



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Chehalis

For the period January 1, 2018 through December 31, 2018

Published February 6, 2020

Report No. 1025652





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

February 6, 2020

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,

A handwritten signature in cursive script that reads "Pat McCarthy".

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
January 1, 2018 through December 31, 2018**

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City’s financial statements, and have issued our report thereon dated January 30, 2020.

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

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s

internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 30, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Chehalis January 1, 2018 through December 31, 2018

Council
City of Chehalis
Chehalis, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Chehalis, for the year ended December 31, 2018, 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 state law 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 opinions 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 opinions.

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 state law 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 cash and investments of the City of Chehalis, and its changes in cash and investments, for the year ended December 31, 2018, 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, 2018, or the changes in financial position or cash flows thereof 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 conducted 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 January 30, 2020 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

January 30, 2020

FINANCIAL SECTION

City of Chehalis January 1, 2018 through December 31, 2018

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2018
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018
Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018

City of Chehalis
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 General Fund	102 Arterial Street	103 Transportation Benefit District
Beginning Cash and Investments					
30810	Reserved	2,517,441	100,817	4,741	-
30880	Unreserved	14,526,520	2,149,780	109,384	360,055
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	10,167,727	8,509,161	-	1,154,400
320	Licenses and Permits	172,745	172,745	-	-
330	Intergovernmental Revenues	909,736	318,683	164,198	-
340	Charges for Goods and Services	9,836,747	330,339	-	-
350	Fines and Penalties	214,267	116,089	-	-
360	Miscellaneous Revenues	1,869,340	224,353	1,727	14,182
Total Revenues:		23,170,562	9,671,370	165,925	1,168,582
Expenditures					
510	General Government	2,194,080	2,194,080	-	-
520	Public Safety	5,397,068	5,397,068	-	-
530	Utilities	5,612,800	-	-	-
540	Transportation	1,837,436	613,765	154,908	1,068
550	Natural and Economic Environment	553,892	351,006	-	-
560	Social Services	25,001	25,001	-	-
570	Culture and Recreation	586,964	586,704	-	-
Total Expenditures:		16,207,241	9,167,624	154,908	1,068
Excess (Deficiency) Revenues over Expenditures:		6,963,321	503,746	11,017	1,167,514
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	835,490	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	398,404	106,316	-	-
381, 382, 395, 398	Other Resources	317,406	17,036	-	-
Total Other Increases in Fund Resources:		1,551,300	123,352	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,002,038	194,540	-	417,411
591-593, 599	Debt Service	2,809,913	142,952	-	-
597	Transfers-Out	835,490	269,437	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	300,157	107,681	-	-
581, 582	Other Uses	296,017	-	-	-
Total Other Decreases in Fund Resources:		6,243,615	714,610	-	417,411
Increase (Decrease) in Cash and Investments:		2,271,006	(87,512)	11,017	750,103
Ending Cash and Investments					
5081000	Reserved	4,812,466	272,476	5,430	1,110,158
5088000	Unreserved	14,502,501	1,890,609	119,712	-
Total Ending Cash and Investments		19,314,967	2,163,085	125,142	1,110,158

The accompanying notes are an integral part of this statement.

City of Chehalis
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		107 Tourism	195 CDBG	197 HUD BLOCK GRANT	200 G.O. Bond
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	313,086	111	70,943	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	248,812	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	23,223	14,131	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,931	256	1,185	-
Total Revenues:		253,743	23,479	15,316	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	202,886	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		202,886	-	-	-
Excess (Deficiency) Revenues over Expenditures:		50,857	23,479	15,316	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	600	-	102,507
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	600	-	102,507
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	102,506
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	-	102,506
Increase (Decrease) in Cash and Investments:		50,857	24,079	15,316	1
Ending Cash and Investments					
5081000	Reserved	363,943	24,190	86,259	1
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		363,943	24,190	86,259	1

The accompanying notes are an integral part of this statement.

City of Chehalis
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		301 Public Facilities Reserve	302 Automotive Equipment Reserve	305 First Quarter Percent REET	306 Second Quarter Percent REET
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	90,185	463	176,107	264,738
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	127,677	127,677
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	190,967	980	1,792	2,544
Total Revenues:		190,967	980	129,469	130,221
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		190,967	980	129,469	130,221
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	639,515	92,868	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		639,515	92,868	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	581,028	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	242,864	323,189
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		581,028	-	242,864	323,189
Increase (Decrease) in Cash and Investments:		249,454	93,848	(113,395)	(192,968)
Ending Cash and Investments					
5081000	Reserved	308,070	-	62,712	71,770
5088000	Unreserved	31,569	94,311	-	-
Total Ending Cash and Investments		339,639	94,311	62,712	71,770

The accompanying notes are an integral part of this statement.

