

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**City of Chehalis**  
**Lewis County**

Audit Period  
**January 1, 2009 through December 31, 2009**

**Report No. 1005110**

Issue Date  
**February 14, 2011**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

February 14, 2011

Mayor and City 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,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Lewis County  
January 1, 2009 through December 31, 2009**

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# Federal Summary

City of Chehalis  
Lewis County  
January 1, 2009 through December 31, 2009

The results of our audit of the City of Chehalis are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

## **FINANCIAL STATEMENTS**

An unqualified opinion was issued on the financial statements.

### **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 unqualified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards***

City of Chehalis  
Lewis County  
January 1, 2009 through December 31, 2009

Mayor and City Council  
City of Chehalis  
Chehalis, Washington

We have audited the financial statements of the City of Chehalis, Lewis County, Washington, as of and for the year ended December 31, 2009, and have issued our report thereon dated January 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we have reported to the management of the City in a separate letter dated January 26, 2011.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 14, 2011

# **Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133**

**City of Chehalis  
Lewis County  
January 1, 2009 through December 31, 2009**

Mayor and City Council  
City of Chehalis  
Chehalis, Washington

## **COMPLIANCE**

We have audited the compliance of the City of Chehalis, Lewis County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, 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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 14, 2011

# **Independent Auditor's Report on Financial Statements**

**City of Chehalis  
Lewis County  
January 1, 2009 through December 31, 2009**

Mayor and City Council  
City of Chehalis  
Chehalis, Washington

We have audited the accompanying financial statements of the City of Chehalis, Lewis County, Washington, for the year ended December 31, 2009. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the City prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Chehalis, for the year ended December 31, 2009, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for

purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Debt is also 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

January 14, 2011

# **Financial Section**

**City of Chehalis  
Lewis County  
January 1, 2009 through December 31, 2009**

## ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2009  
Notes to Financial Statements – 2009

## ***SUPPLEMENTAL INFORMATION***

Schedule of Long-Term Debt – 2009  
Schedule of Expenditures of Federal Awards – 2009  
Notes to the Schedule of Expenditures of Federal Awards – 2009

## CITY OF CHEHALIS

**Fund Resources and Uses Arising from Cash Transactions  
For the Year Ending December 31, 2009**

BARS CODE		001 - General Fund		102 - Arterial Street	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ 950,000	\$ 950,981	\$ 400,000	\$ 400,534
	Revenues & Other Sources				
310	Taxes	6,354,500	6,191,849	-	-
320	License & Permits	58,984	62,994	-	-
330	Intergovernmental	3,706,466	3,671,676	357,258	343,155
340	Charges for Services	1,085,990	1,078,806	-	-
350	Fines & Forfeits	100,375	95,730	-	-
360	Miscellaneous	113,929	98,124	2,400	4,244
370	Capital Contributions	-	-	-	-
390	Other Financing	453,421	453,420	-	-
	Total Revenues and Other Financing Sources	11,873,665	11,652,599	359,658	347,399
	Total Resources	12,823,665	12,603,580	759,658	747,933
	Operating Expenditures:				
510	General Government	1,921,479	1,894,044	-	-
520	Public Safety	4,334,591	4,226,992	-	-
530	Physical Environment	67,792	61,505	-	-
540	Transportation	436,030	389,407	590,338	550,070
550	Economic Environment	423,435	498,535	-	-
560	Mental & Phy Health	1,600	1,698	-	-
570	Culture & Recreational	1,278,202	1,146,465	-	-
	Total Operating Expenditures	8,463,129	8,218,646	590,338	550,070
591-593	Debt Service	409,396	398,628	-	67
594-595	Capital Outlay	2,801,091	2,781,795	-	-
	Total Expenditures	11,673,616	11,399,069	590,338	550,137
597-599	Other Financing Uses	96,690	71,690	-	-
	Total Expenditures and Other Financing Uses	11,770,306	11,470,759	590,338	550,137
	Excess (Deficit) of Resources Over Uses	1,053,359	1,132,821	169,320	197,796
380	Non Revenues (Except 384 and 388.80)	-	5,021	-	-
580	Non Expenditures (Except 584 and 588.80)	-	-	-	-
	Ending Net Cash & Investments	\$ 1,053,359	\$ 1,137,842	\$ 169,320	\$ 197,796

