses</i>	<i>526,352.79</i>	<i>319,365.11</i>	<i>0.00</i>
Excess (Deficit) of Resources Over Uses		813,094.99	76,215.14	0.00
380	Nonrevenues (Except 384)	150.00	0.00	0.00
580	Nonexpenditures (Except 584)	66,664.46	0.00	0.00
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	746,580.53	76,215.14	0.00

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-5

FUDICIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2011

1 Of 1

BARS CODE		Total For All Funds	633 - State Remittance Fund	
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	0.00
308.80	Unreserved	4,965.33	4,965.33	0.00
	Prior Period Adjustments (388.80 and 588.80)	0.00	0.00	0.00
Total Revenues and Other Financing Sources		0.00	0.00	0.00
Total Resources		4,965.33	4,965.33	0.00
Total Expenditures and Other Financing Uses		27,690.81	27,690.81	0.00
Excess (Deficit) of Resources Over Uses		(22,725.48)	(22,725.48)	0.00
380	Nonrevenues (Except 384)	30,550.96	30,550.96	0.00
580	Nonexpenditures (Except 584)	3,322.09	3,322.09	0.00
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	4,503.39	4,503.39	0.00

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2010

1 Of 4

BARS CODE		Total For All Funds	001 - General Fund	101 - Street
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	1,781,974.24	0.00	0.00
308.80	Unreserved	3,152,168.76	641,077.18	12,818.38
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	1,308,391.40	1,125,727.69	18,033.14
320	Licenses and Permits	94,359.11	94,359.11	0.00
330	Intergovernmental	811,829.81	196,937.06	74,392.99
340	Charges for Goods and Services	2,197,960.96	130,870.14	0.00
350	Fines and Penalties	36,962.06	36,962.06	0.00
360	Miscellaneous	375,044.09	151,225.20	626.18
370	Capital Contributions	359,633.06	0.00	0.00
390	Other Financing Sources	1,148,566.11	861,684.35	267,994.33
	Total Revenues and Other Financing Sources	6,332,746.60	2,597,765.61	361,046.64
Total Resources		11,266,889.60	3,238,842.79	373,865.02
Operating Expenditures				
510	General Government	600,634.03	600,634.03	0.00
520	Public Safety	741,089.86	738,711.26	0.00
530	Physical Environment	1,533,305.72	48,321.17	0.00
540	Transportation	189,943.43	0.00	178,768.21
550	Economic Environment	6,633.06	6,633.06	0.00
560	Mental and Physical Health	852.67	852.67	0.00
570	Culture and Recreational	169,617.18	142,081.66	0.00
Total Operating Expenditures		3,242,075.95	1,537,233.85	178,768.21
591-593	Debt Service	185,458.20	0.00	0.00
594-595	Capital Outlay	1,789,605.66	81,420.82	0.00
Total Expenditures		5,217,139.81	1,618,654.67	178,768.21
597-599	Other Financing Uses	1,148,245.87	78,887.43	0.00
Total Expenditures and Other Financing Uses		6,365,385.68	1,697,542.10	178,768.21
Excess (Deficit) of Resources Over Uses		4,901,503.92	1,541,300.69	195,096.81
380	Nonrevenues (Except 384)	82,655.00	15,283.00	0.00
580	Nonexpenditures (Except 584)	169,176.28	15,139.84	0.00
Ending Cash and Investments:				
508.10	Reserved	1,854,445.43	0.00	0.00
508.80	Unreserved	2,960,537.21	1,541,443.85	195,096.81

