



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Chewelah

Stevens County

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

Published June 22, 2017

Report No. 1019327





Office of the Washington State Auditor
Pat McCarthy

June 22, 2017

Mayor and City Council
City of Chewelah
Chewelah, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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

**City of Chewelah
Stevens County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Chewelah
Chewelah, 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 Chewelah, Stevens County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated May 17, 2017.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

May 17, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Chewelah Stevens County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Chewelah
Chewelah, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Chewelah, Stevens County, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

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

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying 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 May 17, 2017 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

May 17, 2017

FINANCIAL SECTION

**City of Chewelah
Stevens County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

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

		Total for All Funds (Memo Only)	001 General Fund	103 Street	104 Hotel/Motel Tax	120 Real Estate Excise Tax	136 CMP Reserve	137 Pioneer Cemetery	160 Drug Seizure
Beginning Cash and Investments									
30810	Reserved	505,029	-	-	17,528	47,554	13,120	-	422
30880	Unreserved	2,016,230	660,714	2,495	-	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-	-	-	-	-
Revenues									
310	Taxes	1,338,618	1,294,972	-	13,016	30,630	-	-	-
320	Licenses and Permits	20,248	20,248	-	-	-	-	-	-
330	Intergovernmental Revenues	448,810	60,873	59,918	-	-	-	-	-
340	Charges for Goods and Services	3,651,237	18,231	-	-	-	1,391	-	-
350	Fines and Penalties	33,123	21,359	-	-	-	-	-	-
360	Miscellaneous Revenues	304,540	198,776	422	19	50	-	35,484	-
Total Revenues:		5,796,575	1,614,460	60,340	13,034	30,680	1,391	35,484	-
Expenditures									
510	General Government	378,904	378,904	-	-	-	-	-	-
520	Public Safety	823,201	823,201	-	-	-	-	-	-
530	Utilities	3,374,496	19,132	-	-	-	-	2,744	-
540	Transportation	371,278	16,332	246,704	-	-	-	-	-
550	Natural and Economic Environment	44,975	32,366	4,345	8,264	-	-	-	-
560	Social Services	7,204	7,204	-	-	-	-	-	-
570	Culture and Recreation	38,606	38,606	-	-	-	-	-	-
Total Expenditures:		5,038,663	1,315,744	251,049	8,264	-	-	2,744	-
Excess (Deficiency) Revenues over Expenditures:		757,911	298,715	(190,709)	4,771	30,680	1,391	32,740	-
Other Increases in Fund Resources									
391-393, 596	Debt Proceeds	26,225	-	-	-	-	-	-	-
397	Transfers-In	332,850	42,495	284,016	-	-	-	160	-
385	Special or Extraordinary Items	-	-	-	-	-	-	-	-
386 / 389	Custodial Activities	41,937	-	-	-	-	-	-	-
381, 395, 398	Other Resources	415,526	258,275	-	-	-	-	-	-
Total Other Increases in Fund Resources:		816,538	300,770	284,016	-	-	-	160	-
Other Decreases in Fund Resources									
594-595	Capital Expenditures	542,722	231,564	14,957	-	-	-	-	-
591-593, 599	Debt Service	316,834	636	28,955	-	-	-	-	-
597	Transfers-Out	332,850	289,070	42,495	-	1,285	-	-	-
585	Special or Extraordinary Items	-	-	-	-	-	-	-	-
586 / 589	Custodial Activities	36,348	-	-	-	-	-	-	-
581	Other Uses	157,251	157,251	-	-	-	-	-	-
Total Other Decreases in Fund Resources:		1,386,004	678,521	86,408	-	1,285	-	-	-
Increase (Decrease) in Cash and Investments:		188,444	(79,037)	6,899	4,771	29,395	1,391	32,900	-
Ending Cash and Investments									
5081000	Reserved	582,991	-	-	22,298	76,948	14,511	32,900	422
5088000	Unreserved	2,126,715	581,679	9,394	-	-	-	-	-
Total Ending Cash and Investments		2,709,706	581,679	9,394	22,298	76,948	14,511	32,900	422

The accompanying notes are an integral part of this statement.

175 Civic Center Reserve	300 Capital Projects	325 Airport	410 Electric	420 Water	430 Sewer	440 Garbage	499 Utility Deposits	501 Shop
-	-	(1,354)	-	-	335,425	-	92,334	-
-	-	-	174,279	354,604	666,716	157,422	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	161,562	94,340	72,117	-	-	-	-	-
-	-	-	1,612,155	633,561	792,176	486,513	-	107,210
-	-	-	2,941	2,941	2,941	2,941	-	-
3,075	-	-	64,881	680	15	106	-	1,032
3,075	161,562	94,340	1,752,094	637,182	795,133	489,560	-	108,242
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,649,883	631,806	610,826	460,105	-	-
-	-	-	-	-	-	-	-	108,242
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,649,883	631,806	610,826	460,105	-	108,242
3,075	161,562	94,340	102,211	5,376	184,306	29,455	-	0
-	-	-	-	26,225	-	-	-	-
-	1,285	4,894	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	41,937	-
-	-	-	39,313	117,938	-	-	-	-
-	1,285	4,894	39,313	144,163	-	-	41,937	-
-	163,360	97,880	5,132	1,239	1,239	27,349	-	-
-	-	-	-	12,266	274,976	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	36,348	-
-	-	-	-	-	-	-	-	-
-	163,360	97,880	5,132	13,505	276,216	27,349	36,348	-
3,075	(513)	1,354	136,392	136,034	(91,910)	2,106	5,589	0
3,075	(513)	-	-	-	335,425	-	97,924	-
-	-	-	310,671	490,637	574,807	159,528	-	-
3,075	(513)	-	310,671	490,637	910,232	159,528	97,924	-

The accompanying notes are an integral part of these statements

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

		Total for All Funds (Memo Only)	633 Treasurer's Clearing
308	Beginning Cash and Investments	13,024	13,024
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	48,284	48,284
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	49,177	49,177
	Net Increase (Decrease) in Cash and Investments:	(893)	(893)
508	Ending Cash and Investments	12,130	12,130

The accompanying notes are an integral part of this statement.

City of Chewelah
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

The City of Chewelah was incorporated in 1903 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 of Chewelah is a general purpose local government and provides public safety, fire prevention, street improvement, parks and general administrative services. In addition, the City operates a municipal airport and owns and operates electric, water, sewer and garbage utilities.

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

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

A. **Fund Accounting**

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

-GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

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

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 general public and are supported primarily through user charges.

Internal Service Funds

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

-FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account for assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The City adopts annual appropriated budgets for all funds except fiduciary fund types. 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:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
<i>General Funds</i>	<i>2,112,029</i>	<i>2,019,265</i>	<i>92,764</i>
Street Fund	343,672	337,457	6,215

Hotel/Motel Tax Fund	10,100	8,264	1,836
REET Fund	1,910	1,285	625
Pioneer Cemetery Fund	4,000	2,744	1,256
Drug Seizure Fund	422	0	422
Capital Projects Fund	184,000	163,360	20,640
Airport Fund	126,212	97,880	28,332
<i>Electric Funds</i>	<i>1,828,021</i>	<i>1,705,015</i>	<i>123,006</i>
<i>Water Funds</i>	<i>786,943</i>	<i>670,311</i>	<i>116,632</i>
<i>Sewer Funds</i>	<i>897,035</i>	<i>887,042</i>	<i>9,993</i>
<i>Garbage Funds</i>	<i>546,248</i>	<i>517,454</i>	<i>28,794</i>
Utility Deposit Fund	50,000	36,348	13,652
Shop Fund	112,329	108,242	4,087
TOTAL ALL FUNDS	\$7,002,921	\$6,554,667	\$448,254

Italicized lines indicate the use of managerial funds for ease of accounting. These amounts have been combined for presentation in the financial statements. Certain intrafund activity between managerial funds has been eliminated from the financial statements.

Any revisions to budgeted amounts 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.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets and inventory are recorded as expenditures when purchased.

F. Compensated Absences

Vacation time earned in excess of 240 hours must be used by the first day of an employee's anniversary month of hire, or be forfeited. Vacation leave is payable upon separation or retirement, not to exceed 240 hours.

As of December 31st of each year, employees can accumulate and carry over up to 720 hours of sick leave. At year end any accumulated hours over 720 are paid out at 25% of the employee's base rate of pay. Employees are not paid for any unused sick leave, including hours over 720, when their service with the City is terminated for any reason.

Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Risk Management

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

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

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

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

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

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

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

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

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

The City purchases commercial insurance with regard to the operation of its airport.

I. Reserved Portion of Ending Cash

Beginning and Ending Cash are reported as reserved when they are subject to restrictions on use imposed by external parties or due to internal commitments established by City Council.

As of 12/31/16 the City had \$595,121.48 in reserved ending cash balances as follows:

Hotel Motel Tax Fund	\$22,298.31	Restricted use per RCW
Real Estate Tax Fund	\$76,948.44	Restricted use per RCW

Chewelah Memorial Park Reserve	\$14,511.25	By Council Resolution #16-12
Chewelah Pioneer Cemetery Fund	\$32,900.26	By Ordinance #891
Drug Seizure Fund	\$421.62	Restricted use per RCW
Civic Center Reserve	\$3,075.00	By Council Resolution #16-11
Capital Projects Fund	\$-512.93	Grant Funded (received in 2017)
Sewer Funds	\$335,425.48	Per loan agreements with USDA and DOE
Utility Deposit Fund	\$97,923.60	Utility deposits held until customer account is closed at which time it is applied to the account or refunded to customer
Treasurer's Clearing Fund	\$12,130.45	By nature of fund - Clearing account

Note 2 - Property Tax

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

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

The City's regular levy for the year 2016 was \$2.331767 per \$1,000 on an assessed valuation of \$173,692,203 for a total regular levy of \$405,009.83.

Note 3 – Deposits and Investments

In order to defray banking costs all activity is processed through a single local bank, utilizing sweep accounts. A portion of interest earned is allocated to the Hotel/Motel and REET Funds. The remaining is posted to the General Fund.

All deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection.

The City had no investments as of December 31, 2016.

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for the year ended December 31, 2016.

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

Year	Principal	Interest	Total
2017	170,412	119,030	289,442
2018	175,994	113,448	289,442
2019	181,843	107,599	289,442
2020	187,972	101,471	289,443
2021	123,578	95,889	219,467
2022-2026	416,604	427,412	844,016
2027-2031	435,250	335,140	770,390
2032-2036	543,716	226,674	770,390
2037-2041	679,212	91,178	770,390
TOTALS	\$2,914,581	\$1,617,841	\$4,532,422

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2016:

Borrowing Fund	Lending Fund	Balance 1/1/2016	New Loans	Repayments	Balance 12/31/2016
General	Electric	105,000	0	39,312	65,688
General	Water	315,000	0	117,938	197,062
TOTALS		\$420,000	\$0	\$157,250	\$262,750

Note 6 – State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

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

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

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98540-8380

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

The City also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of

Financial Management website at www.ofm.wa.gov.

At June 30, 2016 (the measurement date of the plans), the City's proportionate shares of the collective net pension liabilities, as reported on the Schedule 09, were as follows:

	Allocation %	Liability (Asset)
PERS 1	.008615%	462,666
PERS 2/3	.011052%	556,459
LEOFF 1	.001104%	(11,374)
LEOFF 2	.011180%	(65,026)
VFFRPF	.230000%	(38,647)

LEOFF Plan 1

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

LEOFF Plan 2

The City also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 7 - Other Disclosures

Negative Cash Balance

The Capital Projects Fund ended the year with a negative cash balance of \$512.93. Grant funding relative to these expenditures was received in 2017.

Post-Employment Benefits

The City has a commitment to pay for post-employment benefits for a past employee who belonged to LEOFF I. These benefits consist of premiums and fees for medical services. \$9,764.88 was paid out for those benefits during the year.

Construction Projects

As of December 31, 2016 the City had no active construction projects/commitments with contractors.

Settled Litigation

In 2013, a former employee filed a complaint for discrimination and retaliation under State law in Stevens County Superior Court. The City answered the complaint, adamantly denying the allegations. A trial date was set for March 14, 2016. The matter was settled out of court on January 4, 2016.

Pending Litigation

The City, through contracted legal counsel, filed a quit title action regarding encroachments on the City's

South Street right-of-way and on a 75' by 75' parcel of property. The case is filed in the Stevens County Superior Court (City of Chewelah vs. Tim and Patty Kaiser, Superior Court #2016 200205 4). A hearing on cross motions for Summary Judgment was held on May 2, 2017, and the Court has indicated that it will render a decision on May 30, 2017. If summary judgment is granted to either party, the matter will be resolved. If summary judgment is granted to either party, the matter will be resolved. If denied, the matter will likely proceed to trial, as settlement appears unlikely. Although it is difficult at this time to determine the likelihood of the City prevailing in the suit, whether at Summary Judgment or at trial, the maximum potential losses could consist of the City's fees and costs, as well as the fees and costs of the other party, together with the loss of the use and/or value of a significant portion of the parcel in dispute (which measures approximately 1/10 of an acre)."

Health Benefits (Excluding Law Enforcement Employees Belonging to Union)

The City of Chewelah 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, 2016, 258 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: Group Health Cooperative/Group Health 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 2016, 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 Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

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

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.96	LOCAL Program	12/1/2018	79,599	-	25,206	54,393
263.51	Software Purchase	3/31/2020	-	11,341	2,268	9,073
	Total General Obligation Debt/Liabilities:		79,599	11,341	27,474	63,466
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Balances - Vacation		76,238	3,330	-	79,568
259.12	Compensated Balances - Comp Time		8,560	3,059	-	11,619
263.82	Dept of Ecology #L9600024	12/18/2020	307,803	-	55,863	251,939
263.82	Dept of Ecology #L9800018	4/30/2022	331,000	-	50,923	280,077
263.82	USDA	10/4/2041	2,346,055	-	41,328	2,304,727
263.84	Department of Health	10/31/2022	-	26,225	-	26,225
263.92	Water Rights Purchase	5/10/2026	76,258	-	5,435	70,823
264.30	Net Pension Liability		796,215	222,911	-	1,019,126
263.52	Software Purchase	3/31/2020	-	24,786	4,957	19,829
	Total Revenue and Other (non G.O.) Debt/Liabilities:		3,942,128	280,311	158,506	4,063,933
	Total Liabilities:		4,021,727	291,652	185,980	4,127,399

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