



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Connell

For the period January 1, 2022 through December 31, 2022

Published August 26, 2024

Report No. 1035416



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**Office of the Washington State Auditor
Pat McCarthy**

August 26, 2024

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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 January 1, 2022 through December 31, 2022

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, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 19, 2024.

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 state law 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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

August 19, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Connell January 1, 2022 through December 31, 2022

Mayor and City Council
City of Connell
Connell, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Connell, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Connell, and its changes in cash and investments, for the year ended December 31, 2022, on the basis of accounting described in Note 1.

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, 2022, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2022, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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 state law and the BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS Manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to

prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2024 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 19, 2024

FINANCIAL SECTION

City of Connell January 1, 2022 through December 31, 2022

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2022
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2022
Notes to Financial Statements – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2022

City of Connell
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		Total for All Funds (Memo Only)	001 General Fund	101 Street	104 Hotel/Motel Tax Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	10,247,043	5,747,939	300,600	76,556
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	2,357,490	2,038,139	196,939	20,712
320	Licenses and Permits	29,353	29,353	-	-
330	Intergovernmental Revenues	1,138,779	1,033,057	105,722	-
340	Charges for Goods and Services	2,613,525	147,305	-	-
350	Fines and Penalties	34,755	15,503	-	-
360	Miscellaneous Revenues	348,993	103,072	3,015	736
Total Revenues:		6,522,895	3,366,429	305,676	21,448
Expenditures					
510	General Government	700,292	700,292	-	-
520	Public Safety	1,566,141	1,566,141	-	-
530	Utilities	1,545,489	-	-	-
540	Transportation	183,698	-	183,698	-
550	Natural/Economic Environment	128,416	110,622	-	17,794
560	Social Services	1,929	1,929	-	-
570	Culture and Recreation	266,077	266,077	-	-
Total Expenditures:		4,392,042	2,645,061	183,698	17,794
Excess (Deficiency) Revenues over Expenditures:		2,130,853	721,368	121,978	3,654
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	75,000	-	-	-
397	Transfers-In	540,731	533,936	6,795	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	140,745	136,545	-	-
Total Other Increases in Fund Resources:		756,476	670,481	6,795	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,557,452	526,088	120,840	-
591-593, 599	Debt Service	151,155	-	-	-
597	Transfers-Out	540,731	533,936	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	133,643	12,265	-	-
Total Other Decreases in Fund Resources:		2,382,981	1,072,289	120,840	-
Increase (Decrease) in Cash and Investments:		504,348	319,560	7,933	3,654
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	5,981,209	1,297,315	308,532	80,211
50851	Assigned	-	-	-	-
50891	Unassigned	4,770,188	4,770,188	-	-
Total Ending Cash and Investments		10,751,397	6,067,503	308,532	80,211

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, 2022

		300 Capital Facilities Fund	401 Water Fund	402 Sewer Fund	403 Solid Waste Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	531,942	1,211,998	2,270,820	107,188
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	101,700	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	1,548,609	917,611	-
350	Fines and Penalties	-	19,252	-	-
360	Miscellaneous Revenues	4,801	179,043	57,258	1,068
Total Revenues:		106,501	1,746,904	974,869	1,068
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	888,408	657,081	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	888,408	657,081	-
Excess (Deficiency) Revenues over Expenditures:		106,501	858,496	317,788	1,068
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	75,000	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	4,200	-	-
Total Other Increases in Fund Resources:		-	4,200	75,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	742,790	167,734	-
591-593, 599	Debt Service	-	50,209	100,946	-
597	Transfers-Out	6,795	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	121,378	-	-
Total Other Decreases in Fund Resources:		6,795	914,377	268,680	-
Increase (Decrease) in Cash and Investments:		99,706	(51,681)	124,108	1,068
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	631,649	1,160,319	2,394,928	108,255
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		631,649	1,160,319	2,394,928	108,255

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, 2022

		Custodial
308	Beginning Cash and Investments	7,017
388 & 588	Net Adjustments	-
310-390	Additions	14,556
510-590	Deductions	14,183
	Net Increase (Decrease) in Cash and Investments:	373
508	Ending Cash and Investments	7,390

The accompanying notes are an integral part of this statement.

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

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 is a general purpose local government and provides police and fire protection, street improvements and maintenance, parks and recreation, general administrative services, planning and building services and utility services.

The City 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 (see *Notes to 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 presented using classifications that are different from the ending net position classifications 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

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

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Custodial Funds

These funds are used to account assets that the 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 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3 - *Deposits and Investments*.

