



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Chewelah

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

Published September 26, 2019

Report No. 1024626





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

September 26, 2019

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,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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

**City of Chewelah
January 1, 2018 through December 31, 2018**

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 23, 2019.

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy
State Auditor
Olympia, WA

August 23, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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, for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of 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 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 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 cash and investments of the City of Chewelah, and its changes in cash and investments, for the year ended December 31, 2018, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Chewelah, as of December 31, 2018, 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

August 23, 2019

FINANCIAL SECTION

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

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2018
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018

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

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>103 Street</u>
Beginning Cash and Investments				
30810	Reserved	594,701	-	-
30880	Unreserved	2,481,713	725,180	-
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	1,470,601	1,416,704	-
320	Licenses and Permits	27,321	27,321	-
330	Intergovernmental Revenues	1,165,755	189,071	61,863
340	Charges for Goods and Services	4,124,639	30,085	-
350	Fines and Penalties	68,951	21,007	-
360	Miscellaneous Revenues	266,353	207,642	-
Total Revenues:		<u>7,123,620</u>	<u>1,891,830</u>	<u>61,863</u>
Expenditures				
510	General Government	346,666	346,666	-
520	Public Safety	893,266	893,266	-
530	Utilities	3,689,400	20,657	-
540	Transportation	383,406	19,487	259,145
550	Natural and Economic Environment	57,889	40,934	4,779
560	Social Services	7,208	7,208	-
570	Culture and Recreation	51,565	46,601	-
Total Expenditures:		<u>5,429,401</u>	<u>1,374,819</u>	<u>263,924</u>
Excess (Deficiency) Revenues over Expenditures:		1,694,219	517,011	(202,061)
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	545,789	-	-
397	Transfers-In	744,029	416,593	294,246
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	41,205	2,593	-
381, 395, 398	Other Resources	173,533	15,734	-
Total Other Increases in Fund Resources:		<u>1,504,556</u>	<u>434,920</u>	<u>294,246</u>
Other Decreases in Fund Resources				
594-595	Capital Expenditures	1,756,971	655,798	34,856
591-593, 599	Debt Service	374,193	5,146	28,955
597	Transfers-Out	744,029	325,989	28,373
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	36,228	-	-
581	Other Uses	157,799	157,799	-
Total Other Decreases in Fund Resources:		<u>3,069,220</u>	<u>1,144,731</u>	<u>92,185</u>
Increase (Decrease) in Cash and Investments:		129,554	(192,801)	(0)
Ending Cash and Investments				
5081000	Reserved	627,456	-	-
5088000	Unreserved	2,578,514	532,380	-
Total Ending Cash and Investments		3,205,969	532,380	-

The accompanying notes are an integral part of this statement.

104 Hotel/Motel Tax	120 Real Estate Excise Tax	136 CMP Reserve	137 Pioneer Cemetery	175 Civic Center Reserve	200 G.O. Bond
26,023	93,187	15,599	31,125	5,805	-
-	-	-	-	-	-
-	-	-	-	-	-
13,821	40,076	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	3,790	-	-	-
-	-	-	-	-	-
20	76	-	38,038	790	-
13,841	40,152	3,790	38,038	790	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	3,874	-	-
-	-	-	-	-	-
12,176	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	4,964	-
12,176	-	-	3,874	4,964	-
1,665	40,152	3,790	34,164	(4,174)	-
-	-	-	-	-	450,000
-	-	-	100	-	31,643
-	-	-	-	-	-
-	-	-	-	-	3,978
-	-	-	-	-	-
-	-	-	100	-	485,620
-	-	-	-	-	-
-	-	-	-	-	31,643
-	1,447	-	-	-	388,220
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,447	-	-	-	419,863
1,665	38,705	3,790	34,264	(4,174)	65,758
27,688	131,892	19,389	65,389	1,631	65,758
-	-	-	-	-	-
27,688	131,892	19,389	65,389	1,631	65,758