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2010

2 Of 4

BARS CODE		103 - Community Policing Fund Actual Amount	104 - HOTEL/MOTEL TAX FUND Actual Amount	108 - Contingency Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	0.00
308.80	Unreserved	11,231.29	68,875.09	43,649.44
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	0.00	13,685.30	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	0.00	0.00
340	Charges for Goods and Services	0.00	0.00	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	21.33	182.93	91.36
370	Capital Contributions	0.00	0.00	0.00
390	Other Financing Sources	0.00	0.00	0.00
	Total Revenues and Other Financing Sources	21.33	13,868.23	91.36
<i>Total Resources</i>		<i>11,252.62</i>	<i>82,743.32</i>	<i>43,740.80</i>
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	1,202.60	0.00	0.00
530	Physical Environment	0.00	0.00	0.00
540	Transportation	0.00	0.00	0.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	27,535.52	0.00
	Total Operating Expenditures	1,202.60	27,535.52	0.00
591-593	Debt Service	0.00	0.00	0.00
594-595	Capital Outlay	0.00	0.00	0.00
	Total Expenditures	1,202.60	27,535.52	0.00
597-599	Other Financing Uses	10,050.02	0.00	43,740.80
	<i>Total Expenditures and Other Financing Uses</i>	<i>11,252.62</i>	<i>27,535.52</i>	<i>43,740.80</i>
Excess (Deficit) of Resources Over Uses		0.00	55,207.80	0.00
380	Nonrevenues (Except 384)	0.00	0.00	0.00
580	Nonexpenditures (Except 584)	0.00	0.00	0.00
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	0.00	55,207.80	0.00

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2010

3 Of 4

BARS CODE		111 - General Support Fund	199 - Grants Management Fund	300 - Capital Facilities Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	1,505,351.92	0.00	0.00
308.80	Unreserved	0.00	30.62	1,149,544.37
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	0.00	0.00	150,945.27
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	308,638.23	231,861.53
340	Charges for Goods and Services	0.00	0.00	0.00
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	6,466.77	3,208.38	42,802.10
370	Capital Contributions	0.00	0.00	0.00
390	Other Financing Sources	0.00	0.00	18,887.43
	Total Revenues and Other Financing Sources	6,466.77	311,846.61	444,496.33
<i>Total Resources</i>		<i>1,511,818.69</i>	<i>311,877.23</i>	<i>1,594,040.70</i>
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	0.00	0.00	0.00
530	Physical Environment	0.00	0.00	0.00
540	Transportation	0.00	0.00	7,026.22
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
	Total Operating Expenditures	0.00	0.00	7,026.22
591-593	Debt Service	0.00	0.00	0.00
594-595	Capital Outlay	0.00	293,655.19	589,668.90
	Total Expenditures	0.00	293,655.19	596,695.12
597-599	Other Financing Uses	0.00	18,222.04	997,345.58
	<i>Total Expenditures and Other Financing Uses</i>	<i>0.00</i>	<i>311,877.23</i>	<i>1,594,040.70</i>
Excess (Deficit) of Resources Over Uses		1,511,818.69	0.00	0.00
380	Nonrevenues (Except 384)	66,004.42	0.00	0.00
580	Nonexpenditures (Except 584)	0.00	0.00	0.00
Ending Cash and Investments:				
508.10	Reserved	1,577,823.11	0.00	0.00
508.80	Unreserved	0.00	0.00	0.00