D. 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.

E. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement. Sick leave may be accumulated up to 720 hours for non-union employees and union employees may accumulate up to a maximum yearly carryover of 132 days of sick leave as of December 31. When a full-time employee separates from the City of Connell, the employee will be compensated for accrued but unused sick leave at the rate of 25% for 5-20 years' service or at 50% for service over and above 20 years of the employee's last recorded pay rate. Payments are recognized as expenditures when paid.

The total 2022 liability for compensated absences is \$129,633.51

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

F. Long-Term Debt

See Note 5 – *Long-Term Debt*

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City of Council. When expenditures that meet restrictions are incurred, the city intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of:

Fund No. 001 – General Fund

- Ordinance No. 828 was adopted on December 17, 2007
- Disbursements shall only be made from Fund No. 111 (General Support Fund) 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
- ARPA funds as appropriated by council members were used and the remaining \$1.1 mil will remain restricted until used as per council member approved.

Fund No. 401 – Water Fund

- Ordinance No. 971-2016 was adopted on November 21, 2016
- Connell Municipal Code 3.10.075, Water Emergency Fund (Fund 404), requires \$200,000 to be set aside and retained for unforeseen or emergency water system expenses, including repair or replacement of damaged system facilities and supplement operations during the emergency period or other actions deemed appropriate by the city council
- Under no circumstances shall emergency funds be used for normal operations, maintenance, or repair
- Appropriations from this fund are restricted and shall be subject to council approval, unless emergency conditions do not provide sufficient time to acquire council approval, in which case the appropriation shall be subject to the approval of the mayor or the mayor's designee
- Funding for Solar Well #8 Project funded by TransAlta Centrailia Board and Department of Commerce. TransAlta funded \$165,000 and the Department of Commerce is to fund the remaining of \$157,164, still waiting on full refund for project since it's completed in November 2022.

Fund No. 402 – Sewer Fund

- Ordinance No. 995-2018 was adopted on November 5, 2018
- Connell Municipal Code 3.10.095, Sewer Emergency Fund (Fund 406), requires \$200,000 to be set aside and retained for unforeseen or emergency water system expenses, including repair or replacement of damaged system facilities and supplement

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

operations during the emergency period or other actions deemed appropriate by the city council.

- Under no circumstances shall emergency funds be used for normal operations, maintenance, or repair.

Fund Name	Portion of Ending Balance Restricted	Portion of Ending Balance Committed	Combined	Reason for Restriction or Commitment
001 General Fund		1,297,314	1,297,314	Revenues in Fund III require Council approval by unanimous vote or by a vote in which all Council Members except one must vote in favor
101 Street Fund		308,532	308,532	Project Funds and Revenues Dedicated to Street Purposes
104 Hotel/Hotel Tax Fund		80,211	80,211	State and City restrictions for tourism purposes
300 Capital Facilities Fund		631,649	631,649	State and City restrictions for REET purposes
401 Water Fund		1,160,319	1,160,319	User fees & other revenues collected for utility purposes
402 Sewer Fund		2,394,928	2,394,928	User fees & other revenues collected for utility purposes
403 Solid Waste Fund		108,255	108,255	User fees & other revenues collected for utility purposes
<i>Totals</i>	0	5,981,208	5,981,208	

Restrictions and commitments of Ending Cash and Investments 2022 consist of \$5,981,208.

Note 2 - Budget Compliance

The City adopts an annual appropriated budget for General, Special Revenue, Capital Projects, Enterprise and Custodial Funds. These budgets are appropriated at the fund level. Funds 001, 002, and 111 are combined and reported as Fund 001; Funds 401 and 404 are combined and reported as Fund 401; and Fund 402 and 406 are combined and reported as Fund 402. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for all funds, except Capital Projects, 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 follows:

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	4,745,194	3,183,414	1,561,780
General Reserve Fund	2,719,320	357,936	2,361,384
General Support Fund	1,526,675	176,000	1,350,675
Total General Fund (001)	8,991,189	3,717,350	5,273,839
Street Fund (101)	1,365,229	304,540	1,060,689
Hotel/Motel Tax Fund (104)	89,250	17,794	71,456
Capital Facilities Fund (300)	578,010	6,795	571,215
Water Utility Fund	4,386,339	1,802,784	2,583,555
Water Emergency Fund	200,000	0	200,000
Total Water Fund (401)	4,586,339	1,802,784	2,783,555
Sewer Utility Fund	3,367,733	925,760	2,441,973
Sewer Emergency Fund	200,000	0	200,000
Sewer Fund (402)	3,567,733	925,760	2,641,973
Solid Waste Fund (403)	107,617	0	107,617
State Remittance Fund (633)	26,740	14,182	12,558
TOTAL OF ALL FUNDS	19,312,107	6,789,204	12,522,903

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city's legislative body.

