

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

City of Chehalis
Lewis County

Audit Period
January 1, 2005 through December 31, 2005

Report No. 71791

Issue Date
December 1, 2006



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

December 1, 2006

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.

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Lewis County
January 1, 2005 through December 31, 2005**

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Federal Summary

**City of Chehalis
Lewis County
January 1, 2005 through December 31, 2005**

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.

- An unqualified opinion was issued on the City's financial statements.
- We noted significant deficiencies in the design or operation of internal control over financial reporting that we consider to be reportable conditions.
- We noted no instances of noncompliance that were material to the financial statements of the City.
- We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal program.
- We reported no findings, which are required to be disclosed under OMB Circular A-133.
- We noted in our Independent Auditor's Report on Financial Statements that the Schedule of Expenditures of Federal Awards was fairly presented.
- 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.
- The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
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66.458	Capitalization Grants for Clean Water State Revolving Funds
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Schedule of Audit Findings

City of Chehalis Lewis County January 1, 2005 through December 31, 2005

1. The City of Chehalis does not have adequate internal controls to ensure accurate financial reporting.

Description of Condition

Schedule of Expenditures of Federal Awards

U.S. Office of Management and Budget Circular A-133 requires grant recipients that spend \$500,000 or more in a year in federal assistance to arrange for an audit of those funds. In addition, federal grant recipients are required to prepare a Schedule of Expenditures of Federal Awards (SEFA), which lists the sources of their federal assistance and how much was spent. The City received \$6,649,830 in federal funds and made the following errors in its SEFA for fiscal year 2005.

- CFDA 66.458, Capitalization grant for state revolving funds loan. Overstated by \$19,503,265. In addition, the CFDA number was incorrect and the pass through agency was not identified.
- CFDA 20.205, Highway Planning and Construction grant. The City reported \$675,000; however, no grant was received under this CFDA number.
- CFDA 16.558, STOP grant. Overstated by \$4,574.53. In addition, the pass through agency was not identified.
- CFDA 20.604, Safety Incentive grant. Overstated by \$2,300. In addition, the program title and federal granting agency were not identified.

In total, the fiscal year 2005 SEFA was overstated by \$20,185,139.63.

Notes to the Financial Statements

The City has chosen to prepare its notes to the financial statements in accordance with the modified GAAP option identified in the *Budgeting, Accounting, and Reporting Systems* (BARS) manual. During our review of the notes to the financial statements, several errors were identified. Specifically, we noted the following:

- Depreciation information for the governmental funds capital assets was not provided.
- Amounts reported for proprietary fund capital assets were not accurate and did not agree to the financial statements
- Property tax disclosures were not updated from the 2004 notes to reflect up-to-date information.
- A disclosure was included regarding the garbage fund exceeding budgeted appropriations by \$99. The garbage fund did not exceed budgeted appropriations.

- The information contained in the restricted assets and liabilities note was not accurate based on the City's financial statements.
- The disclosures relating to joint ventures and reporting changes were not updated from the prior year to reflect current events.

The notes were not reviewed for accuracy prior to submission for audit.

Capital Assets

Since the fiscal year 2000 audit, we have communicated concerns to the City relating to capital assets; specifically, developing formal policies and procedures and performing a physical inventory count. During the current audit, we identified the following:

- The City contracted out a physical inventory for all capital assets in early 2006. This count was not reconciled to City records until we requested it be done to support the fair presentation of the financial statements. This reconciliation required an adjustment of \$3,482,640 to decrease the City's general ledger asset acquisition cost balance for proprietary funds. An additional adjustment of \$3,703,398 was made to decrease the related accumulated depreciation balance. The beginning balances for general capital assets were decreased by a total of \$1,294,567.
- The City still does not have a formal policy relating to assets including both capital and small and attractive.
- The City does not have procedures in place to ensure all new capital assets are properly capitalized in the system and all surplus items are removed.

Cause of Condition

Personnel did not understand how to accurately calculate the amount of federal funds spent by the City. In addition, internal controls are not present to ensure the fair presentation of the notes to the financial statements and the capital asset balances.

Effect of Condition

An inaccurate Schedule of Expenditures of Federal Awards (SEFA) could mean that audit work does not cover all areas required by federal regulations. Furthermore, the significant errors noted during the audit of the notes to the financial statements and capital assets required increased resources being used to address the increased risk.

Recommendation

The City made corrections to its SEFA, notes and asset balances as needed. However, we recommend the following:

- Improve internal controls to ensure the SEFA is completed accurately in the future.
- Perform a thorough review of the notes to the financial statements prior to submitting them for audit.
- Develop processes and procedures to ensure all capital assets are properly identified and tracked. Policies should include a capitalization threshold and definitions of small and attractive assets.

City's Response

EXPLANATION: Problems identified with the Schedule of Expenditures of Federal Awards were due to a lack of clear communication between the City's grants management function and finance staff. Grants Management has been part of the Community Services Department with very limited oversight administratively as described above. Unfortunately, grants management practices were designed to adequately bill and track grants, but not to provide the information necessary to accurately complete the schedule of expenditures of federal awards. Information provided for the 2005 schedule included a mix of amounts awarded and amounts actually expended.

Weaknesses in the preparation of the notes to the Financial Statements were due to the lack of internal review of the statements. The Finance Department has only one person who is familiar with financial reporting, this person has many responsibilities besides preparing the financial statements.

In the area of capital assets, prior to July of 2006 the City's system for tracking capital assets was a combination of three by five cards and dozens of different electronic spreadsheets. This system was very cumbersome to use and to keep updated. In July 2006 the City acquired a database to track capital assets from the same vendor who completed the physical inventory of capital assets noted in the finding. Unfortunately, the results of the inventory and the system were not delivered to the City until after the legal deadline to complete the 2005 financial system. As a result the statements provided to the auditors did not reflect the results of the inventory, nor were the statements reconciled to the inventory. Once the audit had commenced, the auditor requested that the statements be updated to reflect the results of the inventory. Staff complied and as a result the City booked a prior period adjustment to its three proprietary funds which increased net assets by \$205,642 or 0.6%.

CORRECTIVE ACTION: As described above, the city has reassigned both the finance division and grants management to a new general services department and the grants administrator will physically move to city hall where the rest of the new department will be located. The new structure and physical proximity will provide better communications and management oversight with the new finance policy and improved use of technology that will help ensure that future schedules of expenditures of financial awards will be complete in a timely and accurate manner.

To address the lack of internal review and other issues, the reorganization and the recommended 2007 City budget includes funding for a new professional accounting position within the new Finance Division. This position will allow more time and resources to be dedicated to financial statement preparation and internal review of statements before they are filed and eventually presented to the auditors.