City of Chehalis
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		402 Garbage	404 Wastewater	405 Water	406 Storm & Surface Water
Beginning Cash and Investments					
30810	Reserved	-	1,880,884	530,999	-
30880	Unreserved	7,024	2,952,635	6,562,161	1,098,223
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	25,918	-	-
340	Charges for Goods and Services	6,409	5,314,824	2,975,316	647,202
350	Fines and Penalties	-	50,528	38,690	8,900
360	Miscellaneous Revenues	133	78,925	123,614	17,673
Total Revenues:		6,542	5,470,195	3,137,620	673,775
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	5,860	3,002,158	2,127,637	477,145
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		5,860	3,002,158	2,127,637	477,145
Excess (Deficiency) Revenues over Expenditures:		682	2,468,037	1,009,983	196,630
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	231	618	570	46
381, 382, 395, 398	Other Resources	-	-	19,323	-
Total Other Increases in Fund Resources:		231	618	19,893	46
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	293,016	73,119	30,191
591-593, 599	Debt Service	-	1,895,660	332,446	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	231	618	953	46
581, 582	Other Uses	-	-	279,427	-
Total Other Decreases in Fund Resources:		231	2,189,294	685,945	30,237
Increase (Decrease) in Cash and Investments:		682	279,361	343,931	166,439
Ending Cash and Investments					
5081000	Reserved	-	1,879,903	527,554	-
5088000	Unreserved	7,706	3,232,977	6,909,537	1,264,662
Total Ending Cash and Investments		7,706	5,112,880	7,437,091	1,264,662

The accompanying notes are an integral part of this statement.

City of Chehalis
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		<u>407 Airport</u>
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	371,625
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	400,937
340	Charges for Goods and Services	525,303
350	Fines and Penalties	60
360	Miscellaneous Revenues	1,206,078
Total Revenues:		<u>2,132,378</u>
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	1,067,695
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	260
Total Expenditures:		<u>1,067,955</u>
Excess (Deficiency) Revenues over Expenditures:		1,064,423
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	290,623
381, 382, 395, 398	Other Resources	281,047
Total Other Increases in Fund Resources:		<u>571,670</u>
Other Decreases in Fund Resources		
594-595	Capital Expenditures	412,733
591-593, 599	Debt Service	336,349
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	190,628
581, 582	Other Uses	16,590
Total Other Decreases in Fund Resources:		<u>956,300</u>
Increase (Decrease) in Cash and Investments:		679,793
Ending Cash and Investments		
5081000	Reserved	100,000
5088000	Unreserved	951,418
Total Ending Cash and Investments		<u>1,051,418</u>

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, 2018

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Custodial
308	Beginning Cash and Investments	740,220	729,330	10,890
388 & 588	Net Adjustments	-	-	-
310-390	Additions	455,834	181,794	274,040
510-590	Deductions	314,621	33,805	280,816
	Net Increase (Decrease) in Cash and Investments:	141,213	147,989	(6,776)
508	Ending Cash and Investments	881,433	877,319	4,114

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS
Notes to the Financial Statements
For the Year Ended December 31, 2018

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 public safety, fire prevention, parks and recreation activities, street maintenance and repairs, planning and zoning, judicial administration, water supply/treatment/distribution, sewage collection and treatment, storm & surface water collection, airport, 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES

General Fund

This fund is the primary operating fund of the 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.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the 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 Post Employee Benefit) Trust Fund

This fund accounts for activities of the Firemen's Pension Fund, which accumulates resources for pension benefit payments and other post employee benefits to qualified retired firefighters and qualified survivors.

Custodial Funds

These funds are used to account for assets that the City holds on behalf of others in a custodial capacity. The City has one custodial fund – Chehalis Municipal Court Trust Fund.

B. Basis of Accounting and Measurement Focus

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

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

C. Cash and Investments

See Note 2, Deposits and Investments

D. Capital Assets

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

E. 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. Maximum sick leave accrual cash-outs vary according to union or employment agreements. Payments are recognized as expenditures when paid.