- Variance in the General Fund is primarily due to budgeting and not using all ARPA funds. Budgeting all available reserves in order to have the ability to utilize all funds as needed. Note form 2021 Annual report also addresses AFG grant not spent until 2023, but intended to 2022.
- Street fund came in under due to spending more time on ARPA projects instead of street projects, shorthanded crews, and S 5th Project not being spent until 2023.

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

- Hotel Motel and Capital Project Funds budgeting all available reserves in order to have the ability to utilize all funds as needed.
- Water Fund variance is due to large projects that were budget and not spent in 2022. Funds did not start getting spent for the projects until 2023. Budgeting all available reserves in order to have the ability to utilize all funds as needed.
- Solid Waste the City budgeted all available resources.
- The State Remittance is just an in and out therefore its an estimate of activity we expected to see in the fund.
-

Transfers consisted of the following:

FUND	Account	Title	Transfer In	Transfer Out
General Reserve Fund				
	002-397-18-00-05	Civic Facility	\$ 34,495.00	
	002-397-21-00-02	Law Enforcement Reserve	\$ 160,000.00	
	002-397-21-00-03	law Enforcement	\$ 57,682.00	
	002-397-22-00-01	Fire Protection	\$ 42,974.00	
	002-397-50-00-00	Community Center	\$ 31,785.00	
	002-397-50-00-01	Reserve General Fund	\$ 31,000.00	
	002-397-75-60-04	Pool Improvement	\$ 176,000.00	
General Fund				
	001-597-50-00-01	Reserve General Fund		\$ 31,000.00
	001-597-18-00-05	Civic Facility		\$ 34,495.00
	001-597-50-00-00	Community Center		\$ 31,785.00
	001-597-22-00-01	Fire Protection		\$ 42,974.00
	001-597-21-00-03	Law Enforcement		\$ 57,682.00
	001-597-21-00-02	Law Enforcement Reserve		\$ 160,000.00
	01-597-76-60-04	Pool Improvement		\$ 176,000.00
			\$ 533,936.00	\$ 533,936.00

Note 3 – Deposits and Investments

Investments are reported at fair value. Deposits and investments by type on December 31, 2022 are as follows:

2022 Type of Deposit/Investment	Amount
Bank deposits	\$ 2,154,374
Local Government Investment Pool	\$ 3,107,961
US Government Securities	\$ 5,989,298
Total	\$ 11,251,633

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments in the State Local Government Investment Pool (LGIP)

The City is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

All investments are insured, registered or held by the city or its agent in the government's name.

Note 4 - Leases

The City leases vehicles from Ford Credit with the option to purchase them at the end of lease for \$1. The public works sweeper is leased through National Cooperative Leasing with a total of nine payments.

Year	Lease
2023	79,407
2024	36,330
2025	37,959
2026	32,831
2027	0
2028-2032	0
2033-2037	0
2038-2042	0
2043-2047	0
2048-2052	0
2053-2057	0
2058-2062	0
<i>Total</i>	186,527

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2022:

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

FUND	Account	Title	Amount Received	Amount Paid
General Support Fund	111-381-20-79-01	Interfund Loan Repayment from Water Fund	\$ 67,740.00	
	111-381-20-79-02	Interfund Loan Repayment from Water Fund	\$ 51,238.00	
Water Fund	401-581-20-00-00	Interfund Loan Repayment from Water Fund		\$ 67,740.00
	401-581-20-00-02	Interfund Loan Repayment from Water Fund		\$ 51,238.00
			\$ 118,978.00	\$ 118,978.00

Note 6 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for the year ended December 31, 2022.

The debt service requirements for general obligation and revenue bonds are as follows:

Year	Principal	Interest	Total debt service
2023	\$ 127,193.13	\$ 17,133.75	\$ 144,326.88
2024	\$ 127,193.13	\$ 16,139.32	\$ 143,332.45
2025	\$ 127,193.13	\$ 15,144.89	\$ 142,338.02
2026 T	\$ 127,193.13	\$ 14,150.47	\$ 141,343.60
2027	\$ 127,193.13	\$ 13,156.03	\$ 140,349.16
2028-2032	\$ 635,965.61	\$ 50,863.75	\$ 686,829.36
2033-2037	\$ 635,965.63	\$ 26,003.06	\$ 661,968.69
2038-2041	\$ 345,773.58	\$ 3,782.93	\$ 349,556.51
Total TOTAL	\$ 2,253,670.47	\$ 156,374.20	\$ 2,410,044.67

Note 7 – Pension Plans

A. State Sponsored Pension Plans

Plan Type	Employee Contribution	Allocation Percentage	Plan Liability/ Asset	NPL	NPA
PERS 1	\$ 30,947.00	0.00505000%	\$ 2,784,367,000	\$ 140,610.53	
PERS 1 UAAL			\$ 2,784,367,000		
PERS 2/3	\$ 52,907.44	0.00658600%	\$ (3,708,781,000)		\$ 244,260.32
LEOFF 2	\$ 35,043.81	0.01692700%	\$ (2,717,698,000)		\$ 460,024.74

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

Substantially all the city's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS and LEOFF.

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
P.O. Box 48380
Olympia, WA 98540-8380

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, 2022, the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

		Allocation %	Liability / (Asset)
VFFRPF-PD		0.0006	(17,838)
VFFRPF-Connell		0.0032	(89,189)

LEOFF Plan 1

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

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.

Note 8 - Property Tax

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

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

The city's regular levy for the year 2022 was \$2.471557680 per \$1,000 on an assessed valuation of \$221,167,620 for a total regular levy of \$546,628.53.

Note 9 – Risk Management

The City of Connell is a member of Cities Insurance Association of Washington (CIAW). 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 November 30, 2022, membership includes 195 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, Crime Protection and Liability, including General, Automobile, Wrongful Acts, and Cyber, which are included to fit the member's various needs. The program acquires reinsurance through their administrator, Clear Risk Solutions. Liability coverage is purchased to an **aggregate limit of \$50,000,000** with a **selfinsured retention (SIR) of \$500,000**. Members are responsible for a \$1,000 to \$50,000 deductible for each claim (can vary by member), while the program is responsible for the **\$500,000 SIR**. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the **\$500,000 SIR**, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, **with an attachment point of \$7,110,058**, which is fully funded in its annual budget. Property insurance is subject to a per occurrence **SIR of \$500,000**. Members are responsible for a \$1,000 deductible for each claim

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

(some member deductibles vary). The program bears the **\$500,000 SIR**, in addition to the deductible. Crime insurance is subject to a per occurrence **SIR of \$25,000**. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the **\$25,000 SIR**, in addition to the deductible. 451 Diamond Drive | Ephrata, WA 98823 office (509) 754.2027 | toll-free 800.407.2027 | fax (509) 754.3406 | www.ciaw.us *Program Administrator: Clear Risk Solutions*

Equipment Breakdown insurance is subject to a per occurrence deductible of \$2,500 (cities and special districts) and \$500 (fire districts), which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program SIR on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW. Cyber liability insurance is subject to a per-occurrence **SIR of \$50,000**. Members are responsible for a \$10,000 deductible for each claim, while the program is responsible for the remaining **\$40,000 SIR**. Members contract to remain in the program for a minimum of one year and must give notice before December 1 to terminate 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. The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending **December 1, 2022, were \$2,747,183.56**. 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.

NOTE X – 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, 2022, 262 cities/towns/non-city entities participate and have enrollment 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member

City of Connell
Notes to the Financial Statements
For the year ended December 31, 2022

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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, Willamette Dental Group, and 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. In 2022, the AWC Trust HCP purchased medical stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$1.5 million through United States Fire Insurance Company. The aggregate policy is for 200% of expected medical claims.

Participating employers' contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

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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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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
Schedule of Liabilities
For the Year Ended December 31, 2022

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	Fire Dept Vehicle Lease (8760102)	5/13/2023	17,909	-	8,631	9,278
263.51	1 Police Responder (8760108)	7/31/2022	14,018	-	14,018	-
263.51	Police Vehicle Lease 2 (8760107)	4/20/2022	25,742	-	25,742	-
263.51	Public Works Explorer (8760106)	9/13/2023	7,827	-	-	7,827
263.51	Public Works F-350 Lease (8760103)	5/24/2023	19,762	-	9,524	10,238
263.51	Public Works F250 (8760104)	5/24/2023	16,378	-	7,893	8,485
263.51	Public Works F250 (8760105)	5/13/2023	13,096	-	6,311	6,785
263.51	Public Works Street Sweeper (3355807)	8/23/2026	175,171	-	31,850	143,321
Total General Obligation Debt/Liabilities:			289,903	-	103,969	185,934
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		128,557	16,616	-	145,173
263.88	Public Works Board Loan (Klindworth and Campbell)	6/1/2041	913,873	-	45,693	868,180
263.88	Public Works Board Loan (Country Estates)	6/1/2039	1,391,990	75,000	81,499	1,385,491
264.30	Net Pension Liability		61,514	79,097	-	140,611
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,495,934	170,713	127,192	2,539,455
Total Liabilities:			2,785,837	170,713	231,161	2,725,389

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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