



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Chehalis

Lewis County

For the period January 1, 2016 through December 31, 2016

Published January 25, 2018

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Office of the Washington State Auditor
Pat McCarthy

January 25, 2018

Mayor and City Council
City of Chehalis
Chehalis, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Chehalis
Lewis County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Chehalis
Chehalis, 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 Chehalis, Lewis County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 30, 2017.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the City of Chehalis in a separate letter dated November 30, 2017.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

November 30, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Chehalis Lewis County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Chehalis
Chehalis, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Chehalis, Lewis County, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Chehalis, for the year ended December 31, 2016, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Chehalis, as of December 31, 2016, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. 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 taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

November 30, 2017

FINANCIAL SECTION

**City of Chehalis
Lewis County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

City of Chehalis
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 GENERAL FUND	102 ARTERIAL STREET
Beginning Cash and Investments				
30810	Reserved	3,099,863	61,964	3,394
30880	Unreserved	10,614,961	1,543,517	64,963
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	7,760,701	7,312,171	-
320	Licenses and Permits	432,949	431,494	-
330	Intergovernmental Revenues	1,400,979	259,481	159,021
340	Charges for Goods and Services	9,909,780	464,621	-
350	Fines and Penalties	231,761	137,232	-
360	Miscellaneous Revenues	1,316,832	264,602	264
Total Revenues:		21,053,001	8,869,601	159,286
Expenditures				
510	General Government	2,022,145	2,022,145	-
520	Public Safety	4,845,969	4,845,969	-
530	Utilities	4,863,678	-	-
540	Transportation	1,746,055	443,829	123,377
550	Natural and Economic Environment	763,691	583,177	-
560	Social Services	1,956	1,956	-
570	Culture and Recreation	496,198	495,885	-
Total Expenditures:		14,739,693	8,392,962	123,377
Excess (Deficiency) Revenues over Expenditures:		6,313,309	476,640	35,909
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	139,644	-	-
397	Transfers-In	146,207	18,000	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	297,293	127,990	-
381, 395, 398	Other Resources	35,290	8,787	-
Total Other Increases in Fund Resources:		618,434	154,777	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	3,839,621	822,352	-
591-593, 599	Debt Service	2,542,555	101,176	-
597	Transfers-Out	146,207	24,243	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	308,531	138,367	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		6,836,913	1,086,139	-
Increase (Decrease) in Cash and Investments:		94,829	(454,722)	35,909
Ending Cash and Investments				
5081000	Reserved	3,289,149	74,945	4,062
5088000	Unreserved	10,520,504	1,075,814	100,204
Total Ending Cash and Investments		13,809,653	1,150,758	104,266

The accompanying notes are an integral part of this statement.

107 TOURISM	195 1982-93 COMM DEVELOP BLK GRANT	197 HUD BLOCK GRANT	200 2011 G.O. BOND FUND	305 FIRST QUARTER PERCENT REET	306 SECOND QUARTER PERCENT REET
-	-	-	-	-	-
198,720	110	57,350	-	155,433	126,740
-	-	-	-	-	-
245,683	-	-	-	101,423	101,423
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
692	0	155	-	562	493
246,375	0	155	-	101,986	101,916
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
180,514	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
180,514	-	-	-	-	-
65,861	-	155	-	101,985	101,916
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	95,707	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	95,707	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	95,706	-	-
-	-	-	-	40,020	31,443
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	95,706	40,020	31,443
65,861	-	155	1	61,965	70,473
-	-	-	-	-	-
264,582	111	57,506	0	217,398	197,213
264,582	111	57,506	0	217,398	197,213

The accompanying notes are an integral part of this statement.