Compensated Absence liabilities are reported on Schedule of Liabilities (Schedule 09).

F. Long-Term Debt

See Note 4 – Debt Service Requirements.

G. Other Financing Sources or Uses

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

H. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to the restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the City of Chehalis intends to use reserved resources first before using unreserved amounts. In relation to the internal commitments, the City Council by ordinance may establish, modify or rescind such commitment. The nature of the restrictions and the related amounts at December 31, 2018 are noted below:

Fund and Purpose	Authority	2018 Balance
<u>General (001) Fund</u>		
JNET Drug Funds	RCW 69.50.505	\$ 84,607
Substance Abuse investigation & Public Education	Ord. No. 831B	16,076
Parks & Facilities Donations	Donor	7,854
Felony Confiscated/Forfeiture	RCW 10.105.010	167
Dedicated Street Funds	Ord. 933B	<u>163,772</u>
Total General Fund (001)		272,476
<u>Arterial Street (102) Fund</u>		
Path and Trails	RCW 47.30	5,430
<u>Transportation Benefit District (103) Fund</u>		
Transportation Improvements	RCW 82.14.0455, 36.73	1,110,158
<u>Tourism (107) Fund</u>		
Tourism promotion	RCW 67.28.1815	363,943
<u>Community Development Block Grant (195) Fund</u>		
CDBG eligible activity	CDBG	24,190
<u>HUD Block Grant (197) Fund</u>		
Housing & Urban Development related activity	HUD Grant	86,259
<u>2011 G. O. Bond (200) Fund</u>		
Debt Service		1
<u>Public Facilities Reserve (301) Fund</u>		
Capital projects and maintenance	REET	120,893
Recreation Park Project (Ballfields)	Donor	<u>187,177</u>
Total Public Facilities Reserve		308,070
<u>First Quarter Percent REET (305) Fund</u>		
Capital Projects	RCW 82.46.010	62,712
<u>Second Quarter Percent REET (306) Fund</u>		
Capital Projects	RCW 82.46.035	71,770
<u>Wastewater (404) Fund</u>		
Debt Service	Loan Agreement	1,879,903
<u>Water (405) Fund</u>		
Debt Service	Loan Agreement	28,050
Customer Deposits		<u>499,504</u>
Total Water		527,554
<u>Airport (407) Fund</u>		
Lease Escrow Deposit	Lease Contract	<u>100,000</u>
TOTAL		\$ <u>4,812,466</u>

NOTE 2 – BUDGET COMPLIANCES

A. Budgets

The City of Chehalis adopts annual appropriated budgets for the general, special revenue, debt service, capital, pension 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.

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

<u>Expenditures</u>		2018	2018	2018	2018
		Adopted	Final Amended	Actual	Budget to Actual
Fund	Fund Name	Budget	Budget	Expenditures	Variance
City Funds:					
001	General Fund	\$ 9,655,146	\$ 10,496,273	\$ 10,006,144	\$ 490,129
003	Dedicated Street	164,900	180,940	175,155	5,785
004	Building Abatement	-	-	-	-
102	Arterial Street	160,060	160,060	154,908	5,152
103	Transportation Benefit District	500,000	500,000	418,479	81,521
107	Tourism	317,435	317,435	202,886	114,549
110	Compensated Absences Fund	-	-	-	-
195	Community Dev. Block Grant Fund	75	990	-	990
197	HUD Block Grant Fund	-	-	-	-
200	G.O. Bond	102,510	102,510	102,506	4
301	Public Facilities Reserve Fund	420,000	829,660	581,028	248,632
302	Automotive/Equip. Res. Fund	-	-	-	-
305	First Quarter REET	162,865	242,865	242,864	1
306	Second Quarter REET	233,675	323,190	323,189	1
402	Garbage	6,005	7,505	6,091	1,414
404	Wastewater	4,947,395	5,554,192	5,191,452	362,740
405	Water	2,923,461	3,231,767	2,813,582	418,185
406	Storm and Surface Water	696,351	721,225	507,382	213,843
407	Airport	1,957,269	2,218,232	2,024,255	193,977
Subtotal for City Funds		22,247,147	24,886,844	22,749,921	2,136,923
Fiduciary Funds:					
611	Firemen's Pension	78,500	78,500	33,805	44,695
633	Agency Fund	360,000	360,000	280,816	79,184
Subtotals for Fiduciary Funds		438,500	438,500	314,621	123,879
Total All Funds		\$ 22,685,647	\$ 25,325,344	\$ 23,064,542	\$ 2,260,802

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.