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-4

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2010

4 Of 4

BARS CODE		401 - Water Fund	402 - Sewer Fund	403 - Solid Waste Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	276,622.32	0.00	0.00
308.80	Unreserved	650,880.20	494,120.29	79,941.90
	Prior Period Adjustments (388.80 or 588.80)	0.00	0.00	0.00
Revenues and Other Sources:				
310	Taxes	0.00	0.00	0.00
320	Licenses and Permits	0.00	0.00	0.00
330	Intergovernmental	0.00	0.00	0.00
340	Charges for Goods and Services	1,122,669.13	637,864.30	306,557.39
350	Fines and Penalties	0.00	0.00	0.00
360	Miscellaneous	2,808.23	162,759.87	4,851.74
370	Capital Contributions	0.00	359,633.06	0.00
390	Other Financing Sources	0.00	0.00	0.00
	Total Revenues and Other Financing Sources	1,125,477.36	1,160,257.23	311,409.13
<i>Total Resources</i>		<i>2,052,979.88</i>	<i>1,654,377.52</i>	<i>391,351.03</i>
Operating Expenditures				
510	General Government	0.00	0.00	0.00
520	Public Safety	1,176.00	0.00	0.00
530	Physical Environment	738,713.78	443,032.77	303,238.00
540	Transportation	0.00	0.00	4,149.00
550	Economic Environment	0.00	0.00	0.00
560	Mental and Physical Health	0.00	0.00	0.00
570	Culture and Recreational	0.00	0.00	0.00
	Total Operating Expenditures	739,889.78	443,032.77	307,387.00
591-593	Debt Service	183,458.20	2,000.00	0.00
594-595	Capital Outlay	234,951.87	583,936.04	5,972.84
	Total Expenditures	1,158,299.85	1,028,968.81	313,359.84
597-599	Other Financing Uses	0.00	0.00	0.00
	<i>Total Expenditures and Other Financing Uses</i>	<i>1,158,299.85</i>	<i>1,028,968.81</i>	<i>313,359.84</i>
Excess (Deficit) of Resources Over Uses		894,680.03	625,408.71	77,991.19
380	Nonrevenues (Except 384)	687.58	680.00	0.00
580	Nonexpenditures (Except 584)	88,032.02	66,004.42	0.00
Ending Cash and Investments:				
508.10	Reserved	276,622.32	0.00	0.00
508.80	Unreserved	530,713.27	560,084.29	77,991.19

The accompanying notes are an integral part of this Statement

City Of Connell

MCAG #: 0286

STATEMENT C-5

FUDICIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For Year Ending: December 31, 2010

1 Of 1

BARS CODE		Total For All Funds	633 - State Remittance Fund	
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	0.00	0.00	0.00
308.80	Unreserved	6,890.34	6,890.34	0.00
	Prior Period Adjustments (388.80 and 588.80)	0.00	0.00	0.00
Total Revenues and Other Financing Sources		0.00	0.00	0.00
Total Resources		6,890.34	6,890.34	0.00
Total Expenditures and Other Financing Uses		29,160.78	29,160.78	0.00
Excess (Deficit) of Resources Over Uses		(22,270.44)	(22,270.44)	0.00
380	Nonrevenues (Except 384)	30,221.16	30,221.16	0.00
580	Nonexpenditures (Except 584)	2,985.39	2,985.39	0.00
Ending Cash and Investments:				
508.10	Reserved	0.00	0.00	0.00
508.80	Unreserved	4,965.33	4,965.33	0.00

The accompanying notes are an integral part of this Statement

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

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	\$2,668,100.00	\$1,812,259.96	\$855,840.04
002 General Reserve Fund	\$801,430.00	\$43,247.77	\$758,182.23
101 Street Fund	\$629,750.00	\$446,271.12	\$183,478.88
104 Hotel/Motel Tax Fund	\$69,600.00	\$18,985.92	\$50,614.08
111 General Management	\$1,076,800.00	\$0.00	\$1,076,800.00
300 Capital Facilities Fund	\$1,333,910.00	\$1,027,557.87	\$306,352.13
401 Water Utility Dept Fund	\$3,767,760.00	\$3,116,310.33	\$651,449.67
402 Sewer Utility Dept Fund	\$1,406,790.00	\$783,263.98	\$623,526.02
403 Solid Waste Fund	\$389,100.00	\$302,288.72	\$86,811.28
414 DWSRF Loan (CTED)	\$29,390.00	\$29,383.08	\$6.92
415 Water/Sewer Bond Resrv	\$245,440.00	\$0.00	\$245,440.00
416 Water/Sewer Bond Rdm	\$465,601.00	\$492,638.82	(\$27,037.82)
633 State Remittance Fund	\$56,400.00	\$32,090.44	\$24,309.56
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. 3.

g. Derivatives and Similar Transactions

There were no derivatives or similar transactions for the City of Connell for the 2012 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 Long-Term Debt Note No.6.