402 GARBAGE	404 WASTEWATER FUND	405 WATER FUND	406 STORM & SURFACE WATER UTILITY	407 AIRPORT FUND
-	1,106,185	334,082	-	1,594,237
4,554	2,165,278	5,308,973	682,478	306,843
-	-	-	-	-
-	-	-	-	-
-	-	-	-	1,455
-	6,062	-	-	976,415
6,323	5,378,210	3,019,505	555,528	485,592
-	58,923	29,942	5,663	-
43	19,415	16,178	2,181	1,012,246
6,365	5,462,610	3,065,626	563,373	2,475,708
-	-	-	-	-
-	-	-	-	-
3,246	2,423,347	2,044,056	393,029	-
-	-	-	-	1,178,849
-	-	-	-	-
-	-	-	-	-
-	-	-	-	314
3,246	2,423,347	2,044,056	393,029	1,179,163
3,120	3,039,263	1,021,569	170,343	1,296,545
-	139,644	-	-	-
-	-	-	-	32,500
-	-	-	-	-
227	558	425	-	168,093
-	1,350	2,153	-	23,000
227	141,552	2,578	-	223,593
-	249,867	1,673,821	-	1,093,580
-	1,856,528	148,438	-	340,707
-	32,500	-	18,000	-
-	-	-	-	-
227	558	165	-	169,214
-	-	-	-	-
227	2,139,454	1,822,423	18,000	1,603,501
3,120	1,041,361	(798,276)	152,343	(83,363)
-	1,107,418	534,967	-	1,567,757
7,673	3,205,407	4,309,813	834,822	249,961
7,673	4,312,826	4,844,780	834,822	1,817,718

The accompanying notes are an integral part of this statement.

City of Chehalis
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	611 FIREMEN'S PENSION	633 CITY AGENCY FUND
308	Beginning Cash and Investments	498,266	490,266	8,000
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	149,158	149,158	-
380-390	Other Increases and Financing Sources	343,781	-	343,781
510-570	Expenditures	37,403	37,403	-
580-590	Other Decreases and Financing Uses	342,221	-	342,221
Net Increase (Decrease) in Cash and Investments:		113,316	111,756	1,560
508	Ending Cash and Investments	611,581	602,021	9,560

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chehalis (the City) was incorporated on November 23, 1883 and operates under the laws of the State of Washington applicable to a non-charter code city with a Mayor-Council form of government. The City is a general purpose government and provides airport, public safety, fire prevention, parks and recreation activities, water supply/treatment/distribution, sewage collection and treatment, storm water collection, street repairs, planning and zoning, building, judicial administration, and general administrative services.

The City of Chehalis 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 following fund types are used:

GOVERNMENTAL FUND TYPES

General Fund

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

Debt Service Funds

These funds account for the financial resources which are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Project 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.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Pension (and Other Employee Benefit) Trust Funds

These funds report all trust arrangements under which principal and income benefit retirees and their survivors.

Agency Funds

These funds are used to account for assets that the City holds for 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. Budgets

The City of Chehalis adopts annual appropriated budgets for the general, special revenue, debt service, capital, trust, and enterprise funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. However, as outlined below, the City's 2016 budget did not blend managerial funds into the General Fund budget.

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures and Transfers Out	Variance
General Fund:			
City Council	98,657	77,810.09	20,846.91
City Manager	346,708	279,884.4	66,823.6

City Clerk	78,878	65,544.21	13,333.79
Municipal Court	522,105	498,310.46	23,794.54
Finance	228,295	176,395	51,900
Human Resources	93,553	75,389.55	18,163.45
Police	2,812,113	2,793,308.18	18,804.82
Fire	2,135,047	2,048,680.01	86,366.99
Community Development	2,073,823	1,879,881.39	193,941.61
Public Works - Streets	758,249	1,016,710.12	-258,461.12
Non-Departmental	598,171	486,413.88	111,757.12
Total General Fund	9,745,599	9,398,327.29	347,271.71
Dedicated Street Fund	640,260	242,718.66	397,541.34
Arterial Streets Fund	130,120	123,376.5	6,743.5
Tourism Fund	218,380	180,513.92	37,866.08
2011 G.O. Bond Fund	96,017	95,706.26	310.74
Automotive/Equipment Res. Fund	12,000	0	12,000
1 st Quarter REET Fund	40,149	40,020.22	128.78
2 nd Quarter REET Fund	31,545	31,443	102
Wastewater Fund	5,902,971	4,562,800.55	1,340,170.45
Water Fund	3,883,821	3,866,479.09	17,341.91
Storm and Surface Water Fund	513,276	411,029.35	102,246.65
Garbage Fund	4,155	3,472.83	682.17
Airport Fund	2,628,899	2,782,663.45	-153,764.45
Firemen's Pension Fund	74,333	37,402.86	36,930.14
City Agency Fund		342,220.52	-342,220.52
Total All Funds	23,921,525	22,118,174.50	1,803,350.50

