



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

**Financial Statements and Federal Single Audit  
Report**  
**City of Chehalis**

**For the period January 1, 2019 through December 31, 2019**

**Published September 17, 2020**

**Report No. 1026886**





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

September 17, 2020

Council  
City of Chehalis  
Chehalis, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Chehalis financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### City of Chehalis January 1, 2019 through December 31, 2019

#### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

##### Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

##### Internal Control over Financial Reporting:

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

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

##### Federal Awards

##### Internal Control over Major Programs:

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

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

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

### **Identification of Major Federal Programs**

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program

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

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

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**INDEPENDENT AUDITOR'S REPORT 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, 2019 through December 31, 2019**

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, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 1, 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.

As discussed in Note 8 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City.

## 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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 1, 2020.

## 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.



Pat McCarthy  
State Auditor  
Olympia, WA

September 1, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Chehalis**  
**January 1, 2019 through December 31, 2019**

Council  
City of Chehalis  
Chehalis, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Chehalis, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

September 1, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Chehalis January 1, 2019 through December 31, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

#### 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, 2019, 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, 2019, 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.

## **Matters of Emphasis**

As discussed in Note 8 to the financial statements, in 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

## **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 Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 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.

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Pat McCarthy  
State Auditor  
Olympia, WA

September 1, 2020

## **FINANCIAL SECTION**

### **City of Chehalis January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2019  
Schedule of Expenditures of Federal Awards – 2019  
Notes to the Schedule of Expenditures of Federal Awards – 2019



**City of Chehalis**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>102 Arterial Street</b>	<b>103 Transportation Benefit District</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	4,812,466	272,476	5,430	1,110,158
30880	Unreserved	14,502,501	1,890,609	119,712	-
388 / 588	Net Adjustments	7,887	-	-	-
<b>Revenues</b>					
310	Taxes	10,347,783	8,710,290	-	1,153,653
320	Licenses and Permits	235,162	235,162	-	-
330	Intergovernmental Revenues	4,067,787	424,374	158,436	39,963
340	Charges for Goods and Services	11,465,796	393,060	-	-
350	Fines and Penalties	210,720	121,966	-	-
360	Miscellaneous Revenues	1,881,406	186,662	2,442	31,782
Total Revenues:		28,208,654	10,071,514	160,878	1,225,398
<b>Expenditures</b>					
510	General Government	2,418,014	2,394,199	-	-
520	Public Safety	5,566,597	5,566,597	-	-
530	Utilities	5,743,912	-	-	-
540	Transportation	1,965,098	585,439	158,933	250
550	Natural and Economic Environment	633,649	424,804	-	-
560	Social Services	9,547	9,547	-	-
570	Culture and Recreation	614,275	609,265	-	-
Total Expenditures:		16,951,092	9,589,851	158,933	250
Excess (Deficiency) Revenues over Expenditures:		11,257,562	481,663	1,945	1,225,148
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	894,000	-	-	-
397	Transfers-In	571,075	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	319,366	114,546	-	-
381, 382, 395, 398	Other Resources	191,384	30,799	48	-
Total Other Increases in Fund Resources:		1,975,825	145,345	48	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	6,653,103	56,353	-	168,662
591-593, 599	Debt Service	2,487,925	142,952	-	-
597	Transfers-Out	571,075	490,746	5,432	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	320,827	115,964	-	-
581, 582	Other Uses	140,963	-	-	-
Total Other Decreases in Fund Resources:		10,173,893	806,015	5,432	168,662
<b>Increase (Decrease) in Cash and Investments:</b>		<b>3,059,494</b>	<b>(179,007)</b>	<b>(3,439)</b>	<b>1,056,486</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	6,711,245	338,239	121,703	2,166,644
5088000	Unreserved	15,671,103	1,645,839	-	-
<b>Total Ending Cash and Investments</b>		<b>22,382,348</b>	<b>1,984,078</b>	<b>121,703</b>	<b>2,166,644</b>