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, 2012, there are 240 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. Members are responsible for the first \$1,000 deductible for each claim, 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 \$2,815,000 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. 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 pool 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 2012, were \$1,099,472.

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 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Connell.

NOTE 3 - 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, 2012 are as follows:

Local Government Investment Pool	\$1,465,590.00
US Government Agency Securities	\$2,716,209.80
Public Fund Money Market Account	<u>\$ 350,332.91</u>
Total	\$4,532,132.71

NOTE 4 - PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed 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 2012 was 3.037260 per \$1,000 on an assessed valuation of \$132,313,851 for a total regular levy of \$401,872.

NOTE 5 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2012:

Borrowing Fund	Lending Fund	Balance 1/1/2012	New Loans	Repayments	Balance 12/31/2012
402	111	\$67,331.12	\$	\$67,331.12	\$0
401	111	\$648,000	\$	\$0	\$648,000
	Totals	\$715,331.12	\$0	\$67,331.12	\$648,000

NOTE 6 - 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 2012. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

Year	Revenue Bonds	Other Debt	Total Debt
2012	\$ 580,817.86	\$ 55,759.45	\$ 636,577.31
2013	\$ 270,093.61	\$ 90,964.39	\$ 361,058.00
2014	\$ 270,658.49	\$ 90,964.40	\$ 361,622.89
2015	\$ 269,944.61	\$ 36,825.32	\$ 306,769.93
2016	\$ 269,230.74		\$ 269,230.74
2017	\$ 268,516.81		\$ 268,516.81
2018-2022	\$ 1,618,391.87		\$ 1,618,391.87
2023-2027	\$ 1,349,386.96		\$ 1,349,386.96
2028-2032	\$ 805,058.63		\$ 805,058.63
2033-2037	\$ 766,266.54		\$ 766,266.54
2038-2042	\$ 717,717.02		\$ 717,717.02
2043-2044	\$ 212,917.26		\$ 212,917.26
TOTALS	\$ 7,399,000.40	\$ 274,513.56	\$ 7,673,513.96

NOTE 7 - 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 2013.

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

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	\$ 2,363,335.00	\$ 1,977,701.53	\$ 385,633.47
002 General Reserve Fund	\$ 798,240.00	\$ 182,049.04	\$ 616,190.96
101 Street Fund	\$ 528,200.00	\$ 212,512.50	\$ 315,687.50
104 Hotel/Motel Tax Fund	\$ 58,150.00	\$ 13,199.23	\$ 44,950.77
111 General Management	\$ 1,525,655.00	\$ 648,000.00	\$ 877,655.00
199 Grants Management	\$ -	\$ -	\$ -
300 Capital Facilities Fund	\$ 210,000.00	\$ 38,332.85	\$ 171,667.15
401 Water Utility Dept Fund	\$ 2,334,455.00	\$ 1,718,786.21	\$ 615,668.79
402 Sewer Utility Dept Fund	\$ 1,168,280.00	\$ 593,017.25	\$ 575,262.75
403 Solid Waste Fund	\$ 397,130.00	\$ 319,365.11	\$ 77,764.89
414 DWSRF Loan (CTED)	\$ 29,990.00	\$ 29,982.74	\$ 7.26
415 Water/Sewer Bond Resrv	\$ 251,617.00	\$ 31,182.00	\$ 220,435.00
416 Water/Sewer Bond Rdm	\$ 965,189.00	\$ 898,568.50	\$ 66,620.50
633 State Remittance Fund	\$ 56,400.00	\$ 31,012.90	\$ 25,387.10

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. 3 .

g. Derivatives and Similar Transactions

There were no derivatives or similar transactions for the City of Connell for the 2011 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 Long-Term Debt Note No.6 .

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 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 pool 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, 2011, there are 254 members in the pool.