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

Due to State reporting standards imposed by the Washington State Budget, Accounting, and Reporting System (BARS), the following funds have been determined to be managerial funds: the Dedicated Street Fund, the Public Facilities Reserve Fund, the Automotive/Equipment Reserve Fund, and the Federal and State Grant Fund. This determination mandates that they be treated as a part of the General Fund for financial reporting purposes. Because of this dichotomy between the City's budgeting and its financial reporting requirements, the interfund transactions between the General Fund and its managerial funds have been eliminated from the General Fund totals. The following reconciliation shows the summation of the General Fund and its managerial funds, less eliminated transactions:

Fund	Final Appropriated Amounts	Actual Expenditures and Transfers Out
Total General Fund	9,745,599	9,398,327.29
Dedicated Street Fund	640,260	242,718.66
Federal and State Grants Fund	0	0
Public Facilities Reserve Fund	0	0
Automotive/Equipment Res. Fund	12,000	0
Total General Fund Including Managerial Funds	10,397,859	9,641,045.95
Less: Interfund Transfers	150,899	161,944.79
Reconciled General Fund Total	10,246,960	9,479,101.16

D. Deposits and Investments

See Note 3, Deposits and Investments

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$4,999 and an estimated useful life in excess of one year. Capital and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 384 hours and is payable upon separation, retirement or death (subject to union or employment agreements that may allow for more liberal accumulation and payment).

Sick leave may be accumulated up to 720 hours. Up to 100% of sick leave is payable upon termination of service, if certain requirements are met.

Payments are recognized as expenditures when paid.

Compensated Absence liabilities are reported on Liabilities Schedule 09.

G. Long-Term Debt (See Debt Service Requirements Note 5.)

H. Other Financing Sources or Uses

The City of Chehalis' "Other Financing Sources or Uses" consist of transfers-in and out between funds and proceeds from debt issuance.

I. Risk Management

The City of Chehalis is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

J. Reserved Portion of Ending Cash and Investments

External parties have placed restrictions on certain balances. The nature of the restrictions and the related amounts at December 31, 2016 are noted below:

General Fund:

UNET Funds	50,745.77
Substance Abuse Treatment	13,040.96
Felony Confis/Forfeitures	1,680
State Confis/Forfeitures	1.625
Parks and Recreation Donations	7,853
	<hr/>
	74,944.73

Arterial Street Fund:

Paths and Trails	<hr/>
	\$4061.90

Wastewater Fund

Debt Covenants	<hr/>
	\$1,107,418.44

Water Fund

Debt Covenants	<hr/>
	\$534,967

Airport Fund

Debt Requirements	<hr/>
	\$1,567,757

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

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

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

NOTE 3 – DEPOSITS AND INVESTMENTS

It is the City'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 or held by the City or its agent in the City's name

except the invested cash held by Lewis County for the final 6/1/2017 debt payment on the Chehalis-Centralia Airport Bond which is held in the name of the Chehalis-Centralia Airport.

Investments are reported at original cost. Investments by type at December 31, 2016 are as follows:

Type of Investment	City of Chehalis' Own Investments	Investments held by the City of Chehalis as an Agent for Other Governments or Individuals	Total
Washington State Local Government Investment Pool	\$6,655,013	0	\$6,655,013
FICO Investments	1,618,118	0	1,618,118
Federal Home Loan Bank	729,270		729,270
Certificates of Deposits - SSB	250,000	0	250,000
Held by Lewis County	1,567,757	0	1,567,757
Total	\$10,820,158	0	\$10,820,158

NOTE 4 – PROPERTY TAX

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

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

The City's regular levy for the year 2016 was \$2.297735780457 per \$1,000 on an assessed valuation of \$599,335,477 for a total regular levy of \$1,377,114.57.

The City also has a levy for Emergency Medical Services (EMS). In 2016, the EMS levy was \$0.50 per \$1,000 on an assessed valuation of \$599,335,477 for a total EMS levy of \$299,667.74

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Debt (09) provides a listing of the outstanding debt of the City of Chehalis and summarizes the City's debt transactions for the year 2016.