Per the 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 Building Abatement Fund, the Compensated Absences Fund. This determination mandates that they be treated as 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:

<u>Expenditures</u>		2018	2018	2018	2018
Fund	Fund Name	Adopted Budget	Final Amended Budget	Actual Expenditures	Budget to Actual Variance
001	General Fund	\$ 9,655,146	\$ 10,496,273	\$ 10,006,144	\$ 490,129
003	Dedicated Street	164,900	180,940	175,155	5,785
004	Building Abatement	-	-	-	-
110	Compensated Absences	-	-	-	-
Total General Fund		9,820,046	10,677,213	10,181,299	495,914
Less: Interfund Transfers Eliminated		(194,221)	(299,065)	(299,065)	-
General Fund for Financial Statements		\$ 9,625,825	\$ 10,378,148	\$ 9,882,234	\$ 495,914

NOTE 3 – DEPOSITS AND INVESTMENTS

It is the City's policy to invest all temporary cash surplus. 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 (FDIC) and/or the Washington Public Deposit Protection Commission (WPDPC). The City's investments are insured, registered, or held by the City or its agent in the City's name.

The amount of cash and investments is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions.

Investments are reported at original costs. Investments by type at December 31, 2018 are as follows:

Type of Investments	City's Own Investments at Cost	Investments held by City as an Agent	Total
Washington State Local Government Investment Pool	\$ 14,968,048	\$ -	\$ 14,968,048
Public Fund Money Market	87,257	-	87,257
US Government Agency Securities - FHLB	729,270	-	729,270
US Government Agency Securities - FHLMC	1,646,083	-	1,646,083
Total	\$ 17,430,658	\$ -	\$ 17,430,658

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 rate for the year 2018 was \$2.058273698281 per \$1,000 on an assessed valuation of \$711,910,025 for a total regular levy of \$1,465,305.68.

Under the State law, the City is required to fund the Firemen's Pension Fund a portion of its regular levy up to \$.225 per \$1,000 of assessed valuation. A total of \$156,379 regular levy collected was contributed to the Firemen's Pension Fund in 2018.

The City also has a levy for Emergency Medical Services (EMS). In 2018, the EMS levy rate was \$0.441804454151 per \$1,000 on an assessed valuation of \$711,910,025 for a total EMS levy of \$314,525.02.

NOTE 5 – INTERFUND LOANS

The following table displays interfund loan activity during 2018:

Borrowing Fund	Lending Fund	Balance 1/1/2018	New Loans	Repayments	Balance 12/31/2018
Airport Fund	Water Fund	\$ -	\$ 279,427	\$ 16,590	\$ 262,836
TOTALS		\$ -	\$ 279,427	\$ 16,590	\$ 262,836

The interfund loan between Water and Airport funds was made in 2018 to pay off a high interest bank loan and to shorten the repayment periods. In September 2018, the City's Ordinance No. 990-B authorized the interfund loan with interest rate at 2% per annum and to adjust to match the state investment pool rate if the rate rises above 2%. The Ordinance also adopted a definitive repayment schedule for the loan over a period of four years (48 monthly payments) and full repayment of the loan balance no later than September 30, 2022. The interest payment in 2018 was \$1,606.

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Chehalis and summarizes the City's debt and liabilities transactions for the year ended December 31, 2018.

The City's total debt service requirements for outstanding general obligation bonds, revenue bonds and other debts (which includes State Revolving Fund Loans, Distressed County Loans, bank loans, and capital leases) are as follows:

Year	G.O. Debt Principal	G.O. Debt Interest	G.O. Debt Total	Revenue Debt Principal	Revenue Debt Interest	Revenue Debt Total	Total Principal	Total Interest
2019	\$ 300,164	\$ 58,833	\$ 358,997	\$ 2,086,298	\$ 55,756	\$ 2,142,054	\$ 2,386,462	\$ 114,589
2020	305,865	50,472	356,337	2,059,279	47,908	2,107,187	2,365,144	98,380
2021	316,863	41,815	358,678	2,016,077	41,034	2,057,111	2,332,940	82,849
2022	287,828	32,971	320,799	2,016,391	35,377	2,051,768	2,304,219	68,348
2023	208,256	25,994	234,250	2,016,433	29,993	2,046,426	2,224,689	55,987
2024-2028	609,127	58,678	667,805	6,724,951	94,722	6,819,673	7,334,078	153,400
2029-2033	116,839	16,574	133,413	405,583	46,909	452,492	522,422	63,483
2034-2037	49,639	1,503	51,142	310,119	11,977	322,096	359,758	13,480
TOTALS	\$ 2,194,581	\$ 286,840	\$ 2,481,421	\$ 17,635,131	\$ 363,676	\$ 17,998,807	\$ 19,829,712	\$ 650,516

*Excludes compensated absences and pension liabilities.