The pool 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 pool acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self insured retention of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the self insured retention. The pool also purchases a Stop Loss Policy with a limit of \$2,545,000 to cap the total claims paid by the pool 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 pool 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. Members are responsible for the deductible amount of each claim. There is no pool self insured retention on this coverage.

Members contract to remain in the pool 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 pool 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 pool. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including underwriting, brokerage, account education, risk management and loss control, and claims administration.

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 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Connell.

NOTE 3 - 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 by type at December 31, 2011 are as follows:

Local Government Investment Pool \$3,968,742.56

NOTE 4 - PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed 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 2011 was 2.518266 per \$1,000 on an assessed valuation of \$134,918,777 for a total regular levy of \$339,762.

NOTE 5 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2011:

Borrowing Fund	Lending Fund	Balance 1/1/2011	New Loans	Repayments	Balance 12/31/2011
402	111	\$133,995.58		\$66,664.46	\$67,331.12
401	111	0	\$648,000	0	\$648,000
	Totals	\$133,995.58	\$648,000	\$66,664.46	\$715,331.12

NOTE 6 - 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 2011. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

Year	Revenue Bonds	Other Debt	Total Debt
2011	\$ 927,947.74	\$ 145,504.46	\$ 1,073,452.20
2012	\$ 182,558.08	\$ 113,201.58	\$ 295,759.66
2013	\$ 181,958.43	\$ 113,201.58	\$ 295,160.01
2014	\$ 181,358.77	\$ 113,201.58	\$ 294,560.35
2015	\$ 180,759.13	\$ 59,062.50	\$ 239,821.63
2016	\$ 180,159.47	\$ 59,062.50	\$ 239,221.97
2017-2021	\$ 867,816.30	\$ 688,263.71	\$ 1,556,080.01
2022-2026	\$ 1,117,456.25		\$ 1,117,456.25
2027-2031	\$ 1,078,971.25		\$ 1,078,971.25
2032-2036	\$ 533,800.00		\$ 533,800.00
2037-2041	\$ 533,800.00		\$ 533,800.00
2042-2044	\$ 319,677.26		\$ 319,677.26
TOTALS	\$ 6,286,262.68	\$ 1,291,497.91	\$ 7,577,760.59

NOTE 7 - 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.

Riddell Farm Purchase Agreement

The City filed suit against Riddell Development Co., Par View, LLC and Parcon Co., LLC requesting declaratory relief and damages arising out of a transaction involving a sale to Riddell. Riddell countered requesting damages of approximately \$700,000. A settlement agreement was reached in February 2011. The City did not have to pay anything to Riddell but did reduce the amount of his outstanding balance to the City by \$178,000 and signed a farming agreement.

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 City denies any violation of the Washington Public Records Act and is defending the action. The City expects resolution by the end of 2012.

CITY OF CONNELL

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The **City of Connell** reports financial activity using the revenues 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 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 fund types used by the city.

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund (001)

This fund is the primary operating fund of the City of Connell. It accounts for 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.

Debt Service Funds (200 – 299)

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 Project 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 (631-699)