The City's total debt service requirements for general obligation bonds, revenue bonds, and airport bonds are as follows:

Year	General Obligation Bonds	Revenue Bonds	Airport Bonds	Total Debt
2017	198,828	2,003,924	1,592,460	3,795,212
2018	202,078	2,176,188	26,683	2,404,949
2019	199,734	2,002,518	26,683	2,228,935
2020	197,391	1,972,902	26,683	2,196,976
2021	200,047	1,921,336	26,683	2,148,065
2022-2026	571,919	9,126,623	133,413	9,831,955
2027-2031		894,403	133,412	1,027,816
2032-2036			104,507	104,507
TOTALS	\$1,569,997	\$20,097,894	\$2,070,524	\$23,738,415

NOTE 6 – PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following pension plans: (1) Public Employees' Retirement Systems (PERS) Plans 2 and 3; and (2) Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plan 2 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

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

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

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

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

At June 30, 2016 (the measurement date of the plans) the City's proportionate share of the collective net pension liabilities, as reported on Schedule 9, was as follows:

	ALLOCATION %	LIABILITY
PERS 1 UAAL	.029936%	1,607,704
PERS 2 & 3	.038315%	1,929,130

Total Net Pension Liability		3,535,834
LEOFF 1	.029157%	(300,400)
LEOFF 2	.077622%	(451,473)

For the year ending June 30, 2015 the related amounts were:

	ALLOCATION %	LIABILITY
PERS 1 UAAL	.026369%	1,379,344
PERS 2 & 3	.034049%	1,216,590
Total Net Pension Liability		2,595,934
LEOFF 1	.028815%	(347,284)
LEOFF 2	.078723%	(809,115)

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

The City also participated 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. The special funding situation is not mandated by the state constitution and could be changed by statute.

NOTE 7 - SELF INSURANCE

The City self-insures for several programs: an eyeglass and contact lens program; unemployment taxes; and out-of-pocket medical costs incurred by pre-LEOFF1 and LEOFF1 retirees.

The eyeglass and contact lens program provides eyeglasses and contact lenses to council members, Teamsters police officers, and non-represented employees and their dependents. In 2016, \$2,278.95 was expended on this program.

As a government agency, the City has the option to pay unemployment taxes on a reimbursement basis to the State of Washington. For 2016, the City paid \$11,675.95 in reimbursement to the State for unemployment taxes.

Pre-LEOFF1 and LEOFF1 medical costs reimbursed by the City are addressed in the Other Post-Employment Benefits Note 9, below.

NOTE 8: OTHER POST-EMPLOYMENT BENEFITS (OPEB)

In accordance with state law, the City provides OPEB to its pre-LEOFF1 firefighter retirees and LEOFF1 firefighter and police officer retirees.

Pre-LEOFF1 benefits are two-fold: eligible retirees receive a supplemental pension payment and medical benefits. Supplemental pension payments are based upon formulas using the City's current compensation levels. In the event that the pension paid by the State falls short of what the retiree should receive based upon the formula, the City pays for the difference. Should the retiree receive more from the State than would result from the application of the formula, no adjustments or paybacks are requested.

For both pre-LEOFF1 and LEOFF1 retirees, the City provides full medical insurance through its regular carrier and reimburses the full cost of Medicare premiums of those retirees eligible for Medicare. Additionally, the City self-insures for all eligible out-of-pocket costs including but not limited to: co-pays for doctor visits and medicines, as well as long-term care costs not covered by Medicare.

All costs associated with the pre-LEOFF1 firefighter retirees are accounted for in the Firefighters Pension Trust Fund. In 2016, the fund incurred expenditures totaling \$29,523.48 and \$7,879.38 for medical and pension costs, respectively. Of the \$29,523.48 in medical costs, \$24,582.48 was paid for medical insurance and \$4,941.00 consisted of self-insured costs.

LEOFF1 benefits for firefighter and police officer retirees are limited to medical benefits. These costs are accounted for in the General Fund as Non-Departmental expenses. In 2016 the City expended \$79,429.71 and \$45,807.35 on LEOFF1 police officer and firefighter retirees' medical costs, respectively. Of the \$79,429.71 in LEOFF1 police officer medical costs, \$10,995.03 consisted of self-insured costs. Of the \$45,807.35 in LEOFF1 firefighter costs, \$7,895.37 consisted of self-insured costs.