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, 2019**

		<b>107 Tourism</b>	<b>195 CDBG</b>	<b>197 HUD Block Grant</b>	<b>200 G.O. Bond</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	363,943	24,190	86,259	1
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	258,216	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	6,987	464	1,668	-
Total Revenues:		265,203	464	1,668	-
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	208,645	200	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		208,645	200	-	-
Excess (Deficiency) Revenues over Expenditures:		56,558	264	1,668	-
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	99,863
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	99,863
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	99,863
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	-	99,863
<b>Increase (Decrease) in Cash and Investments:</b>		<b>56,558</b>	<b>264</b>	<b>1,668</b>	<b>-</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	420,501	24,454	87,927	1
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>420,501</b>	<b>24,454</b>	<b>87,927</b>	<b>1</b>

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, 2019**

		<b>301 Public Facilities Reserve</b>	<b>302 Automotive Equipment Reserve</b>	<b>305 First Quarter Percent REET</b>	<b>306 Second Quarter Percent REET</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	308,070	-	62,712	71,770
30880	Unreserved	31,569	94,311	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	112,812	112,812
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	992,416	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,331,957	3,815	1,669	1,942
Total Revenues:		2,324,373	3,815	114,481	114,754
<b>Expenditures</b>					
510	General Government	23,815	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	4,544	-	-	-
Total Expenditures:		28,359	-	-	-
Excess (Deficiency) Revenues over Expenditures:		2,296,014	3,815	114,481	114,754
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	894,000	-	-	-
397	Transfers-In	289,432	181,780	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		1,183,432	181,780	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	2,739,056	39,275	-	-
591-593, 599	Debt Service	13,034	-	-	-
597	Transfers-Out	-	-	40,944	33,953
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		2,752,090	39,275	40,944	33,953
<b>Increase (Decrease) in Cash and Investments:</b>		<b>727,356</b>	<b>146,320</b>	<b>73,537</b>	<b>80,801</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	762,282	-	136,249	152,571
5088000	Unreserved	304,713	240,631	-	-
<b>Total Ending Cash and Investments</b>		<b>1,066,995</b>	<b>240,631</b>	<b>136,249</b>	<b>152,571</b>

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, 2019**

		<b>402 Garbage</b>	<b>404 Wastewater</b>	<b>405 Water</b>	<b>406 Storm &amp; Surface Water</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	1,879,903	527,554	-
30880	Unreserved	7,706	3,232,977	6,909,537	1,264,662
388 / 588	Net Adjustments	-	579	7,308	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	5,676	5,453,803	3,085,540	701,785
350	Fines and Penalties	-	52,742	29,835	6,074
360	Miscellaneous Revenues	183	110,901	146,845	27,140
Total Revenues:		5,859	5,617,446	3,262,220	734,999
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	5,563	2,984,122	2,228,369	525,858
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		5,563	2,984,122	2,228,369	525,858
Excess (Deficiency) Revenues over Expenditures:		296	2,633,324	1,033,851	209,141
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	204	563	83	55
381, 382, 395, 398	Other Resources	-	-	159,410	136
Total Other Increases in Fund Resources:		204	563	159,493	191
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	491,803	277,267	13,886
591-593, 599	Debt Service	-	1,879,988	319,872	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	204	563	33	54
581, 582	Other Uses	-	-	72,655	-
Total Other Decreases in Fund Resources:		204	2,372,354	669,827	13,940
<b>Increase (Decrease) in Cash and Investments:</b>		<b>296</b>	<b>261,533</b>	<b>523,517</b>	<b>195,392</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	1,879,904	520,724	-
5088000	Unreserved	8,002	3,495,088	7,447,192	1,460,054
<b>Total Ending Cash and Investments</b>		<b>8,002</b>	<b>5,374,992</b>	<b>7,967,916</b>	<b>1,460,054</b>

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, 2019**

		<b>407 Airport</b>
<b>Beginning Cash and Investments</b>		
30810	Reserved	100,000
30880	Unreserved	951,418
388 / 588	Net Adjustments	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	2,452,598
340	Charges for Goods and Services	1,825,932
350	Fines and Penalties	103
360	Miscellaneous Revenues	26,949
Total Revenues:		4,305,582
<b>Expenditures</b>		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	1,220,476
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	466
Total Expenditures:		1,220,942
Excess (Deficiency) Revenues over Expenditures:		3,084,640
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	203,915
381, 382, 395, 398	Other Resources	991
Total Other Increases in Fund Resources:		204,906
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	2,866,801
591-593, 599	Debt Service	32,216
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	204,009
581, 582	Other Uses	68,308
Total Other Decreases in Fund Resources:		3,171,334
<b>Increase (Decrease) in Cash and Investments:</b>		<b>118,212</b>
<b>Ending Cash and Investments</b>		
5081000	Reserved	100,046
5088000	Unreserved	1,069,584
<b>Total Ending Cash and Investments</b>		<b>1,169,630</b>