NOTE 7 – PENSION PLANS

A. State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in either the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plan 1 and 2 or the Public Employees' Retirement Systems (PERS) Plans 1, 2 and 3 administered by the Washington State Department of Retirement Systems (DRS), 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, 2018 (the measurement date of the plans) the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$181,104	0.027094%	\$1,210,207
PERS 2 & 3	\$268,756	0.034830%	\$594,691
LEOFF 1	\$0	0.025821%	\$(468,781)*
LEOFF 2	\$135,676	0.078240%	\$(1,588,443)*
*Pension assets are not reported on Schedule 09.			

LEOFF Plan 1

The City participates in LEOFF Plan 1. LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding the remaining liability will require new legislation. Starting July 1, 2000, employers and employees contribute zero percent. The City did not have any active LEOFF 1 Plan members in 2018.

LEOFF Plan 2

The City also participated in 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.

B. Firemen's Pension Trust Fund/Plan

Plan Description. The City is the administrator of the Firemen's Pension Fund/Plan which is closed, single-employer, defined benefit pension plan that was established in conformance with the Revised Code of Washington (RCW) Chapters 14.16, 14.18 and 41.20. The plan is limited to full-time and fully compensated firefighters who were hired prior to the establishment of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) on March 1, 1970.

Through the LEOFF Act, the State undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970. Firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the customary and reasonable cost of necessary medical expenses of the retiree for life.

Pre-LEOFF supplemental pension payments are based upon formulas using the City's current compensation levels attached to the employee's rank at retirement. In the event the pension paid by the State falls short of what the retiree should receive based upon the formula, the City pays 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. The system/plan is shown as a trust fund in the financial statement of the City.

As of December 31, 2018, membership consisted of three (3) pre-LEOFF firefighter retirees.

Funding Policy. Under the State law, the Firefighter's Pension Plan is funded from an allocation of the State of Washington fire insurance premium taxes, regular property tax levies at \$0.225 per \$1,000 assessed valuation, interest earnings, and City contributions required to meet projected future pension obligations.

All costs associated with the pre-LEOFF firefighter retirees are accounted for in the Firemen's Pension Trust Fund.

In 2018, the Firemen's Pension Trust Fund received a total of \$187,794 contributions as follows:

	2018
<u>Contributions:</u>	
Contribution from General Fund - Property Tax	\$ 156,379
Fire Insurance Premium Tax	13,832
Investment Interest	11,584
Total Funding	<u>\$ 181,795</u>

A formal actuarial valuation study has not been done in recent years; however, based on the supplemental pension benefits paid over the last ten years coupled with consideration of the ages of the remaining plan members, the estimated funding requirements for future supplemental pension benefits as of December 31, 2018 is estimated at \$266,162. This future pension obligation amount is not reported on the Schedule 09, as the Firemen's Pension Fund/Plan has net pension asset as illustrated below.

The total cash and investment balance in the Firemen's Pension Fund as of December 31, 2018 is \$877,319.

City of Chehalis Firemen's Pension Trust Fund Assets (Liabilities)
As of December 31, 2018

	2018
Total Fund Asset (Cash & Investments)	\$ 877,319
Less Estimated Future Supplemental Pension Obligations	<u>(266,162)</u>
Net Fund Asset Available for Costs of Medical Benefits	<u>\$ 611,157</u>

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

In addition to the pension benefits described in Firefighter's Pension Funds section of Note 7. B, the City administers a single-employer, defined benefit plan covering postretirement healthcare and long-term care in accordance with state statute to its LEOFF 1 police and firefighter 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 reimburses 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.