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

**Fund Resources and Uses Arising from Cash Transactions  
For the Year Ending December 31, 2009**

BARS CODE		301 - Public Facilities Reserve		402 - Garbage	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ 40,000	\$ 42,647	\$ 25,000	\$ 24,998
	Revenues & Other Sources				
310	Taxes	-	-	-	-
320	License & Permits	-	-	-	-
330	Intergovernmental	-	-	-	-
340	Charges for Services	-	-	234,100	273,383
350	Fines & Forfeits	-	-	-	-
360	Miscellaneous	-	707	-	393
370	Capital Contributions	-	-	-	-
390	Other Financing	318,638	321,841	25,000	-
	Total Revenues and Other Financing Sources	318,638	322,548	259,100	273,776
	Total Resources	358,638	365,195	284,100	298,774
	Operating Expenditures:				
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Physical Environment	-	-	281,263	275,044
540	Transportation	-	-	-	-
550	Economic Environment	-	-	-	-
560	Mental & Phy Health	-	-	-	-
570	Culture & Recreational	-	-	-	-
	Total Operating Expenditures	-	-	281,263	275,044
591-593	Debt Service	-	-	-	-
594-595	Capital Outlay	-	-	-	-
	Total Expenditures	-	-	281,263	275,044
597-599	Other Financing Uses	318,638	318,638	-	-
	Total Expenditures and Other Financing Uses	318,638	318,638	281,263	275,044
	Excess (Deficit) of Resources Over Uses	40,000	46,557	2,837	23,730
380	Non Revenues (Except 384 and 388.80)	-	-	-	-
580	Non Expenditures (Except 584 and 588.80)	-	-	-	-
	Ending Net Cash & Investments	\$ 40,000	\$ 46,557	\$ 2,837	\$ 23,730

The accompanying notes are an integral part of this statement.

**CITY OF CHEHALIS**

**Fund Resources and Uses Arising from Cash Transactions  
For the Year Ending December 31, 2009**

BARS CODE		404 - Wastewater		405 - Water	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ 2,875,000	\$ 2,884,115	\$ 1,725,000	\$ 1,735,832
	Revenues & Other Sources				
310	Taxes	-	-	-	-
320	License & Permits	-	-	-	-
330	Intergovernmental	243,072	215,763	10,681	2,689
340	Charges for Services	3,461,740	3,491,219	2,475,873	2,334,324
350	Fines & Forfeits	-	-	-	-
360	Miscellaneous	63,250	32,325	18,705	23,211
370	Capital Contributions	225,521	225,660	200,000	147,454
390	Other Financing	-	983	-	-
	Total Revenues and Other Financing Sources	3,993,583	3,965,950	2,705,259	2,507,678
	Total Resources	6,868,583	6,850,065	4,430,259	4,243,510
	Operating Expenditures:				
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Physical Environment	2,258,895	2,235,988	1,941,429	1,836,767
540	Transportation	-	-	-	-
550	Economic Environment	-	-	-	-
560	Mental & Phy Health	-	-	-	-
570	Culture & Recreational	-	-	-	-
	Total Operating Expenditures	2,258,895	2,235,988	1,941,429	1,836,767
591-593	Debt Service	68,344	68,507	30,482	30,642
594-595	Capital Outlay	312,300	288,712	524,200	391,533
	Total Expenditures	2,639,539	2,593,207	2,496,111	2,258,942
597-599	Other Financing Uses		-	-	-
	Total Expenditures and Other Financing Uses	2,639,539	2,593,207	2,496,111	2,258,942
	Excess (Deficit) of Resources Over Uses	4,229,044	4,256,858	1,934,148	1,984,568
380	Non Revenues (Except 384 and 388.80)	526,851	526,851	374,619	374,602
580	Non Expenditures (Except 584 and 588.80)	1,956,098	1,658,848	119,638	127,077
	Ending Net Cash & Investments	\$ 2,799,797	\$ 3,124,861	\$ 2,189,129	\$ 2,232,093

The accompanying notes are an integral part of this statement.

**CITY OF CHEHALIS**

**Fund Resources and Uses Arising from Cash Transactions  
For the Year Ending December 31, 2009**

BARS CODE		406 - Storm & Surface Water			
		Budget	Actual		
	Beginning Cash & Investments	\$ 205,000	\$ 206,475		
	Revenues & Other Sources				
310	Taxes	-	-		
320	License & Permits	-	-		
330	Intergovernmental	480	-		
340	Charges for Services	405,000	410,015		
350	Fines & Forfeits	-	-		
360	Miscellaneous	6,000	2,556		
370	Capital Contributions	30,000	18,533		
390	Other Financing	-	-		
	Total Revenues and Other Financing Sources	441,480	431,104		
	Total Resources	646,480	637,579		
	Operating Expenditures:				
510	General Government	-	-		
520	Public Safety	-	-		
530	Physical Environment	390,074	359,504		
540	Transportation	-	-		
550	Economic Environment	-	-		
560	Mental & Phy Health	-	-		
570	Culture & Recreational	-	-		
	Total Operating Expenditures	390,074	359,504		
591-593	Debt Service	-	78		
594-595	Capital Outlay	30,000	23,618		
	Total Expenditures	420,074	383,200		
597-599	Other Financing Uses	-	-		
	Total Expenditures and Other Financing Uses	420,074	383,200		
	Excess (Deficit) of Resources Over Uses	226,406	254,379		
380	Non Revenues (Except 384 and 388.80)	-	-		
580	Non Expenditures (Except 584 and 588.80)	-	-		
	Ending Net Cash & Investments	\$ 226,406	\$ 254,379		

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS  
For the Year Ending December 31, 2009

Fund Type: Special Revenue Funds	Fund 107 - Tourism		Fund 110 - Compensated Absences Reserve	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 105,000	\$ 105,422	\$ 3,200	\$ 3,238
Revenues and Other Financing Sources	120,124	124,280	50,000	50,051
Total Resources	225,124	229,702	53,200	53,289
Expenditures & Other Financing Uses	153,245	146,728	-	-
Excess(Deficit) of Resources	71,879	82,974	53,200	53,289
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 71,879	\$ 82,974	\$ 53,200	\$ 53,289

Fund Type: Special Revenue Funds	Fund 195 - 1982-93 Community Development Block Grant		Fund 197 - HUD Block Grant	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 73,827	\$ 71,696	\$ 400,000	\$ 405,567
Revenues and Other Financing Sources	130,307	130,946	8,000	2,936
Total Resources	204,134	202,642	408,000	408,503
Expenditures & Other Financing Uses	201,638	201,277	43,084	32,827
Excess(Deficit) of Resources	2,496	1,365	364,916	375,676
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 2,496	\$ 1,365	\$ 364,916	\$ 375,676

Fund Type: Capital Project Funds	Fund 302 - Automotive/Equipment Reserve		Fund 305 - First Quarter Percent REET	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 135,602	\$ 142,029	\$ 63,000	\$ 72,808
Revenues and Other Financing Sources	31,000	30,650	49,500	38,001
Total Resources	166,602	172,679	112,500	110,809
Expenditures & Other Financing Uses	62,646	58,052	-	-
Excess(Deficit) of Resources	103,956	114,627	112,500	110,809
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 103,956	\$ 114,627	\$ 112,500	\$ 110,809

Fund Type: Capital Project Funds	Fund 306 - Second Quarter Percent REET		Fund 611 - Firemen's Pension	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 66,000	\$ 76,663	\$ 494,900	\$ 509,553
Revenues and Other Financing Sources	49,500	38,033	21,000	15,641
Total Resources	115,500	114,696	515,900	525,194
Expenditures & Other Financing Uses	-	-	128,500	117,415
Excess(Deficit) of Resources	115,500	114,696	387,400	407,779
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 115,500	\$ 114,696	\$ 387,400	\$ 407,779

The accompanying notes are an integral part of this statement.

**CITY OF CHEHALIS**

**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS  
For the Year Ending December 31, 2009**

Fund Type: Agency Fund	Fund 633 - City Agency	
	Budget	Actual
Beginning Cash & Investment	\$ 286,500	\$ 279,257
Revenues and Other Financing Sources	1,000	22,999
Total Resources	287,500	302,256
Expenditures & Other Financing Uses	-	-
Excess(Deficit) of Resources	287,500	302,256
NonRevenues (except 384 and 388.80)	-	-
NonExpenditures(except 584 and 588.80)	-	-
Ending Net Cash & Investments	\$ 287,500	\$ 302,256

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

**CITY OF CHEHALIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 1, 2009 THROUGH DECEMBER 31, 2009**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

The City of Chehalis uses the revenue and expenditure classifications contained in the Budgeting, Accounting and Reporting System (BARS) manual. The manual is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Chehalis was incorporated in September 22, 1890 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 Chehalis is a general purpose government and provides public safety, fire prevention, parks and recreation, water supply/treatment/distribution, sewage collection and treatment, housing rehabilitation/rental, planning and zoning, judicial administration, and general administrative services. The City of Chehalis uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the City of Chehalis are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Chehalis' resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are fund types used by the City of Chehalis.

**GOVERNMENTAL FUND TYPES**

General (Current Expense) Fund (001)

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

Special Revenue Funds (100-199)

These funds account for revenues that are legally restricted or designated to finance particular activities of the City of Chehalis.

Capital Project Funds (300 – 399)

These funds account for financial resources which are designated for the acquisition or construction of general government capital projects.

**PROPRIETARY FUND TYPES:**

Enterprise Funds (400-499)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

## FIDUCIARY FUND TYPES:

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

### Pension (and Other Employee Benefit) Trust Funds (611-620)

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

### Agency Funds (631-630)

These funds are used to account for assets that the City holds for others in an agency capacity.

#### b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

#### c. Budgets

Annual appropriated budgets are adopted for the general, special revenue, capital, trust, and enterprise funds. The financial statements include budgetary comparisons for those funds.

Annual appropriated budgets are adopted at the fund level (except the general (current expense) funds, where budgets are adopted at the department level). The budgets constitute the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal period end.

The City Manager is authorized to transfer budgeted amounts between departments; within any/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 of Chehalis' Council.

#### d. Cash

It is the City of Chehalis' policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

e. Deposits

The City of Chehalis deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC), and/or the Washington Public Deposit Protection Commission (WPDPC).

f. Investments See Note (Investment Note No. 3)

g. Capital Assets

Capital assets are long-lived assets of the City of Chehalis and are recorded as expenditures when purchased.

h. Compensated Absences

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

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

i. Long-Term Debt See Note (Long-Term Debt Note No. 6)

j. Other Financing Sources Or Uses

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

k. 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 136 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. 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 are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, 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. These revenues directly offset portions of the membership's annual assessment.

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 pool is fully funded by its member participants. Claims are filed by members with the WCIA, which performs pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the WCIA under this arrangement for the years ending December 31, 2008 and 2009 were \$225,914 and \$281,039, respectively.

A governing board is selected by the membership and is responsible for conducting the business affairs of the pool. Copies of the pool's annual report may be obtained by writing to P.O. Box 98138, Tukwila, WA 98138.

#### NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

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

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

#### NOTE 3 – INVESTMENTS

The City's investments are either insured, registered, or held by the City or its agent in the City's name.

Investments by type at December 31, 2009 are as follows:

<b>Type of Investment</b>	<b>City of Chehalis' Own Investments</b>	<b>Investments held by the City of Chehalis as an Agent for Other Governments or Individuals</b>	<b>Total</b>
Washington State Local Government Investment Pool	\$4,395,374	\$156,838	\$4,552,212
Certificates of Deposits	1,924,680	200,000	2,124,680
U.S. Government Agency Securities	500,625		500,625
<b>Total</b>	<b>\$6,820,679</b>	<b>\$356,838</b>	<b>\$7,177,517</b>

**NOTE 4 – PROPERTY TAX**

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

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

The City's regular levy for the year 2009 was \$1.895170209739 per \$1,000 on an assessed valuation of \$610,719,108 for a total regular levy of \$1,157,417.

The City also has a levy for Emergency Medical Services (EMS). In 2009, the EMS levy was \$0.360296897735 per \$1,000 on an assessed valuation of \$610,719,108 for a total EMS levy of \$220,040.

**NOTE 5 – INTERFUND LOANS AND ADVANCES**

The following table displays interfund loan activity during 2009:

<b>Borrowing Fund</b>	<b>Lending Fund</b>	<b>Balance 1/1/2009</b>	<b>New Loans</b>	<b>Repayments</b>	<b>Balance 12/31/09</b>
General Fund	Wastewater Fund	\$600,000	\$0	\$34,319	\$565,681
General Fund	Water Fund	850,000	0	284,319	565,681
		<b>\$1,450,00</b>	<b>\$0</b>	<b>\$318,638</b>	<b>\$1,131,362</b>

In October of 2008, the General Fund borrowed from the Water and Wastewater Funds, in order cover a portion of the costs associated with acquiring and remodeling the new City Hall. Proceeds from the sale of real property were used to partially repay the Wastewater and Water Funds. No long-term debt was issued in 2009 to repay the interfund loans, as originally intended. Plans are in place to repay the interfund loans by October of 2011, when it is legally due. The interest on the interfund debt is variable; it is based upon the Local Government Investment Pool rate.