The new fixed asset system will help to resolve the long standing weaknesses noted by the auditors since 2000. Adding and removing assets can be done in a single place, rather than updating several electronic spreadsheets. The system will automatically calculate depreciation consistently for all assets and from year to year. In addition, the City is developing and will complete a thorough fixed asset policy and accompanying procedures that will address what the capitalization threshold is as well as when and how assets are added and deleted from the system by mid 2007.

Auditor's Remarks

We appreciate the commitment the City has made to strengthening its policies and procedures. We will review the condition during our next audit.

Applicable Laws and Regulations

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C, Section 300 outlines the local government's responsibilities:

The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency and name of the pass-through entity . . .

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §____.310.

(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements . . . At a minimum, the schedule shall:

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available . . .

(6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

The *Revised Code of Washington* (RCW) 43.09.200 provides for internal controls and monitoring of financial reporting. It states:

The state auditor shall formulate, prescribe, and install a system a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 requires timely financial reporting. It states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor . . . Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year. The reports shall contain accurate statements

Schedule of Prior Federal Audit Findings

City of Chehalis Lewis County January 1, 2005 through December 31, 2005

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Chehalis. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: 2004	Report Reference Number:	Finding Reference Number: 1	CFDA Number(s): 66.468
Federal Program Name and Granting Agency: Drinking Water State Revolving Fund grant/Environmental Protection Agency		Pass-Through Agency Name: Public Works Board	
Finding Caption: The City of Chehalis did not properly administer its Drinking Water State Revolving Funds grant in accordance with federal requirements.			
Background: The City spent \$883,737 in federal funds in fiscal year 2004, but did not notify the State Auditor's Office that a single audit was required. At the request of the state Public Works Board, the granting agency, we reviewed the City's internal controls and compliance with the Drinking Water State Revolving Fund (CFDA 66.468) program requirements. The City spent \$786,166 in federal funding under this program including \$706,846 for a construction contract. At the time of our audit, staff members who administered the program were not available nor were other City employees knowledgeable about the project. Although we did find evidence of adequate internal controls and compliance with most requirements for this program, we did not test the City's internal controls for two compliance areas: reporting and suspension and debarment.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No corrective action taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: The City has instituted an administrative rule that all departments will immediately inform the Grants Manager when a grant or loan is awarded by any state or federal agency. The Grants Manager will contact the grantor and request a written statement showing the ultimate source of funds: federal, state or otherwise. This written response will be kept in the Grants Manager's files and used to create the annual Schedule of Expenditures of Federal Awards.			

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, 2005 through December 31, 2005

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, 2005, and have issued our report thereon dated October 20, 2006.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Audit Findings as Finding 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is material weakness.

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, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. 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 herein 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", with a stylized, flowing script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 20, 2006

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, 2005 through December 31, 2005

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, 2005. 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, 2005.

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 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 in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 20, 2006

Independent Auditor's Report on Financial Statements

City of Chehalis Lewis County January 1, 2005 through December 31, 2005

Mayor and City Council
City of Chehalis
Chehalis, Washington

We have audited the accompanying financial statements of the City of Chehalis, Lewis County, Washington, as of and for the year ended December 31, 2005, as listed on page 14. 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 using accounting practices prescribed by Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual, which demonstrates compliance with the regulatory basis of accounting which differs from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and the accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Chehalis, as of December 31, 2005, and the changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, 1982-1993 CDBG Fund, HUD Block Grant Fund, Public Facilities Reserve Fund and Automotive\Equipment Reserve Fund, for the year then ended 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 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. This schedule is 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.

This report is intended for the information and use of the governing body and management of the City of Chehalis. 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", with a stylized, flowing script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 20, 2006

Financial Section

**City of Chehalis
Lewis County
January 1, 2005 through December 31, 2005**

FINANCIAL STATEMENTS

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CITY OF CHEHALIS
Balance Sheet
Governmental Funds
December 31, 2005

	MAJOR FUNDS					OTHER	
	GENERAL	1982-1993	HUD	PUBLIC	AUTOMOTIVE	NON-MAJOR	TOTAL
	FUND	CDBG	BLOCK GRANT	FACILITIES	EQUIPMENT	FUNDS	FUNDS
ASSETS							
Cash and cash equivalents	\$ 557,556	\$ 154,683	\$ 99,980	\$ 524,592	\$ 187,391	\$ 195,652	\$ 1,719,853
Investments	906,936	447,368	260,000	400,000	80,000	27,000	2,121,304
Receivable							
Taxes	121,565						121,565
Accounts	2,049						2,049
Interest Receivable			7,226			2,865	10,091
Other Receivables	135,906						135,906
Notes Receivable		8,024					8,024
Long-Term assets							
Notes/contracts receivable		304,758	106,988				411,746
TOTAL ASSETS	\$ 1,724,012	\$ 914,832	\$ 474,193	\$ 924,592	\$ 267,391	\$ 225,517	\$ 4,530,538
LIABILITIES and FUND BALANCE							
Current Liabilities:							
Accounts payable	\$ 77,612	\$ 554	\$ 481	\$ 2,223			80,871
Due to other governments	29						29
Compensated absences payable	18,381						18,381
Other Current liabilities	1,875						1,875
Deferred revenue	257,471	312,782	106,988				677,241
TOTAL LIABILITIES	\$ 355,368	\$ 313,336	\$ 107,469	\$ 2,223	\$ -	\$ -	\$ 778,396
Fund Balance							
Reserved for:							
Equipment					267,391		267,391
Other purposes		601,496	366,725	922,368		225,517	2,116,106
Unreserved, Reported in:							
Major funds	1,368,644						1,368,644
TOTAL FUND BALANCE	1,368,644	601,496	366,725	922,368	267,391	225,517	3,752,141
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,724,012	\$ 914,832	\$ 474,193	\$ 924,592	\$ 267,391	\$ 225,517	\$ 4,530,538

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Revenues, Expenses, and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2005

	MAJOR FUNDS					OTHER	TOTAL
	GENERAL	1982-1993	HUD	PUBLIC	AUTOMOTIVE	NON-MAJOR	FUNDS
	FUND	CDBG	BLOCK GRANT	FACILITIES	EQUIPMENT	FUNDS	FUNDS
Revenues:							
Taxes	\$ 5,943,800			\$ 212,004		\$ 81,274	\$ 6,237,078
Licenses and permits	98,560						98,560
Intergovernmental	309,548			3,093	24,600	48,313	385,554
Charges for services	479,389	94,953					574,342
Fines and forfeitures	99,361						99,361
Other revenue	38,015	18,101	4,555	3,601	34,234	16,607	115,112
Total Revenues	6,968,672	113,053	4,555	218,698	58,834	146,194	7,510,007
Expenditures:							
General government	1,360,802			2,723			1,363,524
Security of persons and property	3,509,876			5,333	28,560	69,491	3,613,261
Physical environment	66,654						66,654
Transportation	604,489						604,489
Economic environment	163,934	81,646	12,054			74,485	332,119
Mental & physical health	1,561						1,561
Culture & recreation	972,803						972,803
Interest & debt service	70,758			35,680			106,437
Capital outlay	91,538	5,209		1,366,200	224,022		1,686,969
Total expenditures	6,842,415	86,856	12,054	1,409,935	252,582	143,976	8,747,818
Excess (deficiency) of revenues over expenditures	126,257	26,198	(7,500)	(1,191,237)	(193,748)	2,219	(1,237,811)
Other financing sources (uses)							
Proceeds from capital leases							-
Proceeds from short term note				1,300,000			1,300,000
Operating transfers in					83,500	-	83,500
Operating transfers out	(83,500)					-	(83,500)
Total other financing sources (uses)	(83,500)	-	-	1,300,000	83,500	-	1,300,000
Net change in fund balances	42,757	26,198	(7,500)	108,763	(110,248)	2,219	62,189
Fund Balances - Beginning	1,325,887	575,298	374,225	813,606	377,640	223,299	3,689,953
Fund Balances - Ending	<u>\$ 1,368,644</u>	<u>\$ 601,496</u>	<u>\$ 366,725</u>	<u>922,368</u>	<u>267,391</u>	<u>225,518</u>	<u>3,752,142</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Major Fund - General Fund
Budget And Actual
For the Year Ended December 31, 2005

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes	\$ 5,466,000	\$ 5,466,000	\$ 5,943,800	\$ 477,800
Licenses and permits	88,960	88,960	98,560	9,600
Intergovernmental	293,900	293,900	309,548	15,648
Charges for services	450,700	450,700	479,389	28,689
Fines and forfeitures	113,750	113,750	99,361	(14,389)
Other revenue	97,900	97,900	38,015	(59,885)
Total Revenues	6,511,210	6,511,210	6,968,672	457,462
Expenditures:				
General government	1,235,703	1,350,225	1,360,802	(10,577)
Security of persons and property	3,667,334	3,697,334	3,509,876	187,458
Physical environment	68,715	68,715	66,654	2,061
Transportation	599,417	599,417	604,489	(5,072)
Economic environment	160,302	160,302	163,934	(3,632)
Mental & physical health	1,200	1,200	1,561	(361)
Culture & recreation	961,924	1,001,674	972,803	28,871
Interest & debt service	70,758	70,758	70,758	1
Capital outlay	81,825	81,825	91,538	(9,713)
Total expenditures	6,847,178	7,031,451	6,842,415	189,036
Excess (deficiency) of revenues over expenditures	(335,968)	(520,241)	126,257	646,498
Other financing sources (uses)				
Proceeds from capital leases				0
Proceeds from short term note				
Operating transfers in				0
Operating transfers out	(83,500)	(83,500)	(83,500)	0
Total other financing sources (uses)	(83,500)	(83,500)	(83,500)	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(419,468)	(603,741)	42,757	646,498
Fund Equity, January 1	1,325,887	1,325,887	1,325,887	-
Fund Equity, December 31	\$ 906,419	\$ 722,146	\$ 1,368,644	\$ 646,498

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Major Fund - 1982-1993 CDBG Fund
Budget And Actual
For the Year Ended December 31, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
Revenues:				
Taxes				\$ -
Licenses and permits				-
Intergovernmental				-
Charges for services	18,000	18,000	94,953	76,953
Fines and forfeitures				-
Other revenue	14,000	14,000	18,101	4,101
Total Revenues	<u>32,000</u>	<u>32,000</u>	<u>113,053</u>	<u>81,053</u>
Expenditures:				
General government				-
Security of persons and property				-
Physical environment				-
Transportation				-
Economic environment	166,400	171,115	81,646	89,469
Mental & physical health				-
Culture & recreation				-
Interest & debt service				-
Capital outlay	12,500	12,500	5,209	7,291
Total expenditures	<u>178,900</u>	<u>183,615</u>	<u>86,856</u>	<u>96,759</u>
Excess (deficiency) of revenues over expenditures	<u>(146,900)</u>	<u>(151,615)</u>	<u>26,198</u>	<u>177,813</u>
Other financing sources (uses)				
Proceeds from capital leases	-	-	-	
Proceeds from short term note				
Operating transfers in	-	-	-	
Operating transfers out	-	-	-	
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(146,900)</u>	<u>(151,615)</u>	<u>26,198</u>	<u>177,813</u>
Fund Equity, January 1	<u>575,298</u>	<u>575,298</u>	<u>575,298</u>	<u>-</u>
Fund Equity, December 31	<u>\$ 428,398</u>	<u>\$ 423,683</u>	<u>\$ 601,496</u>	<u>\$ 177,813</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Major Fund - HUD Block Grant Fund
Budget And Actual
For the Year Ended December 31, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
Revenues:				
Taxes				\$ -
Licenses and permits				-
Intergovernmental				-
Charges for services				-
Fines and forfeitures				-
Other revenue	11,531	11,531	4,555	(6,976)
Total Revenues	11,531	11,531	4,555	(6,976)
Expenditures:				
General government				-
Security of persons and property				-
Physical environment				-
Transportation				-
Economic environment	15,000	15,000	12,054	2,946
Mental & physical health				-
Culture & recreation				-
Interest & debt service				-
Capital outlay				-
Total expenditures	15,000	15,000	12,054	2,946
Excess (deficiency) of revenues over expenditures	(3,469)	(3,469)	(7,500)	(4,031)
Other financing sources (uses)				
Proceeds from capital leases	-	-	-	
Proceeds from short term note				
Operating transfers in	-	-	-	
Operating transfers out	-	-	-	
Total other financing sources (uses)	0	0	0	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,469)	(3,469)	(7,500)	(4,031)
Fund Equity, January 1	374,225	374,225	374,225	-
Fund Equity, December 31	\$ 370,756	\$ 370,756	\$ 366,725	\$ (4,031)

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Major Fund - Public Facilities Reserve
Budget And Actual
For the Year Ended December 31, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
Revenues:				
Taxes	\$ 100,000	\$ 100,000	\$ 212,004	\$ 112,004
Licenses and permits				-
Intergovernmental	-	-	3,093	3,093
Charges for services				-
Fines and forfeitures				-
Other revenue	21,000	21,000	3,601	(17,399)
Total Revenues	121,000	121,000	218,698	97,698
Expenditures:				
General government	-	-	\$ 2,723	(2,723)
Security of persons and property	2,000	2,000	5,333	(3,333)
Physical environment				-
Transportation				-
Economic environment				-
Mental & physical health				-
Culture & recreation				-
Interest & debt service	-	-	35,680	(35,680)
Capital outlay	140,500	1,440,500	1,366,200	74,300
Total expenditures	142,500	1,442,500	1,409,935	32,565
Excess (deficiency) of revenues over expenditures	(21,500)	(1,321,500)	(1,191,237)	130,263
Other financing sources (uses)				
Proceeds from capital leases	-	-	-	-
Proceeds from short term note	-	1,300,000	1,300,000	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	0	1,300,000	1,300,000	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(21,500)	(21,500)	108,763	130,263
Fund Equity, January 1	813,606	813,606	813,606	-
Fund Equity, December 31	\$ 792,106	\$ 792,106	\$ 922,368	\$ 130,263

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Major Fund - Automotive/Equipment Reserve
Budget And Actual
For the Year Ended December 31, 2005

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes				\$ -
Licenses and permits				-
Intergovernmental	24,600	24,600	24,600	-
Charges for services				-
Fines and forfeitures				-
Other revenue	6,000	6,000	34,234	28,234
Total Revenues	30,600	30,600	58,834	28,234
Expenditures:				
General government				-
Security of persons and property	16,925	29,165	28,560	605
Physical environment				-
Transportation				-
Economic environment				-
Mental & physical health				-
Culture & recreation				-
Interest & debt service				-
Capital outlay	101,695	229,905	224,022	5,884
Total expenditures	118,620	259,070	252,582	6,488
Excess (deficiency) of revenues over expenditures	(88,020)	(228,470)	(193,748)	34,722
Other financing sources (uses)				
Proceeds from capital leases				
Proceeds from short term note				
Operating transfers in	83,500	83,500	83,500	-
Operating transfers out				
Total other financing sources (uses)	83,500	83,500	83,500	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(4,520)	(144,970)	(110,248)	34,722
Fund Equity, January 1	377,640	377,640	377,640	-
Fund Equity, December 31	\$ 373,120	\$ 232,669	\$ 267,391	\$ 34,722

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
STATEMENT OF NET ASSETS
Proprietary Funds
December 31, 2005

	Business-Type Activities				
	Enterprise Funds				
	Garbage	Parking	Water & Wastewater	Storm Drainage	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 45,040	31,555	102,350	196,036	374,981
Accounts receivable (net)					
Customer accounts receivable (net)	30,190		692,219	11,861	734,270
Interest receivable		382	1,209		1,591
Other accounts receivable			200		200
Inventories			115,193		115,193
Due from other funds					
Total current assets	75,230	31,937	911,170	207,897	1,226,234
Restricted assets:					
Customer Deposits - Cash & Equivalents			110,616		110,616
Customer Deposits - Investments			175,000		175,000
Revenue Bonds - Cash & Equivalents			132,579		132,579
Revenue Bonds - Investments					-
Total restricted assets	-	-	418,195	-	418,195
Noncurrent assets:					
Land		278,100	4,598,199	267	4,876,565
Depreciable Capital Assets	-	12,444	23,489,533	110,090	23,612,067
Construction in Progress			19,729,775		19,729,775
Total Capital Assets (net)	-	290,544	47,817,507	110,356	48,218,407
Long Term Investments			4,385,509	27,000	4,412,509
Total non current assets	-	290,544	52,203,015	137,356	52,630,916
TOTAL ASSETS	\$ 75,230	\$ 322,481	\$ 53,532,380	\$ 345,254	\$ 54,275,345
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 25,091		1,572,915	3,002	1,601,009
Revenues Collected in Advance			68,641		68,641
Due to Other Governments			534,761		534,761
Notes Payable			67,101		67,101
Accrued Employee Benefits	7	654	12,612	1,000	14,273
Interest payable			82,226		82,226
Short term notes payable			4,000,000		4,000,000
Other current liabilities			13		13
Total current liabilities	25,099	654	6,338,270	4,002	6,368,025
Current liabilities payable from restricted assets:					
Bonds Payable			12,000		12,000
Customer Deposits			287,163		287,163
Total curr. liab. pay. from restr. assets:	-	-	299,163	-	299,163
Noncurrent liabilities:					
Bonds Payable			241,000		241,000
Due to Other Governments			12,170,946		12,170,946
Notes Payable			569,147		569,147
Employee Leave Benefits	838	906	120,382	17,255	139,381
Total noncurrent liabilities	838	906	13,101,475	17,255	13,120,474
TOTAL LIABILITIES	\$ 25,937	\$ 1,560	\$ 19,738,909	\$ 21,257	\$ 19,787,662
NET ASSETS					
Invested in Cap. Assets, Net of Related Debt	\$ -	290,544	11,106,638	110,090	11,507,272
Restricted for Capital Projects			19,729,775		19,729,775
Unrestricted	49,294	30,377	2,957,059	213,907	3,250,636
TOTAL NET ASSETS	\$ 49,294	\$ 320,921	\$ 33,793,472	\$ 323,997	\$ 34,487,683

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds				
	Garbage	Parking	Water & Wastewater	Storm	Totals
Operating Revenue:					
Intergovernmental					-
Charges for services	317,568		4,539,598	326,187	5,183,354
Parking Permits		36,263			36,263
Miscellaneous Revenue			10,360	618	10,978
Cost Contributions				2,445	2,445
Total operating revenue	<u>317,568</u>	<u>36,263</u>	<u>4,549,958</u>	<u>329,251</u>	<u>5,233,039</u>
Operating expenses:					
Operations and Maintenance	348,875	50,265	2,732,270	280,242	3,411,651
Administration/Overhead			200,323		200,323
Taxes	4,641	1,343	434,274	8,117	448,375
Depreciation		1,235	921,961	7,783	930,979
Total operating expenses	<u>353,516</u>	<u>52,843</u>	<u>4,288,828</u>	<u>296,141</u>	<u>4,991,328</u>
Operating Income	(35,947)	(16,581)	261,130	33,110	241,712
Nonoperating revenues (expenses):					
Interest Revenue		1,995	102,360	19,879	124,234
Other Non-operating Revenues					-
Interest Expense/Fiscal Charges			(102,400)		(102,400)
Gain (Loss) on Disposal of Fixed Assets					-
Total nonoperating revenues (exp)	<u>-</u>	<u>1,995</u>	<u>(40)</u>	<u>19,879</u>	<u>21,834</u>
Income (Loss) before Contributions	(35,947)	(14,586)	261,090	52,989	263,546
Capital Contributions	-	-	4,021,848	-	4,021,848
Change in Net Assets	<u>(35,947)</u>	<u>(14,586)</u>	<u>4,282,939</u>	<u>52,989</u>	<u>4,285,394</u>
Total Net Assets - Beginning	90,787	337,034	29,275,668	293,158	29,996,647
Prior Period Adjustment	(5,546)	(1,527)	234,865	(22,150)	205,642
Total Net Assets - Ending	<u><u>49,294</u></u>	<u><u>320,921</u></u>	<u><u>33,793,472</u></u>	<u><u>323,997</u></u>	<u><u>34,487,683</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds				Totals
	Garbage	Parking	Water & Wastewater	Storm	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 316,736	\$ 36,263	\$ 4,446,406	\$ 326,290	\$ 5,125,695
Cash payments to suppliers	(320,403)	(51,608)	(1,758,031)	(78,386)	(2,208,428)
Cash payments to employees			(1,473,416)	(173,687)	(1,647,102)
Internal activity - payments to other funds	(32,000)		(199,300)	(35,000)	(266,300)
Other operating receipts and payments					-
Net cash provided by operating activities	<u>(35,667)</u>	<u>(15,346)</u>	<u>1,015,660</u>	<u>39,217</u>	<u>1,003,864</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	-	-	-	-
Transfers to other funds					-
Net cash used by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets			\$ (15,939,457)	\$ (11,026)	\$ (15,950,483)
Proceeds from sale of capital assets					-
Proceeds from sale of other assets					-
Capital contributions			4,021,848		4,021,848
Bond proceeds					-
Loan/Grant proceeds			12,269,573		12,269,573
Principal paid on revenue bonds			(14,457)		(14,457)
Principal paid on other debt			(594,310)		(594,310)
Interest paid on revenue bonds and other debt			(121,076)		(121,076)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>(377,878)</u>	<u>(11,026)</u>	<u>(388,904)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from interest earnings		\$ 1,979	\$ 102,360	\$ 19,879	124,218
Cash Received from Investment Sales			1,090,000	25,000	1,115,000
Cash Paid for Investment Acquisition			(3,673,997)		(3,673,997)
Notes receivable issued					
Payments of notes and contracts receivable					
Net cash provided by investing activities	<u>-</u>	<u>1,979</u>	<u>(2,481,637)</u>	<u>44,879</u>	<u>(2,434,779)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(35,667)</u>	<u>(13,367)</u>	<u>(1,843,856)</u>	<u>73,070</u>	<u>(1,819,819)</u>
CASH AND CASH EQUIVALENTS - BEGINNING	<u>80,707</u>	<u>44,922</u>	<u>2,189,401</u>	<u>122,966</u>	<u>2,437,995</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 45,040</u>	<u>\$ 31,555</u>	<u>\$ 345,545</u>	<u>\$ 196,036</u>	<u>\$ 618,176</u>
Operating fund cash and cash equivalents	\$ 45,040	\$ 31,555	\$ 102,350	\$ 196,036	374,981
Restricted funds cash and cash equivalents			243,195		243,195
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 45,040</u>	<u>\$ 31,555</u>	<u>\$ 345,545</u>	<u>\$ 196,036</u>	<u>\$ 618,176</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds				Totals
	Garbage	Parking	Water & Wastewater	Storm	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income	<u>\$ (35,947)</u>	<u>\$ (16,581)</u>	<u>\$ 261,130</u>	<u>\$ 33,110</u>	<u>\$ 241,712</u>
Adjustments to reconcile net operating income to net cash provided by operations:					
Depreciation	-	1,235	921,961	7,783	930,979
(Increase) decrease in accounts receivable	(833)		(146,062)	(2,960)	(149,855)
(Increase) decrease in inventory			4,124		4,124
(Increase) decrease in deferred charges					
Increase (decrease) in accounts payable	1,113		(47,299)	108	(46,078)
Increase (decrease) in compensated absences	-		(20,705)	1,178	(19,527)
Increase (decrease) in customer deposits			21,249		21,249
Increase (decrease) in unearned revenues			21,261		21,261
Total adjustments	<u>280</u>	<u>1,235</u>	<u>754,530</u>	<u>6,108</u>	<u>762,153</u>
Net cash provided by operating activities	<u><u>\$ (35,667)</u></u>	<u><u>\$ (15,346)</u></u>	<u><u>\$ 1,015,660</u></u>	<u><u>\$ 39,217</u></u>	<u><u>\$ 1,003,864</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	Firemen's Pension Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 303,030
Receivables	
Taxes	
Interest Receivable	540
Long Term Investments	81,000
TOTAL ASSETS	<u>384,570</u>
LIABILITIES	
Current Liabilities:	
Warrants and accounts payable	<u>-</u>
TOTAL LIABILITIES	<u>-</u>
NET ASSETS	
Held in trust for pension benefits	384,570
TOTAL NET ASSETS	<u><u>\$ 384,570</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended December 31, 2005

	Firemen's Pension Fund
ADDITIONS	
Fire Insurance Premium Tax	\$ 10,639
Investment interest	27,336
Total Additions	<u>37,975</u>
DEDUCTIONS	
Retired Pension Benefits	4,198
Total Deductions	<u>4,198</u>
Change in net assets	33,777
Total net assets - Beginning	<u>350,793</u>
Total net assets - Ending	<u><u>\$ 384,570</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHEHALIS
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Chehalis have been prepared in conformity with the accounting practices prescribed or permitted by the State Auditor's Office of the State of Washington, which is another comprehensive basis of accounting. As more fully described in Note 15 A, the city did not fully implement Governmental Accounting Standards Board (GASB) Statement 34 for the 2005 reporting period. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The city of Chehalis was incorporated on September 22, 1890, and operates under the laws of the state of Washington applicable to a non-charter code city with a council-manager form of government.

The city is a general purpose government and provides public safety, fire prevention, parks and recreation, water supply/treatment/distribution, sewage collection/treatment, housing rehabilitation/rental, planning and zoning, judicial administration, and general administration services.

B. Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual government funds and major enterprise funds are reported as separate columns in the fund financial statements. The remaining funds are presented in aggregate in a single column. The fiduciary funds are presented by fund type

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenue is recognized for cost reimbursement grants when the expenditures occur in accordance with GASB Statement 1. When the expenditure is incurred, grant revenue is considered to have been earned and therefore available and recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the city.

The city reports the following major governmental funds:

The **General Fund** is the city's operating fund. It accounts for all financial recourses of the general government, except those required to be accounted for in another fund.

The **1982-1993 CDBG Fund** accounts for funds originally received in CDBG grants and provided as loans to rehabilitate affordable housing. The grant requirements have all been satisfied and the City uses the funds for capital and infrastructure improvements.

The **HUD Block Grant Fund** accounts for funds originally received in CDBG grants and provided as loans to rehabilitate affordable housing. The grant requirements have all been satisfied and the City uses the funds for capital and infrastructure improvements.

The **Public Facilities Reserve Fund** accounts for Local Real Estate Excise Tax revenues and other monies set aside for capital improvements.

The **Automotive/Equipment Reserve Fund** accounts for money set aside for replacement of vehicles and other capital equipment.

The city reports the following major proprietary funds:

The **Garbage Fund** provides solid waste collection services through a contract with a solid waste hauling firm.

The **Parking Fund** operates parking lots owned and leased by the city. Customers pay for parking by purchasing parking permits.

The **Water and Wastewater Fund** operates and maintains a distribution system for all residential, commercial and industrial customers and collects and treats wastewater effluent to state and federal requirements. The utility's operations are self-supported through user charges.

The **Storm/Surface water Fund** operates and maintains the City's surface water collection system. The utility's operations are self-supported through user charges.

Additionally, the city reports the following fund types:

The **Pension Trust Fund** accounts for activities of the Firemen's Pension Fund, which accumulates resources for pension, benefit payments to qualified retired firefighters and qualified spouses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private-sector guidance.

The Proprietary fund statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the city's utility funds and the internal service fund are charges to customers for sales and services and for vehicle replacement. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as needed.

D. Budgetary Information

1. Scope of the Budget

Annual appropriated budgets are adopted for the general and special revenue funds and for all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted major governmental funds only. Budgets for capital projects funds are only required to be adopted at the level of the project and for fiscal periods that correspond to the lives of the projects. However, the city also prepares an annual budget for the Capital Project Fund.

Annual appropriated budgets are adopted at the fund level. This is the mandated level of control. Subsidiary revenue and expenditure ledgers are used as management control devices to compare the budgeted amounts with actual revenues and expenditures on functional, departmental, activity and account levels. Appropriations for general and special revenue funds lapse at year-end.

2. Amending the Budget

The city manager is authorized to transfer budgeted amounts between departments within any fund and 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 council.

Budgeted expenditures include the ending fund balance. Budget amendments are made only when actual expenditures are expected to exceed the total appropriation elements: expenditures and ending fund balance.

When the city council determines that it is in the best interest of the city to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority.

The financial statements show both the original budget and the final authorized amounts as revised during the year.

3. Excess of Expenditures over Appropriations

For the year ended December 31, 2005, expenditures did not exceed appropriations in any fund.

4. Deficit Fund Equity

As of December 31, 2005 there were no funds with deficit fund equity.

E. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

The city pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the city's investments. All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to

known amounts of cash and at the day of purchase, they have a maturity date no longer than three months.

It is the city's policy to invest all temporary cash surpluses. At December 31, 2005, the treasurer was holding \$2,641,059 in short-term residual investments (Category 1) of surplus cash. This amount is classified on the balance sheet as cash and equivalents in various funds. The interest of these deposits is prorated to the various funds.

For purposes of the Statement of Cash Flows, the city considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, US Treasury and Agency Securities, banker's acceptances, bonds of Washington state and any local government in Washington state which have at the time of purchase one of the three highest credit ratings of a nationally recognized rating agency, repurchase agreements and the Washington State Local Government Investment Pool. The Firemen's Pension Fund is also authorized to invest in corporate bonds rated "A" or better by Standard & Poor's Corporation, or "A" or better by Moody's Bond Ratings.

On December 31, 2005, all city investments were categorized as Risk Category 1 as described in GASB Statement No. 3. The definition of Category 1 includes those investments that are insured, registered or held by the city, or its agent, in the city's name.

In compliance with GASB Statement No. 31, the city records the unrealized gains/losses on their investments at year-end. For the fiscal year ended December 31, 2005, the city did not have any gains or losses on investments.

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (see Note 4).

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided.

Other accounts receivable consists of authorized loans and grants for which expenditures have been made but for which reimbursement has not yet been received.

Notes and contracts receivable consist of amounts owed by private individuals for goods and services provided.

4. Amounts Due To and From Other Funds and Governments, Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to /from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." A separate schedule of interfund loans receivable and payable is furnished in Note 10.

5. Inventories

Inventories in proprietary funds are valued by the weighted-average method, which approximates the market value. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

6. Restricted Assets and Liabilities

These accounts contain resources for customer deposits and debt service. The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service requirements are described in Note 10. The current portion of related assets is shown as Revenue Bonds - Cash & Cash Equivalents; the future portion of related assets is shown as Revenue Bonds - Investments at Cost or Amortized Cost.

Restricted assets of the Enterprise Funds are composed of the following:

Customer Deposits - Cash & Equivalents	110,616
Customer Deposits - Investments	175,000
Revenue Bonds - Cash & Equivalents	132,579
Total restricted assets	<u>418,195</u>

7. Capital Assets - (See Note 5)

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in their respective column of the statement of net assets. Capital assets are defined by the city as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Land and construction in progress are not depreciated. Property, plant and equipment of proprietary funds are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings/Building Improvements	25-50
Other improvements	15-50
Utility infrastructure	25-50
Vehicles, machinery & equipment	5-10

8. Other Property and Investments - (See Note 3)

9. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the proprietary fund financial statements.

City personnel policies allow vacation to be accumulated up to 384 hours and is payable upon resignation, retirement or death (subject to union or employment agreements that may allow for more liberal accumulation and payment).

City personnel policies allow sick leave to be accumulated up to 720 hours. 100% of sick leave is payable upon termination of service, if certain requirements are met.

10. Other Accrued Liabilities

These accounts consist of accrued leasehold taxes payable.

11. Long-term Debt - (See Note 8)

12. Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

13. Fund Reserves and Designations

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions in any of the funds of the city.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The city's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC).

Investments

As of December 31, 2005, the city had the following investments:

Sterling CD	100,000
West Coast CD	600,000
Venture Bank	1,000,000
US Bank	5,069,988
Total Investments	<u>6,769,988</u>

NOTE 4 - PROPERTY TAXES

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.

The Property Tax Calendar is as follows:

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100% of market value
October 31	Second installment payment is due.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The city's regular levy for 2005 was \$2.512 per \$1,000 on an assessed valuation of \$418,695,033 for a total regular levy of \$1,052,000.

The city also has a special levy for Emergency Medical Services. The special levy for 2005 was \$0.4773 per \$1,000 on an assessed valuation of \$418,695,033 for a total special levy of \$200,000.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 5 – CAPITAL ASSETS

A. General Capital Assets

General capital assets that are infrastructure assets (such as roads, bridges, curbs, and sidewalks) are considered public property and are not accounted for in the following schedule for the year ended December 31, 2005.

General Capital Assets	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,926,697	245,003		\$ 2,171,700
Total cap ass. not to be deprec	\$ 1,926,697	245,003	0	\$ 2,171,701
Other capital assets				
Buildings	1,283,561	1,056,605		2,340,166
Other Improvements	789,683	9,502		799,185
Equipment	3,167,851	171,555		3,339,406
	5,241,095	1,237,662	0	6,478,757
Less accumulated depreciation:	(3,434,326)	(270,300)		(3,704,626)
Other capital assets, net	\$ 1,806,769	\$ 967,362		\$ 2,774,131
TOTAL CAPITAL ASSETS, NET	\$3,733,466	\$1,212,365	\$0	\$4,945,831

* Depreciation expense was calculated for functions as follows

General Government	9,625
Security of Persons & Property	137,420
Transportation	96,463
Culture & Recreation	26,792
Total	<u>270,300</u>

B. Proprietary Fund Capital Assets

Capital assets of enterprise funds and the internal service fund are capitalized in their respective balance sheets.

Proprietary Fund Capital Assets	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 4,555,846	320,719		\$4,876,565
Construction in Progress	4,604,617	16,463,034	1,337,876	19,729,775
Non-Utility Land	-			-
Total cap ass. not being deprec	<u>9,160,463</u>	<u>16,783,753</u>	<u>1,337,876</u>	<u>24,606,340</u>
Other capital assets				
Buildings	4,054,183			4,054,183
Other Improvements	28,473,507	1,017,156		29,490,663
Equipment	3,963,346	5,363		3,968,709
	<u>36,491,036</u>	<u>1,022,519</u>	<u>0</u>	<u>37,513,555</u>
Less accumulated depreciation:	<u>(12,970,509)</u>	<u>(930,979)</u>		<u>(13,901,488)</u>
Other capital assets, net	<u>23,520,527</u>	<u>91,540</u>	<u>0</u>	<u>23,612,067</u>
TOTAL CAPITAL ASSETS, NET	<u>\$32,680,990</u>	<u>\$16,875,293</u>	<u>\$1,337,876</u>	<u>\$48,218,407</u>

* Depreciation expense was charged to functions as follows:

Parking	1,235
Water & Wastewater	921,961
Storm	7,783
Total	<u>\$ 930,979</u>

NOTE 6 - PENSION PLANS

Substantially all of The City of Chehalis' full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), 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, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

A. Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years

including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	20,001
Active Plan Members Vested	100,469
Active Plan Members Nonvested	54,081
Total	239,913

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2005, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.38%	1.38%	1.38%**
Employee	6.00%	1.18%	***

* The employer rates include the employer administrative expense fee currently set at 0.19%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both The City of Chehalis and the employees made the required contributions. The City of Chehalis' required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2005	3,317	46,137	4,598
2004	9,199	28,424	9,771
2003	3,092	32,200	2,277

B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the exception of the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county or district, the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	4,003
Total	24,374

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with Chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated 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 requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2005, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.19%	3.25%**
Employee	0.00%	5.09%
State	n/a	2.03%

*The employer rates include the employer administrative expense fee currently set at 0.19%.

** The employer rate for ports and universities is 5.28%.

Both The City of Chehalis and the employees made the required contributions.

The City of Chehalis' required contributions for the years ending December 31 were as follows:

	LEOFF Plan 2	LEOFF Plan 1
2005	\$ 65,435	\$ 284
2004	\$ 130,575	\$ 392
2003	\$ 45,518	\$ 455

C. Local Government Pension and Other Employee Benefit Trust Funds

The city of Chehalis is the administrator of a Firemen's Pension Retirement system. This system is a closed system in that the membership is limited to firemen employed prior to October 1, 1977. This system is a defined benefit plan, and is shown as a trust fund in the financial reports of the city. There are only two survivors in the system and no current employees.

No actuarial study has been done, as the expense for such cannot be justified. Below is a schedule that shows the amount of property tax deposited in the Firemen's Pension Fund, the annual payable for the retirees pension payments, and the fund equity at year end. Total financial responsibility for the retirees is less than \$40,000 annually.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Taxes Levied	\$55,677	\$55,009	\$75,427	\$75,425	\$83,167	-	-	-	0
Pension Payments	\$23,239	\$23,324	\$19,764	\$18,672	\$18,974	\$8,091	\$84,029	\$4,079	\$4,198
Equity	\$255,621	\$308,001	\$354,616	\$404,406	\$453,447	\$407,100	\$338,104	\$350,793	\$346,595

NOTE 7 - 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 108 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 professional, public officials' errors or omissions, stopgap, and employee benefits liability. Limits are \$31 million per occurrence in the primary layer, \$11 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public official's errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. 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 \$250,000, 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 agreement, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of CIA's assets in financial instruments that 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.

NOTE 8 - LONG-TERM DEBT AND LEASES

A. Long-term Debt

The city issues revenue bonds, General Obligation bonds, and loans for the acquisition and construction of infrastructure. General obligation bonds have been issued for general government activities and are being repaid from the applicable sources. The revenue bonds are being repaid by proprietary fund revenues. The city is also liable for loans that were entered into for construction of infrastructure. These loans are considered obligations of the applicable proprietary fund and are being repaid with utility revenue sources.

General obligation bonds and other loans currently outstanding are as follows:

Purpose	Interest Rate	Amount
Fire Truck Lease	4.25%	315,227
Subtotal Leases		<u>\$315,227</u>

The annual debt service requirements to maturity for general obligation bonds and loans are as follows:

Year Ending 31-Dec	Governmental Activities	
	Principal	Interest
2006	57,792	12,965
2007	60,309	10,448
2008	62,912	7,845
2009	65,676	5,081
2010	68,537	2,221
Totals	<u>315,227</u>	<u>38,560</u>

The revenue bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount
Water & Sewer Projects	5.0%	253,000

The annual requirements to maturity, including interest are as follows:

	Principal	Interest	Total Debt
2006	12,000	12,500	24,500
2007	14,000	11,875	25,875
2008	14,000	11,175	25,175
2009-2019	213,000	299,375	512,375
Totals	<u>253,000</u>	<u>334,925</u>	<u>587,925</u>

The due to other government payable currently outstanding are as follows:

Public Works Trust Fund Loan #1	1.0%	145,905
Public Works Trust Fund Loan #2	1.0%	319,698
Public Works Trust Fund Loan #3	0.5%	270,833

TOTAL		736,436
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STATE REVOLVING FUND LOANS

Wastewater Treatment Poplar Tree Plantation	1.5%	2,680,607
Wastewater Treatment Plant Design		308,979
Wastewater Treatment Plant Construction		8,269,749

TOTAL		11,259,335
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STATE CENTENNIAL CLEAN WATER FUND LOANS

Water Treatment retention Basin	0.5%	709,936
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TOTAL		709,936
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TOTAL STATE LOANS		12,705,707
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The annual requirements to maturity, including interest are as follows:

	Public Works Trust Fund		State Revolving Fund		Centennial Clean Water		Total Debt
	Principal	Interest	Principal	Interest	Principal	Interest	
2006	345,685	6,010	141,747	44,453	47,329	17,748	534,761
2007	74,852	3,908	143,887	42,312	47,329	16,565	266,069
2008	74,852	3,159	570,151	40,139	47,329	15,382	692,332
2009	74,852	2,410	572,357	37,933	47,329	14,199	694,538
2010	74,852	1,662	574,596	35,693	47,329	13,015	696,777
2011-2024	91,342	1,370	9,256,598	277,833	473,290	65,078	9,821,231
Totals	736,436	18,519	11,259,336	478,363	709,936	141,987	12,705,707

The notes payable currently outstanding are

Land for wastewater treatment	7.00%	636,248
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The annual requirements to maturity, including interest are as follows

Year Ending 31-Dec	Principal	Interest
2006	67,101	43,383
2007	71,881	38,604
2008	77,000	33,484
2009	82,485	28,000
2010	88,360	22,125
2009-2013	249,421	26,789
Totals	636,248	192,386

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount

At December 31, 2005, the city has \$0 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$132,579 in sinking funds and reserves as required by bond indentures and loan contracts.

B. Changes in Long-Term Liabilities

During the year ended December 31, 2005 the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>12/31/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2005</u>
GOVERNMENTAL ACTIVITIES				
G O Bonds Payable				
Long term leases	370,607		(55,380)	315,227
Compensated Absences	718,507	-		718,507
Total Gov't'l activities	1,089,114	-	(55,380)	1,033,734
BUSINESS-TYPE ACTIVITIES				
Revenue bonds	265,000		(12,000)	253,000
Due to Other Governments	4,982,083	8,269,573	(545,949)	12,705,707
Notes Payable	757,363		(62,640)	694,723
Compensated Absences	133,428		(13,046)	120,382
Total Business-type active	6,137,874	8,269,573	(633,635)	13,773,812
Totals	\$7,226,988	\$8,269,573	(\$689,015)	\$14,807,546

NOTE 9 - CONTINGENCIES AND LITIGATION

The city has recorded in its financial statements all material liabilities, including an estimate for situations, which are not yet resolved, but where, based on available information, management believes it is probable that the city will have to make payment. In the opinion of management, the city's insurance policies and/or reserves are adequate to pay all known pending claims.

The city participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes such disallowances, if any, will be immaterial.

NOTE 10 - INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

There were no interfund balances at December 31, 2005.

B. Interfund Transfers

Interfund transfers at December 31, 2005 were as follows:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Total</u>
1. Automotive/Equipment Fund	General Fund	\$83,500
Total		\$83,500

The transfer was to increase capital reserves

NOTE 11- JOINT VENTURES

Chehalis - Centralia Airport

The City of Chehalis is currently jointly participating with Lewis County in the Chehalis–Centralia Airport. The joint venture is organized under RCW 14.08.200. The Airport was originally governed jointly by the Cities of Chehalis and Centralia and by Lewis County but in 2004 Centralia withdrew. Currently the Chehalis–Centralia Airport is jointly governed by an appointed seven-member board of which the city is a member. Currently two airport board members are appointed by the city. The city has a one-half equity interest in the Chehalis-Centralia Airport. The equity position of the airport is a negative \$169,411 as of December 31, 2005, primarily as result of ongoing capital development at the airport. The two cities and the county made no cash contributions to the airport during 2005. Financial statements for the Chehalis-Centralia Airport can be obtained from its administrator at Airport, PO Box 1344, Chehalis, WA 98532.

NOTE 12- POSTRETIREMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 6, the city provides postretirement health care benefits, in accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26), to 30 retired full-time, fully compensated law enforcement officers and firefighters who established membership in the LEOFF Plan 1 Retirement System on or before September 30, 1977. Currently, 18 retirees meet those eligibility requirements.

The City of Chehalis reimburses 100 percent of the unpaid portion of validated claims for medical and hospitalization costs incurred by pre-Medicare and post-Medicare retirees. The city also pays health insurance premiums and reimburses the premium for a Medicare supplement for each retiree eligible for Medicare. This premium amount changes each January and varies per each eligible retiree.

Employer contributions are financed on a pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims in the Fire and Police budgets. There is no provision for estimated claims incurred but not yet reported to the city.

During the year, expenditures of \$4,198 were recognized for post retirement health care.

NOTE 13- OTHER DISCLOSURES

Reporting Changes

During 2005, the city did not fully implement GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* due to the unexpected retirement of the city accountant and the continued implementation of a new financial software package. The required portions of GASB 34 not implemented were the management's discussion and analysis, government-wide financial statements and infrastructure related required information. As such, the financial statements were prepared in conformity with the accounting practices prescribed or permitted by the State Auditor's Office of the State of Washington. The city plans to fully implement GASB 34 for the fiscal year ended December 31, 2006 and to retroactively report infrastructure assets (acquired prior to January 1, 2005) by the fiscal year ending December 31, 2007.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

At the close of 2005 the city conducted a thorough review of its capital assets held in the enterprise funds. This review showed that the garbage fund capital assets were overstated by \$5,546, the parking fund assets were overstated by \$1,527, water& wastewater fund assets were understated by \$234,865, and storm fund assets were overstated by \$22,150. The Statement of Revenues, Expenses and Changes in Net Fund Assets shows prior period adjustments for these amounts.

Grantor /Pass-Through Grantor/ Program Title	Federal Program Name	CFDA Number	Other Identification Number	Current Year Expenditures
Environmental Protection Agency/pass-through from Washington Department of Ecology	Capitalization Grants for State Revolving Funds	66.458	L0500014	6,636,477.90
Department of Justice	Local Block Grant	16.592		9,999.00
Department of Justice/pass-through from Washington Department of Trade and Economic Development	STOP Grant	16.588		2,958.97
Washington Association of Sheriffs and Police Chiefs	LLEGB	20.604		394.00
Total				6,649,829.87

Washington State Auditor's Office

CITY OF CHEHALIS, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

The schedule is prepared on the same basis of accounting as the City of Chehalis' financial statements. The City of Chehalis uses the accounting practices prescribed or permitted by the State Auditor's Office of the State of Washington, which is another comprehensive basis of accounting.

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – FEDERAL LOANS

The City was approved by the Department of Ecology to receive a loan totaling \$32,572,175 to build a wastewater treatment plant. Of this total loan, \$26,139,743 is federal funds and \$6,432,432 is state funds. The amount listed on this schedule includes the federal portion of the loan proceeds received during the year.