300 Capital Projects	410 Electric	420 Water	430 Sewer	440 Garbage	499 Utility Deposits
(14,440)	-	-	335,425	-	101,977
-	349,525	569,416	610,821	226,771	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
914,822	-	-	-	-	-
-	1,731,222	722,413	977,910	554,445	-
-	11,986	11,986	11,986	11,986	-
-	18,738	109	4	934	-
914,822	1,761,947	734,508	989,900	567,366	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,746,139	784,727	631,632	502,371	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,746,139	784,727	631,632	502,371	-
914,822	15,807	(50,219)	358,268	64,994	-
-	-	95,789	-	-	-
1,447	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	34,634
-	39,450	118,349	-	-	-
1,447	39,450	214,138	-	-	34,634
1,021,929	40,670	1,239	1,239	1,239	-
-	-	33,473	274,976	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	36,228
-	-	-	-	-	-
1,021,929	40,670	34,712	276,216	1,239	36,228
(105,660)	14,587	129,206	82,052	63,755	(1,594)
(120,100)	-	-	335,425	-	100,383
-	364,111	698,623	692,874	290,526	-
(120,100)	364,111	698,623	1,028,299	290,526	100,383

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

		<u>Agency</u>
308	Beginning Cash and Investments	18,809
388 & 588	Prior Period Adjustment, Net	-
310-390	Additions	73,624
510-590	Deductions	65,440
	Net Increase (Decrease) in Cash and Investments:	<u>8,184</u>
508	Ending Cash and Investments	26,993

The accompanying notes are an integral part of this statement.

City of Chewelah
Notes to the Financial Statements
For the Year Ended December 31, 2018

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, 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 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.

Debt Service Funds

These funds account for the financial resources that 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 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.

Custodial 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. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

Capital assets and inventory are recorded as expenditures when purchased.

E. 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.

F. Long-Term Debt

See Note 6, *Debt Service Requirements*.

G. Reserved Portion of Ending Cash

Beginning and Ending Cash is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance or resolution of the City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

As of 12/31/18 the City had \$627,455.57 in reserved ending cash balances as follows:

Hotel Motel Tax Fund	\$27,687.96	Restricted use per RCW
Real Estate Tax Fund	\$131,892.36	Restricted use per RCW
Chewelah Memorial Park Reserve	\$19,388.75	By Council Resolution #16-12
Chewelah Pioneer Cemetery Fund	\$65,389.26	By Ordinance #891
Civic Center Reserve	\$1,631.11	By Council Resolution #16-11
G. O. Bond	\$65,757.65	By Ordinance #921
Capital Projects Fund	\$(120,100.45)	Grant Funded (received in 2019)
Sewer Funds	\$335,425.48	Per loan agreements with USDA and DOE
Utility Deposit Fund	\$100,383.45	Utility deposits held until customer account is closed at which time it is applied to the account or refunded to customer

Note 2 – Budget Compliance

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	Original Appropriated Amounts	Amend- ments	Final Appropriated Amounts	Actual Expenditures	Variance
<i>General Funds</i>	<i>1,775,719</i>	<i>1,050,351</i>	<i>2,826,070</i>	<i>2,590,236</i>	<i>235,834</i>
Street	329,860	26,249	356,109	356,109	0
Hotel/Motel Tax	11,000	15,023	26,023	12,176	13,847
REET		82,226	82,226	1,447	80,779
Pioneer Cemetery	5,000		5,000	3,874	1,126
Civic Center Reserve		4,965	4,965	4,964	1
Bond		481,644	481,644	419,862	61,782
Capital Projects		1,058,029	1,058,029	1,021,929	36,100
<i>Electric Funds</i>	<i>2,112,038</i>	<i>(27,380)</i>	<i>2,084,658</i>	<i>1,856,810</i>	<i>227,848</i>
<i>Water Funds</i>	<i>790,084</i>	<i>162,092</i>	<i>952,176</i>	<i>844,440</i>	<i>107,736</i>
<i>Sewer Funds</i>	<i>996,167</i>	<i>(24,066)</i>	<i>972,101</i>	<i>937,847</i>	<i>34,254</i>
<i>Garbage Funds</i>	<i>522,323</i>	<i>5,748</i>	<i>528,071</i>	<i>528,071</i>	<i>0</i>
Utility Deposits	50,000		50,000	36,228	13,772
Shop	118,408		118,408	104,774	13,634
TOTAL	\$6,710,599	\$2,834,881	\$9,545,480	\$8,718,767	\$826,713

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.

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 Commission.

The City had no investments as of December 31, 2018.

Note 4 - 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 2018 was \$2.266648 per \$1,000 on an assessed valuation of \$184,228,843 for a total regular levy of \$417,582.02.

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2018:

Borrowing Fund	Lending Fund	Balance 1/1/2018	New Loans	Repayments	Balance 12/31/2018
General	Electric	39,450	0	39,450	0
General	Water	118,349	0	118,349	0
TOTALS		\$157,799	\$0	\$157,799	\$0

Note 6 – 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, 2018.

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

Year	Principal	Interest	Total
2019	271,633	122,188	393,821
2020	257,514	114,141	371,655
2021	193,071	107,182	300,253
2022	120,296	102,517	222,813
2023	98,230	98,455	196,685
2024-2028	520,549	427,392	947,941
2029-2033	588,958	313,763	902,721
2034-2038	686,316	178,453	864,769
2039-2043	424,723	33,867	458,590
TOTALS	\$3,161,290	\$1,497,958	\$4,659,248

Note 7 – Other Post-Employment Benefits

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go-basis. As of December 31, 2018, the plan had one member, a retiree. For the year ended December 31, 2018, the City paid \$21,988.69 in benefits (includes \$11,449.93 for Long Term Care Insurance).

Note 8 – 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 (VFFRPF) 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, 2018 (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:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	53,423	.007992%	356,925
PERS 2/3	79,530	.010307%	175,983
LEOFF 1	0	.001108%	(20,116)
LEOFF 2	19,607	.011307%	(229,557)
VFFRPF	420	.200000%	(105,688)

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 9 – Risk Management

-Liability Insurance

The City of Chewelah is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into

or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joining hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of December 1, 2018, there are 207 members in the program.**

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property; including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection and Liability; including General, Automobile, and Wrongful Acts, which are included to fit member's various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. Members are responsible for a \$1,000 to \$10,000 deductible for each claim, while the program is responsible for the \$100,000 retention. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of the \$100,000 of the self-insured retention, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, **with an attachment point of \$1,922,394.**

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1 to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending **December 1, 2018, were \$2,809,430.40.**

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

-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, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, 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 this report. 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 10 - Other Disclosures

-Negative Cash Balance

The Capital Projects Fund ended the year with a negative cash balance of \$120,100.45. Grant funding relative to these expenditures was received in 2019.

-Construction Projects

As of December 31, 2018, the City had no active construction projects. The City had the following commitments (retainage) with contractors:

Project	Project Expenditures thru 12/31/18	Remaining Commitment
Municipal Roof Repairs	\$82,475.69	\$3,977.75
Fire Station at Golf Course	\$156,574.52	\$2,595.50

-Debt Issuance

In March 2018, the City issued a single Limited Tax General Obligation Bond in the amount of \$450,000. Proceeds to finance (1) the construction of a fire protection facility for the City; (2) the purchase of airport real property and improvements related thereto; (3) improvements to the City’s municipal building.

-Land Purchase

In March 2018, the City purchased a trust parcel called “Sand Canyon Airport” from the Washington State Department of Natural Resources for \$259,000. The City had been leasing this property from the State for the operation of its commercial industrial airport. \$100,000 was funded by proceeds from Stevens County from its Sales and Use Tax for Public Facilities. \$150,000 was financed by the City’s issuance of a single Limited Tax General Obligation Bond.

-Pending Litigation

The City is defendant in two lawsuits in Stevens County in which inmates at Airway Heights Correctional Center allege violations of the Public Records Act. At the time of this audit, the City is in the discovery process and has retained outside counsel to represent the City. Management maintains that the City acted in good faith and produced all documents requested.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Non Voted Limited Tax Go Bond	12/1/2037	-	450,000	22,000	428,000
263.96	LOCAL Program	12/1/2018	27,882	-	27,882	-
263.51	Software Purchase	3/31/2020	6,805	-	2,268	4,537
Total General Obligation Debt/Liabilities:			34,687	450,000	52,150	432,537
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Balances - Vacation		84,983	3,021	-	88,004
259.12	Compensated Balances - Comp Time		12,151	-	3,569	8,582
263.82	Dept of Ecology #L9600024	12/18/2020	193,363	-	61,422	131,941
263.82	Dept Of Ecology #L9800018	4/30/2022	229,154	-	50,923	178,231
263.82	USDA	10/4/2041	2,245,945	-	53,612	2,192,334
263.84	Department of Health	10/1/2022	98,345	95,789	22,274	171,860
263.92	Water Rights Purchase	5/10/2026	65,052	-	6,126	58,926
264.30	Net Pension Liability		778,358	-	245,450	532,908
263.52	Software Purchase	3/31/2020	14,871	-	4,957	9,914
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,722,222	98,810	448,333	3,372,698
Total Liabilities:			3,756,910	548,810	500,484	3,805,235

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