**NOTE 6 – LONG TERM DEBT**

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Chehalis and summarizes the City's debt transactions for the year 2009. The debt service requirements, including interest, are as follows:

<b>Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Other Debt</b>	<b>Total Debt</b>
2010	\$68,891	\$2,263,557	-	2,332,448
2011	-	2,211,081	-	2,211,081
2012	-	2,208,850	-	2,208,850
2013		2,105,630		2,105,630
2014		2,007,670		2,007,670
2015-2019	-	10,017,393	-	10,017,393
2020-2024	-	9,553,427	-	9,553,427
2025-2029	-	4,361,836	-	4,361,836
<b>TOTALS</b>	<b>\$68,891</b>	<b>\$34,729,444</b>	<b>\$ -</b>	<b>\$34,798,335</b>

In addition to the debt noted above, the City of Chehalis and Lewis County are jointly responsible for Chehalis Airport debt should the airport default. As of December 31, 2009, airport debt totaled \$3,029,017. Based upon current airport ownership interests, the City would be responsible for half of the debt: \$1,514,509.

**NOTE 7 – PENSION PLANS**

Substantially all City full-time and qualifying part-time employees participate in one of the following pension plans: (1) Public Employees' Retirement Systems (PERS) Plans 1, 2 and 3; and (2) Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

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



CITY OF CHEHALIS

SCHEDULE OF LONG TERM DEBT - REVENUE DEBT - ALL FUNDS

For the Year Ending December 31, 2009

ID NO.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt As Of 1/1/2009	Amount Issued in Current Year	BARS Code for Receipt	Receiving Fund Number	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	Ending Outstanding Debt As Of 12/31/2009
<b>Commercial Obligations</b>										
1979 Revenue Bond	8/1/79	8/1/19	\$ 213,000				\$ 14,000	582.034	405	\$ 199,000
Individual Note Payable	1/28/03	1/28/13	420,266				82,484	582.H35	404	337,782
<b>Due To Other Governments</b>										
(Public Works Trust Fund Loans)										
PWTF #1	5/7/90	7/1/10	58,362				29,181	582.T35	404	29,181
PWTF #2	6/30/92	7/1/12	182,685				45,672	582.T35	404	137,013
PWTF #4	9/29/93	7/1/13	204,225				40,845	582.T35	404	163,380
(State Revolving Fund Loans - Department of Ecology)										
SRFL #1	11/30/03	5/1/24	2,294,797				132,507	582.035	404	2,162,290
SRFL #2	11/30/03	12/30/23	263,094				15,759	582.C35	404	247,335
SRFL #3A	10/26/05	6/30/27	30,166,526				1,630,623	582.C35	404	28,535,903
SRFL #3B	2/26/08	9/30/28	278,608	\$ 492,531	382.080	404				771,139
(State Revolving Fund Loan - Department of Health)										
SRFL #4	10/1/04	1/1/20	600,007				50,000	582.T34	405	550,007
SRFL #5	4/9/08	10/1/26	1,045,083	90,283	382.080	405	63,076	582.T34	405	1,072,290
<b>TOTAL LONG TERM REVENUE DEBT</b>			\$ 35,726,653	\$ 582,814			\$ 2,104,147			\$ 34,205,320

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ending December 31, 2009

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other ID Number	From Pass-Through Awards	Expenditures From Direct Awards	Total	Foot-note Ref.
U.S. Department of Justice- Bureau of Justice Assistance	Bulleproof Vest Partnership Program	16.607	N/A		1,823	1,823	2
U.S. Department of Justice/ Office of Justice	ARRA-Edward Byrne Memorial Justice Assistance Grant (JAG)	16.804	2009-SB-B9-1737		5,506	5,506	2, 8
U.S. Environmental Protection Agency/ WA Department of Ecology	Capitalization Grants for Clean Water Revolving Funds	66.458	L0500014	10,232		10,232	2, 3
U.S. Environmental Protection Agency/ WA Public Works Board	Capitalization Grants for Drinking Water State Revolving Funds Phase IV Water Filtration - FY05	66.468	05-96300-008	82,377		82,377	2, 3
U.S. Department of Transportation - FHA/ WA Dept. of Transportation/Lewis County	Highway Planning and Construction I-5 Interchanges in Lewis County	20.205	HP-1998(030) LA-5720	93,285		93,285	2, 4
U.S. Department of Transportation - FHA/ WA Dept. of Transportation	Highway Planning and Construction I-5/Chamber Way Channelization	20.205	STPD 5672003 LA-6109	1,560,544		1,560,544	2, 4
U.S. Department of Transportation - FHA/ WA Dept. of Transportation	Highway Planning and Construction National Ave 09 Flood Damage Repairs	20.205	ER-0902(338) LA-68878	206,279		206,279	
U.S. Department of Homeland Security - FEMA/WA Military Department	Disaster Grants - Public Assistance (Presidentially Declared Disasters) FEMA Flood Grant - FY07	97.036	1734-DR-WA Grant# E08-737	16,711		16,711	2
U.S. Department of Homeland Security - FEMA/WA Military Department	Disaster Grants - Public Assistance (Presidentially Declared Disasters) FEMA Severe Storm Grant - FY08	97.036	1825-DR-WA Grant#D09-429	598		598	2
U.S. Department of Homeland Security - FEMA/WA Military Department	Disaster Grants - Public Assistance (Presidentially Declared Disasters) FEMA Severe Storm Grant - FY09	97.036	1817-DR-WA Grant#D09-061	96,657		96,657	2
U.S. Department of Homeland Security - FEMA/WA Military Department	Hazard Mitigation Grant City of Chehalis Acquisition Project	97.039	1734-DR-WA-31-R Grant# E10-228	2,250		2,250	2
U.S. Department of Homeland Security - FEMA/Riverside Fire Authority	Assistance to Firefighters Grant - FY08	97.044	EMW-2008-FR-00105	41,667		41,667	2, 7
U.S. Department of Justice/ WA Department of Commerce	STOP Formula Grant - FY08 Violence Against Women Formula Grant	16.588	FY08-31103-040	19,004		19,004	2, 5
U.S. Housing Urban Development Agency/ WA Department of Commerce	Community Development Block Grants	14.228	N/A	11,887		11,887	6
<b>Total Federal Awards Expended</b>				<b>2,141,491</b>	<b>7,329</b>	<b>2,148,820</b>	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**CITY OF CHEHALIS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 – BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the City of Chehalis's (City) financial statements. The City uses the cash-basis method 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 costs, including the City's portion, are more than shown.

**NOTE 3 – STATE/FEDERAL LOANS**

The City was approved by the U.S. Environmental Protection Agency and Washington Department of Ecology to receive a loan totaling \$32,572,175 to build a sewer treatment plant and two pump stations. Of this loan, \$26,139,743 is federal funds and \$6,432,432 is state funds.

The City was approved by the U.S. Environmental Protection Agency and Washington Public Works Board to receive a loan totaling \$1,167,803 for the Phase IV Water Filtration project. This project does not include any state funds.

The amounts listed include loan eligible expenditures incurred during the year. Both loans are also reported on the City's Schedule of Long-Term Debt - Revenue Bonds.

Because the City reports on a cash-basis and loan proceeds are sometimes not received until the following year, the Schedule of Long-Term Debt may not tie exactly to the Schedule of Expenditures for these loans.

**NOTE 4 – MULTIPLE FUNDING SOURCES**

In 2009, the Chamber Way Project was funded by two United States Department of Transportation grants, a Washington State Transportation Improvement Board grant, and the City.

**NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENTS**

The amount expended for this program and reported to the granting agency is the amount expended by the City and a sub-recipient that administered its portion of the project.

**NOTE 6 – PROGRAM INCOME**

The City has a loan program for low income housing assistance and for housing renovation. Under these federal programs, repayments to the City are considered program revenues and

**CITY OF CHEHALIS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$0 for low income housing assistance and \$11,887 for housing renovation.

The amount of loan principal and interest received in loan repayments for the year was \$0 for low income housing assistance and \$5,395 for housing renovation.

**NOTE 7 – NONCASH AWARDS –EQUIPMENT**

The City received equipment and supplies which were purchased with federal Homeland Security funds by the Riverside Fire Authority. The amounts reported on the schedule are the values of the property on the date it was received by the City and priced by the Riverside Fire Authority – less the match provided by the City.

**NOTE 8 – RECOVERY AND REINVESTMENT ACT (ARRA) of 2009**

Expenditures for this program were funded by ARRA.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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**Deputy Chief of Staff**  
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**Director of Special Investigations**  
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**Communications Director**  
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