A. LEOFF 1 Retiree Healthcare Plan

Plan Description. The Lewis County Law Enforcement and Firefighter Board (LEOFF Board), in conjunction with the City's Human Resources department, administers a single-employer defined benefit healthcare plan (LEOFF 1 Retiree Healthcare Plan). The plan provides lifetime healthcare benefits for retired full-time and fully compensated firefighters and police officers who established membership in the LEOFF 1 plan retirement system on or before September 30, 1977 in accordance with Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (RCW 41.26.150). The last employer of a retired LEOFF 1 member is responsible for the full cost of any post-retirement medical benefits. The plan covers retirees who are retired on disability as well as retired after reaching age requirements. As of December 31, 2018, the plan has sixteen (16) retired members (5 firefighter retirees, 8 police retirees, and 3 Pre-LEOFF firefighter retirees) and no active members.

The City provides health coverage for LEOFF 1 retirees through medical plans purchased through the Association of Washington Cities (AWC) Employees Benefit Trust and the LEOFF Health & Welfare Trust. Upon reaching age 65, the retirees are enrolled in Medicare Part B Coverage, with the City reimbursing these Medicare premiums. In addition, the City reimburses the necessary usual and customary medical expenses, in excess of those covered by the applicable insurance plans, including long-term care. LEOFF1 benefits for firefighter and police officer retirees are limited to medical benefits. Dental costs and dependents are not covered.

Funding Policy. These medical benefits for LEOFF 1 members are funded on a pay-as-you-go basis through the general fund and paid out of non-departmental department, and the medical benefits for Pre-LEOFF fire fighters are funded by the City's Firemen's Pension Fund. Health insurance premiums are paid monthly. Other medical costs are paid as billings are presented for reimbursement.

The City reimbursed 100 percent of the validated claims for medical costs incurred by the members. Amounts paid by the City in 2018 are as follows:

Retiree Group	Insurance Premiums		Other Reimbursements		2018 Total
LEOFF 1 Police	\$	31,486	\$	25,634	\$ 57,120
LEOFF1 Fire		38,210		20,234	58,444
Subtotal for LEOFF 1 ⁽¹⁾		69,696		45,868	115,564
Pre-LEOFF Fire ⁽²⁾		22,927		4,739	27,666
Grand Total	\$	92,623	\$	50,607	\$ 143,230

Foot Notes:

⁽¹⁾ Funded by the City's general fund

⁽²⁾ Funded by the City's Firemen's Pension Trust Fund

The City's total liability for post-retirement medical benefits was calculated utilizing the interactive GASB 75 Alternative Measurement Online Tool for LEOFF 1 provided by the Office of the State Actuary. Total OPEB liabilities for LEOFF 1 police and fire retirees as of June 30, 2018 are as follows:

Retiree Group	No. of Members	Total OPEB Liability
	6/30/2018	6/30/2018
LEOFF 1 - Fire	5	\$ 2,505,566
LEOFF 1 - Police	9	3,941,813
Pre-LEOFF Fire Fighter*	3	1,018,746
Total	17	\$ 7,466,125

NOTE 9 – SELF-INSURANCE

The City self-insures for an eyeglass and contact lens program and unemployment compensation benefits.

The eyeglass and contact lens program provides eyeglasses and contact lenses to council members and non-represented employees and their dependents. In 2018, \$1,231 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 2018, the City paid \$1,219 in reimbursements to the State for unemployment taxes.

NOTE 10: 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 on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2018, 257 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the State of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

NOTE 11. 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 160 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, with \$5,000 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 agreement, 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.

NOTE 12: 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. In 2018, the Foundation donated \$208,736 to the City to fund park facility maintenance and Recreation Park renovation project.

NOTE 13: OTHER DISCLOSURES.

A. Accounting and Reporting Changes

Beginning Balance

The prior year ending balances for the following funds were restated in 2018:

Fund No.	Fund Name	Prior Year Ending Balance, as Previously Reported		Changes	Current Year Beginning Balance, as Restated,	
		12/31/2017			1/1/2018	
001	General Fund	\$ 2,341,245		\$ (90,648)	\$ 2,250,597	
301	Public Facilities Reserve Fund	-		90,185	90,185	
302	Automotive & Equipment Reserve Fund	-		463	463	
Total		\$ 2,341,245		\$ -	\$ 2,341,245	

The City is allowed to use general subfunds for its internal managerial purposes but only one general fund is reported for financial reporting purposes. The City's Public Facilities Reserve and Automotive & Equipment Reserve funds were rolled into the general fund in 2017; however, the City determined that it is more appropriate to report them as capital projects funds. Other general managerial funds are rolled into the general fund in 2018, which includes Building Abatement Fund, Dedicated Street Fund, and Compensated Absences Fund.