*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, 2019**

		<b>Total for All Funds (Memo Only)</b>	<b>Pension/OPEB Trust Fund</b>	<b>Custodial</b>
308	Beginning Cash and Investments	881,433	877,319	4,114
388 & 588	Net Adjustments	-	-	-
310-390	Additions	506,797	194,360	312,437
510-590	Deductions	369,088	58,537	310,551
	Net Increase (Decrease) in Cash and Investments:	137,709	135,823	1,886
508	Ending Cash and Investments	1,019,142	1,013,142	6,000

*The accompanying notes are an integral part of this statement.*

**CITY OF CHEHALIS**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019**

**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 Fund

This fund type is 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 calendar year.

#### **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 544 hours and is payable upon separation, retirement or death. Maximum vacation accrual and cash-outs vary according to different union or employment agreements.

Sick leave may be accumulated up to 720 hours. Unused sick leave is payable upon termination of service or retirement, if certain requirements are met. Maximum sick leave accruals and rules for cash-outs vary according to union or employment agreements. Payments are recognized as expenditures when paid.



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

#### **F. Long-Term Debt**

See Note 4 – Debt Service Requirements.

#### **G. Reserved Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments is reported as reserved when it is subject to 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 commitments.

Reservations of Ending Cash and Investments as of December 31, 2019 consist of the following:

<b>Fund and Purpose</b>	<b>Authority</b>	<b>2019 Balance</b>
<u>General (001) Fund</u>		
JNET Drug Funds	RCW 69.50.505	\$ 89,272
Substance Abuse Investigation & Public Education	Ord. No. 831B	17,932
Parks & Facilities Donations	Donor	8,853
Felony Confiscated/Forfeiture	RCW 10.105.010	168
Dedicated Street Funds	Ord. 933B	222,014
Total General Fund (001)		338,239
<u>Arterial Street (102) Fund</u>		
Path and Trails	RCW 47.30	665
Streets, Roads and Highways	RCW 4724.040	121,038
Total Arterial Street (102) Fund		121,703
<u>Transportation Benefit District (103) Fund</u>		
Transportation Improvements	RCW 82.14.0455, 36.73	2,166,644
<u>Tourism (107) Fund</u>		
Tourism Promotion	RCW 67.28.1815	420,501
<u>Community Development Block Grant (195) Fund</u>		
CDBG eligible activity	CDBG	24,454
<u>HUD Block Grant (197) Fund</u>		
Housing & Urban Development related activity	HUD Grant	87,927
<u>2011 G. O. Bond (200) Fund</u>		
Debt Service		1
<u>Public Facilities Reserve (301) Fund</u>		
Capital projects and maintenance	REET	119,641
Recreation Park Project (Ballfields)	Donor	642,641
Total Public Facilities Reserve		762,282
<u>First Quarter Percent REET (305) Fund</u>		
Capital Projects	RCW 82.46.010	136,249
<u>Second Quarter Percent REET (306) Fund</u>		
Capital Projects	RCW 82.46.035	152,571
<u>Wastewater (404) Fund</u>		
Debt Service	Loan Agreement	1,879,904
<u>Water (405) Fund</u>		
Customer Deposits		520,724
<u>Airport (407) Fund</u>		
Lease Escrow Deposit	Lease Contract	100,046
<b>TOTAL</b>		<b>\$ 6,711,245</b>

## **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:

<b><u>Expenditures</u></b>		2019	2019	2019	2019
		Adopted	Final Amended	Actual	Budget to Actual
Fund	Fund Name	Budget	Budget	Expenditures	Variance
City Funds:					
001	General Fund	\$ 10,019,670	\$ 11,169,208	\$ 10,619,030	\$ 550,178
003	Dedicated Street	172,520	172,520	153,588	18,932
004	Building Abatement	80,000	80,000	80,000	-
102	Arterial Street	170,218	175,650	164,365	11,285
103	Transportation Benefit District	1,175,000	1,194,196	168,912	1,025,284
107	Tourism	305,435	405,435	208,646	196,789
110	Compensated Absences Fund	-	-	-	-
195	Community Dev. Block Grant Fund	1,000	1,000	200	800
197	HUD Block Grant Fund	1,000	1,000	-	1,000
200	G.O. Bond	99,563	99,863	99,863	-
301	Public Facilities Reserve Fund	96,724	4,498,968	2,780,449	1,718,519
302	Automotive/Equip. Res. Fund	81,780	81,780	39,275	42,505
305	First Quarter REET	40,821	40,944	40,944	-
306	Second Quarter REET	33,851	33,953	33,953	-
402	Garbage	7,252	7,252	5,767	1,485
404	Wastewater	5,750,639	5,894,863	5,356,473	538,390
405	Water	4,269,140	4,301,755	2,898,197	1,403,558
406	Storm and Surface Water	786,526	801,936	539,798	262,138
407	Airport	4,429,286	4,446,310	4,392,278	54,032
<b>Subtotal for City Funds (C4)</b>		<b>27,520,425</b>	<b>33,406,633</b>	<b>27,581,738</b>	<b>5,824,895</b>
Fiduciary Funds:					
611	Firefighter's Pension	78,500	87,000	58,537	28,463
633	Custodial Fund	360,000	360,000	310,552	49,448
<b>Subtotals for Fiduciary Funds (C5)</b>		<b>438,500</b>	<b>447,000</b>	<b>369,089</b>	<b>77,911</b>
<b>Total All Funds</b>		<b>\$ 27,958,925</b>	<b>\$ 33,853,633</b>	<b>\$ 27,950,827</b>	<b>\$ 5,902,806</b>

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.

The City maintains separate sub-funds for the General Fund for budget managerial purposes. Per the reporting standards prescribed by the Washington State *Budget, Accounting, and Reporting System* (BARS) Manual, these sub-funds are rolled into the General Fund for financial reporting purposes, which

requires eliminating interfund transactions between the General Fund and its sub-funds. The following table provides summation of the General Fund and its sub-funds, net of eliminated transactions:

<b>Expenditures</b>		2019	2019	2019	2019
Fund	Fund Name	Adopted Budget	Final Amended Budget	Actual Expenditures	Budget to Actual Variance
001	General Fund	\$ 10,019,670	\$ 11,169,208	\$ 10,619,030	\$ 550,178
<b>Sub-funds:</b>					
003	Dedicated Street	172,520	172,520	153,588	18,932
004	Building Abatement	80,000	80,000	80,000	-
110	Compensated Absences	-	-	-	-
<b>Total General Fund</b>		<b>10,272,190</b>	<b>11,421,728</b>	<b>10,852,618</b>	<b>569,110</b>
Less: Interfund Transfers Eliminated		(278,808)	(458,808)	(456,752)	(2,056)
<b>General Fund for Financial Statements</b>		<b>\$ 9,993,382</b>	<b>\$ 10,962,920</b>	<b>\$ 10,395,866</b>	<b>\$ 567,054</b>

### **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. Investments are reported at original costs. Investments by type at December 31, 2019 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	\$ 17,954,569	\$ -	\$ 17,954,569
Public Fund Money Market	87,388	-	87,388
Public Funds Savings	100,046	-	100,046
US Government Agency Securities - FHLB	729,270	-	729,270
US Government Agency Securities - FHLMC	1,646,083	-	1,646,083
<b>Total</b>	<b>\$ 20,517,356</b>	<b>\$ -</b>	<b>\$ 20,517,356</b>

#### **Investments in the State Local Government Investment Pool (LGIP)**

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

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

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the City would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City's deposits and certificates of deposits are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered or held by the City or City's agent in the City's name.

#### **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 2019 was \$2.099995622492 per \$1,000 on an assessed valuation of \$769,615,890 for a total regular levy of \$1,616,190.

Under state law, the City is required to fund the Firefighter's Pension Fund a portion of its regular levy up to \$.225 per \$1,000 of assessed valuation. A total of \$176,452.01 regular levy collected (including delinquent taxes collected) was contributed to the Firemen's Pension Fund in 2019.

The City also has a levy for Emergency Medical Services (EMS). In 2019, the EMS levy rate was \$0.429043896170 per \$1,000 on an assessed valuation of \$769,615,890 for a total EMS levy of \$330,199.00.

#### **NOTE 5 – INTERFUND LOANS**

The following table provides interfund loan activities during 2019:

Borrowing Fund	Lending Fund	Balance 1/1/2019	New Loans	Repayments	Balance 12/31/2019
Airport Fund	Water Fund	\$ 262,836	\$ -	\$ 68,308	\$ 194,528
TOTALS		\$ 262,836	\$ -	\$ 68,308	\$ 194,528

The interfund loan between Water and Airport funds was made in 2018 to pay off a higher-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 2019 was \$5,533.

#### **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, 2019.

##### **Bonds & Loans**

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

Year	G.O. Debt			Revenue Debt			Total	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
2020	\$ 330,131	\$ 65,402	\$ 395,533	\$ 2,055,532	\$ 47,009	\$ 2,102,541	\$ 2,385,663	\$ 112,411
2021	346,890	59,151	406,041	2,010,240	40,581	2,050,821	2,357,130	99,732
2022	320,403	50,366	370,769	2,013,312	35,312	2,048,624	2,333,715	85,678
2023	261,203	43,066	304,269	2,016,434	29,993	2,046,427	2,277,637	73,059
2024	257,894	36,273	294,167	1,916,604	24,697	1,941,301	2,174,498	60,971
2025-2029	728,309	101,709	830,018	4,888,492	82,196	4,970,688	5,616,801	183,905
2030-2034	455,393	34,957	490,350	408,072	39,874	447,946	863,465	74,832
2035-2037	24,097	363	24,460	227,485	6,840	234,325	251,582	7,203
TOTALS	\$ 2,724,320	\$ 391,287	\$ 3,115,607	\$ 15,536,171	\$ 306,502	\$ 15,842,673	\$ 18,260,491	\$ 697,791

### Capital Leases

The City of Chehalis has entered into lease agreements for financing machinery and equipment. The future minimum lease payment obligations as of December 31, 2019 are as follows:

Year	Governmental Fund	Proprietary Fund	Total
2020	\$ 24,200	\$ 13,028	\$ 37,228
2021	24,200	13,028	37,228
2022	21,422	9,883	31,305
2023	1,075	6,739	7,814
2024	-	3,931	3,931
Total minimum lease payments	70,897	46,609	117,506
Less: amount representing interest	(6,666)	(5,284)	(11,950)
Minimum lease payments - principal	\$ 64,231	\$ 41,325	\$ 105,556

## **NOTE 7 – PENSION PLANS**

### **A. State Sponsored Pension Plans**

Substantially all City of Chehalis full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefits and defined contributions retirement plans:

Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plan 1 and 2; and Public Employees' Retirement Systems (PERS) Plans 1, 2 and 3.

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](http://www.drs.wa.gov).

At June 30, 2019 (the measurement date of the plans) the City's proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$197,976	0.027610%	\$1,061,703
PERS 2 & 3	\$291,034	0.035634%	\$346,127
LEOFF 1	\$0	0.026281%	\$(519,473)*
LEOFF 2	\$145,585	0.078963%	\$(1,829,330)*
<i>*Pension assets are not reported on Schedule 09.</i>			

#### LEOFF Plan 1

The City of Chehalis 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 2019.

#### LEOFF Plan 2

The City of Chehalis also participates 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 LEOFF Plan 2 Retirement Board. The special funding situation is not mandated by the state constitution and could be changed by statute.

### **B. City of Chehalis Firefighter's Pension Trust Fund/Plan**

**Plan Description.** The City of Chehalis is the administrator of the Firefighter's Pension Fund/Plan which is a 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 Firefighters' 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, 2019, 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 Firefighter's Pension Trust Fund. In 2019, the Firefighter's Pension Trust Fund received a total of \$194,360 contributions as follows:

	2019
<u>Contributions:</u>	
Contribution from General Fund - Property Tax	\$ 162,518
Fire Insurance Premium Tax	13,934
Investment Interest	17,908
	<hr/>
Total Funding	<hr/> \$ 194,360 <hr/>

In October 2019, actuarial valuation of the City of Chehalis Firefighter's Pension Fund was performed by Milliman, Inc. The actuarial valuation report provided that as of January 1, 2019, the actuarial present value of future excess pension benefits to be provided by the City is \$152,453.