These funds are used to account assets that the 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 adopts annual appropriated budgets for ***general, special revenue, dept service, 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	\$ 2,190,990	\$ 1,769,609.27	\$ 421,380.73
002 General Reserve	\$ 720,000	\$ -	\$ 720,000.00
101 Street	\$ 194,000	\$ 178,768.21	\$ 15,231.79
102 Parks/Recreation	\$ 156,505	\$ 138,383.06	\$ 18,121.94
103 Community Policing	\$ 11,260	\$ 11,252.62	\$ 7.38
104 Hotel/Motel Tax	\$ 75,500	\$ 27,535.52	\$ 47,964.48
105 Repair & Demolition	\$ -	\$ -	\$ -
108 Contingency	\$ 44,100	\$ 43,740.80	\$ 359.20
111 General Support	\$ 1,579,024	\$ -	\$ 1,579,024.00
199 Grants Management	\$ 640,933	\$ 311,877.23	\$ 329,055.77
203 Park Bond	\$ 7,900	\$ 7,887.43	\$ 12.57
300 Capital Facilities	\$ 1,629,520	\$ 1,594,040.70	\$ 35,479.30
401 Water Fund	\$ 1,535,355	\$ 1,112,372.27	\$ 422,982.73
402 Sewer Fund	\$ 1,335,100	\$ 1,094,973.23	\$ 240,126.77
403 Solid Waste Fund	\$ 373,995	\$ 313,359.84	\$ 60,635.16
414 DWSRF Loan	\$ 30,584	\$ 30,582.39	\$ 1.61
415 Water/Sewer Bond Reserve	\$ 251,617	\$ -	\$ 251,617.00
416 Water/Sewer Bond Redmpt	\$ 312,661	\$ 240,720.25	\$ 71,940.75
633 State Remittance	\$ 55,950	\$ 32,146.17	\$ 23,803.83
Note: Funds have been listed above as approved by ordinance and reflect all interfund transfers. For all other reporting purposes Funds 001,002, 102, and 203 are combined and reported on Fund 001, and Funds 401, 414, 415, and 416 are combined and report 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 net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

e. Deposits

The City 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 Note No. 3

g. Derivatives And Similar Transactions

There were no derivatives or similar transactions for the City of Connell for the 2010 fiscal period.

h. Capital Assets

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

i. Compensated Absences

No more than 240 hours of vacation may be accrued. Upon involuntary termination or voluntary separation regular full-time employees shall be compensated for all accumulated unused annual leave.

No more than 720 hours of sick leave may be accrued. 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 No. 6

k. Other Financing Sources Or Uses

The City of Connell's "Other Financing Sources or Uses" consist of: transfers-in and out between funds, investment proceeds and purchases, and recreational programs.

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 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 pool 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 August 31, 2010, the CIAW had 88 regular members and 180 associate members. Effective September 1, 2010, all members of the CIAW are full members.

The pool 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 pool acquires liability insurance through Munich Reinsurance America that is subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. The insurance carrier covers insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool also purchases a Stop Loss Policy in the amount of \$3,200,000 to cap the total claims paid by the pool in one year.

Property insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$9,000.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

Members contract to remain in the pool 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 pool 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 pool. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including account education, risk management and loss control, and claims administration.

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 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City of Connell.

NOTE 3 – 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 by type at December 31, 2010 are as follows:

Local Government Investment Pool	\$3,961,051.63
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NOTE 4 – PROPERTY TAX

The county treasurer acts as an agent to collect property taxes 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 taxes are levied.

The City of Connell's regular levy for the year 2010 was 2.455657 per \$1,000 on an assessed valuation of \$135,225,239 for a total regular levy of \$332,067

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2010

Borrowing <u>Fund</u>	Lending <u>Fund</u>	Balance <u>1/1/2010</u>	<u>New Loan</u>	<u>Repayment</u>	Balance <u>12/31/2010</u>
402	111	\$200,000		\$66,004.42	\$133,995.58

NOTE 6 – LONG TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Connell and summarizes the City's debt transactions for current fiscal year 2010. The debt service requirements, including interest, are as follows:

Year	Revenue Bonds	Other Debt	Total Debt
2010	\$ 270,697.39	\$ 95,751.60	\$ 366,448.99
2011	\$ 267,947.74	\$ 92,223.60	\$ 360,171.34
2012	\$ 269,954.33	\$ 54,139.08	\$ 324,093.41
2013	\$ 266,710.93	\$ 54,139.08	\$ 320,850.01
2014	\$ 268,198.77	\$ 54,139.08	\$ 322,337.85
2015 - 2019	\$1,323,015.31		\$1,323,015.31
2020 - 2024	\$1,215,448.34		\$1,215,448.34
2025 - 2029	\$1,208,876.25		\$1,208,876.25
2030 - 2034	\$ 672,478.75		\$ 672,478.75
2035 - 2039	\$ 533,800.00		\$ 533,800.00
2040 - 2044	\$ 533,197.26		\$ 533,197.26
TOTALS	\$6,830,325.07	\$350,392.44	\$7,180,717.51

NOTE 7 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 of Connell'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

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

Compensated Absences:

As of December 31, 2010 the City of Connell's liability for Compensated Absences totaled \$50,046.80 (\$33,619.54 for vacation and comp time and \$16,427.26 for sick pay).