Property Tax

The City is required to contribute a portion of its property tax collected under RCW 41.16.060 to the Firemen's Pension Fund. In previous years, that portion of the property tax was directly recorded in the Firemen's Pension Fund. However, during the City's 2017 audit, the State Auditor's Office recommended the City receive the property taxes in the City's general fund and then disburse them to the Firemen's Pension Fund as a pension contribution. Accordingly, 2018 property taxes are reported in the general fund.

B. Construction Commitments

The city has active construction projects as of December 31, 2018. The city's projects and commitments with contractors are as follows:

Project Name	Contractor	Paid to Date 12/31/2018	Remaining Commitment	Funding Source
National Avenue Slide Repair	Gill Construction	211,889	11,206	TBD Fund
Stan Hedwall Sewer Main	Gill Construction	265,604	12,868	Wastewater Fund
Total		\$ 477,493	\$ 24,074	

C. Subsequent Events

On September 10, 2019, the City of Chehalis issued Limited Tax General Obligation Bond, 2019 in the amount of \$894,000 to provide funds to pay the cost of the Recreation Park Renovation Project and other capital improvements, and to pay the costs of issuance and sale of the Bond, pursuant to Ordinance No. 999-B (the "Bond Ordinance"). On June 11, 2019, the Chehalis Lodging Tax Advisory Committee (LTAC) approved to pay the annual debt service payments up to \$75,000 a year, over the life of the Bond (15 years). The interest rate is 2.34% with the first semi-annual debt payment payable on February 1, 2020, and semi-annually thereafter on the first day of each August and February until the maturity date of August 1, 2034. Annual debt service payments range between \$63,395.91 and \$70,967.00, which will be provided by the Tourism Fund (lodging tax).

City of Chehalis
Schedule of Liabilities
For the Year Ended December 31, 2018

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2011 LTGO Bond	12/1/2026	755,000	-	75,000	680,000
263.91	Fire Truck Loan	8/25/2022	436,237	-	88,090	348,147
263.91	Chip Spreader Loan	10/24/2024	259,057	-	34,124	224,933
263.83	DWSRFL #5 (DOH), 05-96300-008	10/1/2026	567,683	-	63,631	504,052
263.85	Distressed Counties Loan - Airport	12/1/2035	369,466	-	15,815	353,651
263.85	5A Tract Loan SSB - Airport	10/25/2027	297,042	-	297,042	-
263.51	Capital Leases - Governmental		-	42,546	7,028	35,518
263.51	Capital Leases - Governmental		-	61,851	13,570	48,281
Total General Obligation Debt/Liabilities:			2,684,485	104,397	594,300	2,194,582
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences (Governmental)		1,111,160	747,122	645,685	1,212,597
259.12	Compensated Absences (Proprietary)		311,822	265,593	236,252	341,163
252.12	1979 Revenue Bond	8/1/2019	50,000	-	23,000	27,000
263.84	SRFL #1 (DOE), L0400015	5/1/2024	1,027,585	-	151,647	875,938
263.84	SRFL #2 (DOE), L0400016	12/30/2023	112,383	-	18,036	94,347
263.84	SRFL #3A (DOE), L050014A	6/30/2027	15,490,919	-	1,630,623	13,860,296
263.84	SRFL #3B (DOE), L050014B	9/30/2028	435,001	-	39,546	395,455
263.84	DWSRFL # 4 (DOH), 99-65199-013	1/1/2020	150,002	-	53,371	96,631
263.84	SRFL - I&I Loan, EL #150003	12/31/2036	357,024	-	15,014	342,010
263.84	SRFL - Coal Creek, EL #160234	9/30/2037	15,000	-	15,000	-
263.84	DWSRFL (DOH)- High Level (DM13-952-179)	10/1/2027	858,500	-	85,850	772,650
263.84	DWSRFL (DOH), Flocculation (DM13-952-180)	10/1/2037	1,212,000	-	60,600	1,151,400
264.30	Net Pension Liability		2,511,281	-	706,562	1,804,719
263.52	Mailing/Inserter Equipment Lease-Proprietary		-	24,109	4,705	19,404
Total Revenue and Other (non G.O.) Debt/Liabilities:			23,642,677	1,036,824	3,685,891	20,993,610
Total Liabilities:			26,327,162	1,141,221	4,280,191	23,188,192

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