NOTE 9: HEALTH & WELFARE

The City of Chehalis 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

January 1, 2014 when participating cities, town 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, 2016, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and town 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 purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate the member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees for 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 the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and made operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW and Chapter 200-110-WAC.

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

NOTE 10: TRANSPORTATION BENEFIT DISTRICT.

On September 14, 2014, the City Council established a Transportation Benefit District with the same boundaries as the City of Chehalis as they then existed or would be expanded due to annexation. As allowed by the Second Engrossed Substitute Senate Bill 598, on December 14, 2015 the Council passed ordinance #950-B assuming all rights powers, functions and obligations of the Chehalis Transportation Benefit District. The independent TBD ceased to exist on December 22, 2015 and the Transportation Benefit District became a fund of the City of Chehalis. No revenue was received in 2015 or 2016; therefore, the fund has no budget for 2016. In 2017 the Citizens of Chehalis voted to increase sales tax by two-tenths of one percent to fund this TBD. The first receipts from this action will be received in the fall of 2017.

NOTE 11: RELATED PARTY TRANSACTIONS

Dr. Isaac Pope is a member of the City Council for the City of Chehalis. He is also a founding member and serves on the Board of Directors for The Chehalis Foundation. The Foundation has served as a partner with the City on several projects including the funding, in combination with state and federal grants, of the Gail and Carolyn Shaw Aquatics Center. The Aquatics Center, which opened in 2015, is a true treasure in our community. The Foundation continues to support the Aquatics Center and in 2016 donated \$9,734.33 to the City to fund pool repairs. The Foundation also paid \$80,000 to the City to reimburse the cost of a Ballfield Feasibility Study.

The City received a letter from The Foundation dated May 19, 2017 in which The Foundation pledged \$400,000 towards the City's Recreation Park Renovation Project to help with park drainage.

NOTE 12: SUBSEQUENT EVENTS

The City is planning a major renovation project of our Recreation Park and will be seeking grant and other funding for this project in 2017.

In 2017, an inspection was performed of our Fire Department Building. It was determined that significant work must be done to this building if it is to remain in service. Decisions

regarding whether to renovate this building or relocate the Fire Department will be made following additional study of the options... The resolution may cause the City to incur previously unplanned expenditures.

Additionally, the City entered into informal discussions with Fire District 6 to examine the feasibility of City annexation to the District.

City of Chehalis
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2011 G O Bond	12/1/2026	890,000	-	65,000	825,000
251.12	Fire Truck	8/25/2022	604,587	-	83,172	521,415
Total General Obligation Debt/Liabilities:			1,494,587	-	148,172	1,346,415
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		1,080,314	708,045	706,328	1,082,031
252.11	SRFL #5 DOH	10/1/2026	693,835	-	63,076	630,759
259.12	Compensated Absences		309,400	215,534	222,642	302,292
252.12	1979 Revenue Bond	8/1/2019	93,000	-	21,000	72,000
263.82	SRFL # 4 (DOH)	1/1/2020	250,003	-	50,001	200,002
263.82	SRFL #1 (DOE)	5/1/2024	1,324,143	-	147,168	1,176,976
263.82	SRFL #2 (DOE)	12/30/2023	147,653	-	17,503	130,150
263.82	SRFL #3A (DOE)	6/30/2027	18,752,165	-	1,630,623	17,121,542
263.82	SRFL #3B (DOE)	9/30/2028	514,093	-	39,546	474,547
263.82	SRFL - I&I Loan	12/31/2036	35,286	108,702	-	143,988
263.82	SRFL - Coal Creek	3/31/2017	-	30,942	-	30,942
264.30	Net Pension Liability		2,595,934	940,900	-	3,536,834
252.11	Lewis County Chehalis-Centralia Airport	6/1/2017	1,774,793	-	242,122	1,532,672
263.86	Distressed Counties Loan - Airport	12/1/2025	396,269	2,216	13,671	384,814
Total Revenue and Other (non G.O.) Debt/Liabilities:			27,966,889	2,006,339	3,153,679	26,819,548
Total Liabilities:			29,461,476	2,006,339	3,301,851	28,165,964

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov