



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Town of Pe Ell

For the period January 1, 2023 through December 31, 2023

Published September 19, 2024

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

September 19, 2024

Mayor and Town Council
Town of Pe Ell
Pe Ell, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Town of Pe Ell's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Town of Pe Ell January 1, 2023 through December 31, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Town of Pe Ell are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the Town’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Town.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Town’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Town did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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*

Town of Pe Ell January 1, 2023 through December 31, 2023

Mayor and Town Council
Town of Pe Ell
Pe Ell, 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 Town of Pe Ell, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated September 12, 2024.

We issued an unmodified opinion on the fair presentation of the Town'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 Town 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town'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 Town'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 Town'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 Town'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 style with a large, sweeping initial "P".

Pat McCarthy, State Auditor

Olympia, WA

September 12, 2024

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Town of Pe Ell January 1, 2023 through December 31, 2023

Mayor and Town Council
Town of Pe Ell
Pe Ell, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Town of Pe Ell, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended December 31, 2023. The Town's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Town's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Town's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, 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 Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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 over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.



Pat McCarthy, State Auditor

Olympia, WA

September 12, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Town of Pe Ell January 1, 2023 through December 31, 2023

Mayor and Town Council
Town of Pe Ell
Pe Ell, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Town of Pe Ell, as of and for the year ended December 31, 2023, 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 Town 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 Town of Pe Ell, and its changes in cash and investments, for the year ended December 31, 2023, 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 Town of Pe Ell, as of December 31, 2023, 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 Town, 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 Town 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.

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 Town'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 Town'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 Town'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 Town's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is also 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2024 on our consideration of the Town'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 Town'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 Town's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

September 12, 2024

FINANCIAL SECTION

Town of Pe Ell January 1, 2023 through December 31, 2023

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2023
Notes to Financial Statements – 2023

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2023
Schedule of Expenditures of Federal Awards – 2023
Notes to the Schedule of Expenditures of Federal Awards – 2023

**Town of Pe Ell
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2023**

		Total for All Funds (Memo Only)	001 Current Expense	101 Street Fund	400 Sewer Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	1,003,785	392,665	18,779	167,430
388 / 588	Net Adjustments	30,060	28,048	-	1,006
Revenues					
310	Taxes	178,249	178,249	-	-
320	Licenses and Permits	1,495	1,495	-	-
330	Intergovernmental Revenues	1,068,149	49,490	72,543	593,445
340	Charges for Goods and Services	632,187	422	-	306,099
350	Fines and Penalties	864	864	-	-
360	Miscellaneous Revenues	2,559	2,559	-	-
Total Revenues:		<u>1,883,503</u>	<u>233,079</u>	<u>72,543</u>	<u>899,544</u>
Expenditures					
510	General Government	128,688	128,688	-	-
520	Public Safety	121,366	121,366	-	-
530	Utilities	444,709	4,500	-	213,350
540	Transportation	101,743	-	101,743	-
550	Natural/Economic Environment	9,283	9,283	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	3,916	3,916	-	-
Total Expenditures:		<u>809,705</u>	<u>267,753</u>	<u>101,743</u>	<u>213,350</u>
Excess (Deficiency) Revenues over Expenditures:		<u>1,073,798</u>	<u>(34,674)</u>	<u>(29,200)</u>	<u>686,194</u>
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	154,037	-	13,100	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	788	788	-	-
Total Other Increases in Fund Resources:		<u>154,825</u>	<u>788</u>	<u>13,100</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,094,213	-	-	735,304
591-593, 599	Debt Service	102,327	1,151	-	46,855
597	Transfers-Out	154,037	154,037	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>1,350,577</u>	<u>155,188</u>	<u>-</u>	<u>782,159</u>
Increase (Decrease) in Cash and Investments:		<u>(121,954)</u>	<u>(189,074)</u>	<u>(16,100)</u>	<u>(95,965)</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	54,348	-	-	19,000
50841	Committed	-	-	-	-
50851	Assigned	673,575	47,672	2,679	53,472
50891	Unassigned	183,960	183,960	-	-
Total Ending Cash and Investments		<u>911,883</u>	<u>231,632</u>	<u>2,679</u>	<u>72,472</u>

The accompanying notes are an integral part of this statement.

**Town of Pe Ell
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2023**

404 Water Fund

Beginning Cash and Investments

308	Beginning Cash and Investments	424,911
388 / 588	Net Adjustments	1,006

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	352,671
340	Charges for Goods and Services	325,666
350	Fines and Penalties	-
360	Miscellaneous Revenues	-
Total Revenues:		678,337

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	226,859
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		226,859
Excess (Deficiency) Revenues over Expenditures:		451,478

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	140,937
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		140,937

Other Decreases in Fund Resources

594-595	Capital Expenditures	358,909
591-593, 599	Debt Service	54,321
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		413,230

Increase (Decrease) in Cash and Investments: 179,185

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	35,348
50841	Committed	-
50851	Assigned	569,752
50891	Unassigned	-
Total Ending Cash and Investments		605,100

The accompanying notes are an integral part of this statement.

Town of Pe Ell
Notes to the Financial Statements
For the year ended December 31, 2023

Note 1 - Summary of Significant Accounting Policies

The Town of Pe Ell was incorporated on 3/5/1906 and operates under the laws of the state of Washington applicable to a municipality. The Town of Pe Ell is classified as a Town with a Mayor-Council form of government. The Town of Pe Ell is a general-purpose local government and provides water and sewer services.

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

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

A. Fund Accounting

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

B. Basis of Accounting 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 Town of Pe Ell 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 4 – *Deposits and Investments*.

D. Compensated Absences

Vacation leave may be accumulated up to 160 days and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation employees do not receive payment for unused sick leave. Upon retirement employees do receive payment for unused sick leave for each 160 hours (1 month credit) of accrued sick leave. Payments are recognized as expenditures when paid. Compensatory Time is accrued up to 40 hours max per pay period and any amount above 40 hours is cashed out during each payroll run.

Compensated absences including vacation leave and compensatory time at fiscal end of 2023 would be 77.05 hours of compensatory time and 80 hours of vacation leave for an expenditure amount of \$1,885.88.

E. Long-Term Debt

See Note 5 – Long-term Debt.

F. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is 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 Town Council. When expenditures that meet restrictions are incurred, the Town of Pe Ell intends to use the most restricted resources first.

Restrictions of Ending Cash and Investments consist of two USDA Loan Requirements totaling \$54,348.

Note 2 – Budget Compliance

The Town of Pe Ell adopts annual appropriated budgets for the General Fund, Street Fund, Water Fund and Sewer Fund. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$291,100	\$422,938.08	-\$131,838.08
City Streets Fund	\$28,000	\$101,742.49	-\$73,742.49
Sewer Fund	\$298,000	\$995,507.34	-\$697,507.34
Water Fund	\$290,800	\$640,090.14	-\$349,290.14

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 Town of Pe Ell's legislative body.

There are significant variances in actual expenditures versus the budget that was adopted due to public works projects that occurred throughout the year and were not part of our expenditure estimates for our 2023 Final budget. Although these additional expenditures exist, they were reimbursed by federal and state grants that are also listed on Schedule 15 & 16. The additional expenditures were approved by budget amendment ordinance #586.

Note 3 - Property Tax

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

Property Tax Calendar	
January 1	Tax is levied and becomes an enforceable lien against the properties.
February 14	Tax bills are mailed
April 30	First of two equal installment payments are due
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due

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

The Town of Pe Ell's regular levy for the year 2023 was \$1.197500208034 per \$1,000 on an assessed valuation of \$78,136,262.00 for a total regular levy of \$93,568.19.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate

Note 4 – Deposits and Investments

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

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation. All investments are insured, registered or held by the Town of Pe Ell or its agent in the government's name.

Investments are reported at original cost Investments by type at December 31, 2023 are as follows:

<u>Type of Investment</u>	Town of Pe Ell's own investments	Investments held by Town of Pe Ell as an agent for other local governments, individuals or private organizations.	Total
Bank Statements	<u>\$1,080,955.23</u>	\$ _____	<u>\$1,080,955.23</u>
L.G.I.P.	<u>\$4,218.45</u>	\$ _____	<u>\$4,218.45</u>
Other: CD	<u>\$24,135.65</u>	\$ _____	<u>\$24,135.65</u>
Total	<u>\$1,109,309.33</u>	\$ _____	<u>\$1,109,309.33</u>

Investments in the State Local Government Investment Pool (LGIP)

The Town of Pe Ell 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

Note 5 – Long-Term Debt

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Town of Pe Ell and summarizes the Town of Pe Ell's debt transactions for year ended December 31, 2023.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$61,650.03	\$35,057.55	\$96,707.58
2025	\$63,555.48	\$33,405.49	\$96,960.97
2026	\$65,544.96	\$31,339.62	\$96,884.58
2027	\$67,622.20	\$28,809.06	\$96,431.26

2028	\$69,791.04	\$26,548.11	\$96,339.15
2029-2033	\$292,882.50	\$96,247.50	\$389,130.00
2034-2038	\$129,640.19	\$47,370.34	\$177,010.53
2039-2043	\$136,908.62	\$15,277.46	\$152,186.08
<u>TOTALS</u>	<u>\$887,595.02</u>	<u>\$314,055.13</u>	<u>\$1,201,650.15</u>

Note 6- Pension plans

Defined Contribution Pension Plans

The Town of Pe Ell contributes to the IAM Nation Pension Fund for employees that are covered under the collective bargaining agreement with the International Association of Machinists and Aerospace Workers Local lodge W130. The Pension Fund is administered by a joint Board of Trustees consisting of equal representation by the IAM and the contributing employers. Benefit amounts are calculated on a vested basis. Vesting service determines your right to a benefit from the National Pension Fund. To be vested in the Fund means the employee must have a non-forfeitable right to a pension from the Fund. If the employee has at least one hour of service in the National Pension Fund on or after January 1, 1991, they will be vested in the Fund when you have five years of vesting service or five years of future service credit.

The Town of Pe Ell contributed .68 per worker hour to the pension for the employees covered under the pension plan. Total contribution amount for all employees covered under the pension plan for 2023 was \$3,196.66.

Note 7- Risk Management

The Town of Pe Ell is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2023, 106 entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier. Pollution and cyber liability coverages are stand-alone policies which the AWC RMSA procures for its members. The AWC RMSA allows members with airports to group purchase airport liability coverage, and members with drones to group purchase property and liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have

\$15 million in both per occurrence and aggregate liability limits. AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$500,000, per occurrence, and is reinsured by National League of Cities Mutual Insurance Company (NLC MIC) for the additional \$500,000. \$9.5 million in excess liability coverage limits is provided through an excess liability policy purchased from National League of Cities Mutual Insurance Company (NLC MIC). The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Hallmark Specialty Insurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The property reinsurance coverage is purchased through NLC MIC and excess property coverage is purchased through AIG Specialty Insurance Company and CHUBB. In 2023, AWC RMSA carried a retention of \$300,000, NLC MIC reinsures up to \$3 million, AIG Specialty Insurance Company provides excess insurance up to \$50 million, and CHUBB provides the remaining limits up to a total of \$250 million. All commercial policies have been purchased through the pool’s Broker of Record, Aon.

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

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

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

Note 8- Leases

The Town of Pe Ell leases 1 copier from Canon Financial Services, \$88.95 per month under 5-year lease, running from starting in January 2022 and ending December 2026.

The total amount paid for leases in 2022 was \$1,067.40. As of December 31, 2023, the future lease payments are as follows:

2024	1067.40
2025	1067.40
2026	1067.40
Total:	3202.20

**Town of Pe Ell
Schedule of Liabilities
For the Year Ended December 31, 2023**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.56	COPIER LEASE	12/31/2026	4,602	-	1,400	3,202
263.81	RD Sewer Bond	12/31/2033	369,777	-	27,043	342,734
263.81	RD Water Bond	12/31/2043	467,236	-	14,480	452,756
263.83	L0200004	9/30/2023	4,378	-	4,378	-
263.87	PE08-951-082	7/1/2028	110,526	-	18,421	92,105
Total General Obligation Debt/Liabilities:			956,519	-	65,722	890,797
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2023	565	1,321	-	1,886
Total Revenue and Other (non G.O.) Debt/Liabilities:			565	1,321	-	1,886
Total Liabilities:			957,084	1,321	65,722	892,683

Town of Pe Eii
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14,228	18-62210-030	209,007	-	209,007	-	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14,228	20-62210-039	713,445	-	713,445	-	
Total ALN 14,228:				922,452	-	922,452	-	
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21,027		-	139,813	139,813	-	
Total Federal Awards Expended:				922,452	139,813	1,062,265	-	

The accompanying notes are an integral part of this schedule.

Town of Pe Ell

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the Town of Pe Ell's financial statements. The Town of Pe Ell uses the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's office.

Note 2 – Federal De Minimis Indirect Cost Rate

The Town of Pe Ell has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Town of Pe Ell portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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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