This future excess pension obligation amount is not reported on Schedule 09, as the Firefighter's Pension Fund/Plan has net pension assets as illustrated below.

The total cash and investment balance in the Firefighter's Pension Fund as of December 31, 2019 is \$860,690.

City of Chehalis Firefighter's Pension Trust Fund Assets (Liabilities)  
As of December 31, 2019

	2019
Total Cash & Investments	\$ 1,013,143
Less Supplemental Pension Obligations as of 1/1/2019	(152,453)
Net Fund Assets	<hr/> \$ 860,690 <hr/>

The actuarial study further provided that firefighter retiree medical and long-term care benefits may be paid from the excess pension fund, up to \$78,000 per year for the next 10 years.

**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 post-retirement 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.

During the year ended December 31, 2019, the City of Chehalis adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.

**A. LEOFF 1 Retiree Healthcare Plan**

**Plan Description.** The Lewis County Law Enforcement and Firefighter Board (LEOFF Board), in conjunction with the City of Chehalis 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 Firefighters' 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, 2019, the plan has fifteen (15) retired members (5 firefighter retirees, 7 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 LOEFF 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 firefighters are funded by the City's Firefighter'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 2019 are as follows:

Retiree Group	Insurance Premiums	Other Reimbursements	2019 Total
LEOFF 1 Police	\$ 25,381	\$ 29,126	\$ 54,507
LEOFF1 Fire	41,883	10,176	52,059
Subtotal for LEOFF 1 <sup>(1)</sup>	67,264	39,302	106,566
Pre-LEOFF Fire <sup>(2)</sup>	25,130	5,017	30,147
Grand Total	\$ 92,394	\$ 44,319	\$ 136,713

Foot Notes:

<sup>(1)</sup> Funded by the City's general fund

<sup>(2)</sup> Funded by the City's Firefighter'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, 2019 are as follows:

Retiree Group	No. of Members 6/30/2019	Total OPEB Liability 6/30/2019
Pre-LEOFF Firefighter	3	\$ 1,318,705
LEOFF 1 - Fire	5	\$ 2,732,024
LEOFF 1 - Police	7	\$ 4,001,564
Total	15	\$ 8,052,293

## **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 reimbursements for eyeglasses and contact lenses to council members and non-represented employees and their dependents. In 2019, \$2,036 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 2019, the City paid \$3,672 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, 2019, 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, 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 2019, 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"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the

Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

#### **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 163 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 2019, the Foundation donated \$1,263,134 to the City of Chehalis for Recreation Park renovation project and recreation program scholarships.

#### **NOTE 13 - OTHER DISCLOSURES**

### **A. Construction Commitments**

The City has active construction projects in progress as of December 31, 2019. The City's projects and commitments with contractors are as follows:

Project Name	Contractor	Paid to Date 12/31/2019	Remaining Commitment	Funding Source
Recreation Park Improvement	KBH Construction	\$2,338,392	\$ 427,510	Capital Facilities Fund
Recreation Park Playground	Landscape Structures Inc	150,000	724,846	Capital Facilities Fund
Riverside Force Main	C & R Tractor & Landscaping	299,415	501,458	Wastewater Fund
Taxiway Realignment	Sterling Breen Crushing Inc	2,555,045	237,735	Airport Fund
Total		\$5,342,852	\$ 1,891,549	

### **B. Subsequent Events**

#### **Financial Implications Resulting From COVID-19 Pandemic Crisis**

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus (coronavirus COVID-19). In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing businesses, schools, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for essential functions. The length of time these measures will be in place and the full extent of the financial impact on the City of Chehalis is unknown at this time. However, it is anticipated that the City will face significant revenue losses in 2020, especially from sales tax revenues.

Sales tax is one of the largest revenue sources for the City's general fund and makes up about fifty percent of the general fund revenues. There is concerns for whether the City will be able to sustain its current service level if the economy does not recover to its pre-COVID19 level in 2021. The City management is exploring various options to address the situation, including but not limited to: hiring freeze, furloughs and layoffs, identifying services that might have to be cut down or eliminated, and interim borrowings for potential cash flow issues.