Litigation:

Apollo Sewer Lines

In March of 2007 the City filed a lawsuit where the City is the plaintiff in an action attempting to recover against the engineer and contractor who installed defective sewer pipe. A settlement agreement was reached in November 2010. \$265,000 was awarded to the City of which \$25,000 was for engineering services to be conducted by Anderson Perry and paid to Anderson Perry.

Riddell Farm Purchase Agreement

The City filed suit against Riddell Development Co., Par View, LLC and Parcon Co., LLC requesting declaratory relief and damages arising out of a transaction involving a sale to Riddell. Riddell countered requesting damages of approximately \$700,000. A settlement agreement was reached in February 2011. The City did not have to pay anything to Riddell but did reduce the amount of his outstanding balance to the City by \$178,000 and signed a farming agreement.

SCHEDULE OF LIABILITIES

For the Year Ended December 31, 2012

[illegible]

City of Connell

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	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2011
General Obligations								
	263.51	Water Rights	4/29/2019	0	777,650	50,000	59134	727,650
	263.51	Police Vehicle Lease	2/27/2011	34,640		34,640	59421	0
	263.51	Planning Dept Printer Buyout	6/6/2011	0	3,280	3,280	59424	0
	263.51	*Planning Dept Printer Lease	4/3/2011	1,176	392	1,568	59424	0
	259.11	Compensated absences		50,047	13,803			63,850
Total General Obligations:				85,862	795,125	89,487		791,500
Revenue Obligations								
	263.82	DWSRF	10/1/2020	239,862		23,986	58234	215,876
	263.82	USDA	5/26/2040	1,871,039		24,902	58234	1,846,137
	263.82	Farm Bonds	2/1/2030	1,580,000		700,000	58234	880,000
	263.52	Public Works Vehicle/Equip Lease	4/1/2014	47,976		11,128	59434	36,847
	263.52	Public Works Vehicle/Equip Lease	4/1/2014	47,976		11,128	59435	36,847
	263.52	Public Works Vehicle/Equip Lease	4/1/2014	47,976		11,128	59479	36,847
	263.52	Public Works Vehicle/Equip Lease	4/1/2014	47,976		11,128	59590	36,847
Total Revenue Obligations:				3,882,804		793,401		3,089,402
Total Liabilities:				3,968,666	795,125	882,889		3,880,903

SCHEDULE OF LONG-TERM DEBT

For the Year Ended December 31, 2010

		(1)	(2)	(3)		(4)
ID. No.	Description	Beginning Balance 01/01/2010	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance Debt 12/31/2010 (1)+(2)-(3)
259.11	Compensated absences					50,046.80
263.51	Planning Dept Printer	5,880.00		4,704.00	524.50.66 & 524.50.48.00	1,176.00
263.51	Police Vehicle Lease	67,149.71		32,510.21	594.21.64.06	34,639.50
263.52	Public Works Vehicle/Equip Lease	234,290.24		42,387.08	594.34.64.01 594.35.64.00 594.79.64.00 595.90.64.00	191,903.16
263.82	DWSRF	263,848.10		23,986.19	582.34.72.00	239,861.91
263.82	USDA	1,894,896.99		23,858.25	582.34.72.01	1,871,038.74
263.82	Farm Bonds	1,620,000.00		40,000.00	584.34.72.02	1,580,000.00
Total		4,086,065.04		167,445.73		3,968,666.11



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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