**City of Chehalis**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2019**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	2011 LTGO Bond	12/1/2026	680,000	-	75,000	605,000
251.11	2019 LTGO Bond	8/1/2034	-	894,000	-	894,000
263.91	Fire Truck Loan	8/25/2022	348,147	-	90,807	257,340
263.91	Chip Spreader Loan	10/24/2024	224,933	-	35,354	189,579
263.83	DWSRFL #5 (DOH), 05-96300-008	10/1/2026	504,052	-	63,006	441,046
263.85	Distressed Counties Loan - Airport	12/1/2035	353,651	-	16,296	337,355
263.51	Copier Leases - Governmental		35,518	-	8,342	27,176
263.51	JD Mowers, Lease-Purchase - Governmental	2/15/2022	48,281	-	11,226	37,055
<b>Total General Obligation Debt/Liabilities:</b>			<b>2,194,582</b>	<b>894,000</b>	<b>300,031</b>	<b>2,788,551</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences (Governmental)		1,212,597	754,622	770,830	1,196,389
259.12	Compensated Absences (Proprietary)		341,163	238,457	324,910	254,710
252.12	1979 Revenue Bond	8/1/2019	27,000	-	27,000	-
263.84	SRFL #1 (DOE), L0400015	5/1/2024	875,938	-	153,937	722,001
263.84	SRFL #2 (DOE), L0400016	12/30/2023	94,347	-	18,308	76,039
263.84	SRFL #3A (DOE), L050014A	6/30/2027	13,860,296	-	1,630,623	12,229,673
263.84	SRFL #3B (DOE), L050014B	9/30/2028	395,455	-	39,546	355,909
263.84	DWSRFL # 4 (DOH), 99-65199-013	1/1/2020	96,631	-	48,315	48,316
263.84	SRFL - I&I Loan, EL #150003	12/31/2036	342,010	-	15,378	326,632
263.84	DWSRFL (DOH)- High Level (DM13-952-179)	10/1/2027	772,650	-	85,850	686,800
263.84	DWSRFL (DOH), Flocculation (DM13-952-180)	10/1/2037	1,151,400	-	60,600	1,090,800
264.30	Net Pension Liability		1,804,719	-	396,889	1,407,830
263.52	Mailing/Inserter Equipment Lease - Proprietary	6/25/2022	19,404	-	5,055	14,349
263.52	Public Works Plotter/Copier	8/1/2024	-	29,084	2,107	26,977
264.40	OPEB Liabilities (LEOFF1)		-	8,052,293	-	8,052,293
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>20,993,610</b>	<b>9,074,456</b>	<b>3,579,348</b>	<b>26,488,718</b>
<b>Total Liabilities:</b>			<b>23,188,192</b>	<b>9,968,456</b>	<b>3,879,379</b>	<b>29,277,269</b>

**City of Chehalis**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
NATIONAL PARK SERVICE, INTERIOR, DEPARTMENT OF THE (via WA State Recreation and Conservation Office)	Outdoor Recreation Acquisition, Development and Planning	15.916	P19AP00197; RCO #18- 1819D	500,000	-	500,000	-	1,2
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF (via N/A)	Bulletproof Vest Partnership Program	16.607	Police Department Bulletproof Vests	1,412	-	1,412	-	1,2
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via N/A)	Airport Improvement Program	20.106	AIP 3-53-0012- 018-2018 (DOT- FA18NM-0078)	2,501,792	-	2,501,792	-	1,2
<b>Highway Planning and Construction Cluster</b>								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	STPUS-5659 (003)	54,876	-	54,876	-	1,2
<b>Total Highway Planning and Construction Cluster:</b>				<b>54,876</b>	<b>-</b>	<b>54,876</b>	<b>-</b>	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1734-DR-WA	5,633	-	5,633	-	3
<b>Total Federal Awards Expended:</b>				<b>3,063,713</b>	<b>-</b>	<b>3,063,713</b>	<b>-</b>	

**City of Chehalis**  
**Notes to the Schedule of Expenditures of Federal Award**  
**For the Year Ended December 31, 2019**

Note 1- Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Chehalis financial statements. The City of Chehalis uses the cash basis of accounting.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program or project costs, including the City's portion, are more than shown.

Note 3 - FEMA Disaster Assistance Grant

The amount reported on the SEFA is for eligible expenditures incurred in fiscal year 2007. The Military Department approved the project worksheet in 2019 for payment.

Note 4 - Indirect Cost Rate

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

## 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.

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