

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

City of Chehalis
Lewis County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 75318

Issue Date
September 22, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 22, 2008

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, 2007 through December 31, 2007**

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Federal Summary

City of Chehalis Lewis County January 1, 2007 through December 31, 2007

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

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under OMB Circular A-133.

Identification of Major Programs:

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

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

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 qualified as a low-risk auditee under OMB Circular A-133.

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

**City of Chehalis
Lewis County
January 1, 2007 through December 31, 2007**

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, 2007, and have issued our report thereon dated August 11, 2008. During the year ended December 31, 2007 the City changed its basis of accounting from generally accepted accounting principles to an other comprehensive basis of accounting.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management, the 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", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 11, 2008

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, 2007 through December 31, 2007**

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, 2007. 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, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended for the information of management, the 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, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 11, 2008

Independent Auditor's Report on Financial Statements

City of Chehalis Lewis County January 1, 2007 through December 31, 2007

Council
City of Chehalis
Chehalis, Washington

We have audited the accompanying financial statements of the City of Chehalis, Lewis County, Washington, for the year ended December 31, 2007. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Chehalis, for the year ended December 31, 2007 on the basis of accounting described in Note 1.

During the year ended December 31, 2007, the City changed its basis of accounting from generally accepted accounting principles to an other comprehensive basis of accounting.

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

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Debt is also presented for purposes of additional analysis as required by the prescribed BARS manual.

These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 11, 2008

Financial Section

**City of Chehalis
Lewis County
January 1, 2007 through December 31, 2007**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2007
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Schedule of Long-Term Debt – 2007
Schedule of Expenditures of Federal Awards – 2007
Notes to the Schedule of Expenditures of Federal Awards – 2007

CITY OF CHEHALIS

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**Fund Resources and Uses Arising from Cash Transactions
For the Year Ending December 31, 2007**

BARS CODE		001 - General Fund		102 - Arterial Street	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ 1,391,290	\$ 1,271,931	\$ 56,664	\$ 128,494
	Revenues & Other Sources				
310	Taxes	6,533,300	6,717,755	-	-
320	License & Permits	130,720	393,408	-	-
330	Intergovernmental	311,099	261,906	48,000	170,219
340	Charges for Services	902,395	1,063,168	-	-
350	Fines & Forfeits	105,500	114,756	-	-
360	Miscellaneous	160,700	175,344	-	9,299
370	Capital Contributions	-	-	-	-
390	Other Financing	-	-	-	-
	Total Revenues and Other Financing Sources	8,143,714	8,726,337	48,000	179,518
	Total Resources	9,535,004	9,998,268	104,664	308,012
	Operating Expenditures:				
510	General Government	1,882,790	1,877,684	-	-
520	Public Safety	4,241,660	3,954,035	-	-
530	Physical Environment	74,150	51,893	-	-
540	Transportation	770,350	851,955	60,500	63,408
550	Economic Environment	362,500	478,827	-	-
560	Mental & Phy Health	1,600	1,668	-	-
570	Culture & Recreational	995,045	1,097,761	-	-
	Total Operating Expenditures	8,328,095	8,313,823	60,500	63,408
591-593	Debt Service	70,760	895,657	-	-
594-595	Capital Outlay	51,500	706,022	-	-
	Total Expenditures	8,450,355	9,915,502	60,500	63,408
597-599	Other Financing Uses	83,500	1,875	-	-
	Total Expenditures and Other Financing Uses	8,533,855	9,917,377	60,500	63,408
	Excess (Deficit) of Resources Over Uses	1,001,149	80,891	44,164	244,604
380	Non Revenues (Except 384 and 388.80)	-	4,731	-	-
580	Non Expenditures (Except 584 and 588.80)	-	-	-	-
	Ending Net Cash & Investments	\$ 1,001,149	\$ 85,622	\$ 44,164	\$ 244,604

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

**Fund Resources and Uses Arising from Cash Transactions
For the Year Ending December 31, 2007**

BARS CODE		402 - Garbage		404 - Wastewater	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ 34,284	\$ (8,886)	\$ 1,826,687	\$ 646,549
	Revenues & Other Sources				
310	Taxes	-	-	-	-
320	License & Permits	-	-	-	-
330	Intergovernmental	-	-		144,974
340	Charges for Services	334,500	337,588	3,088,000	3,111,563
350	Fines & Forfeits	-	-	-	-
360	Miscellaneous	-	681	46,000	167,300
370	Capital Contributions	-	-	-	225,315
390	Other Financing	-	-	-	-
	Total Revenues and Other Financing Sources	334,500	338,269	3,134,000	3,649,152
	Total Resources	368,784	329,383	4,960,687	4,295,701
	Operating Expenditures:				
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Physical Environment	351,650	419,574	2,018,650	1,987,268
540	Transportation	-	-	-	-
550	Economic Environment	-	-	-	-
560	Mental & Phy Health	-	-	-	-
570	Culture & Recreational	-	-	-	-
	Total Operating Expenditures	351,650	419,574	2,018,650	1,987,268
591-593	Debt Service	-	-	91,315	131,301
594-595	Capital Outlay	-	3,751	9,220,000	2,465,730
	Total Expenditures	351,650	423,325	11,329,965	4,584,299
597-599	Other Financing Uses	-	-	-	-
	Total Expenditures and Other Financing Uses	351,650	423,325	11,329,965	4,584,299
	Excess (Deficit) of Resources Over Uses	17,134	(93,942)	(6,369,278)	(288,598)
380	Non Revenues (Except 384 and 388.80)	-	-	9,000,000	5,009,831
580	Non Expenditures (Except 584 and 588.80)	-	-	290,888	1,290,620
	Ending Net Cash & Investments	\$ 17,134	\$ (93,942)	\$ 2,339,834	\$ 3,430,613

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

**Fund Resources and Uses Arising from Cash Transactions
For the Year Ending December 31, 2007**

BARS CODE		405 - Water		406 - Storm & Surface Water	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ 1,510,506	\$ 3,736,198	\$ 309,363	\$ 355,460
	Revenues & Other Sources				
310	Taxes	-	-	-	-
320	License & Permits	-	-	-	-
330	Intergovernmental	-	-	-	-
340	Charges for Services	2,204,400	2,237,265	384,400	407,758
350	Fines & Forfeits	-	-	-	-
360	Miscellaneous	-	156,871	3,500	29,651
370	Capital Contributions	-	364,440	-	72,225
390	Other Financing	-	-	-	-
	Total Revenues and Other Financing Sources	2,204,400	2,758,576	387,900	509,634
	Total Resources	3,714,906	6,494,774	697,263	865,094
	Operating Expenditures:				
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Physical Environment	2,047,445	1,785,063	342,575	385,219
540	Transportation	-	-	-	-
550	Economic Environment	-	-	-	-
560	Mental & Phy Health	-	-	-	-
570	Culture & Recreational	-	-	-	-
	Total Operating Expenditures	2,047,445	1,785,063	342,575	385,219
591-593	Debt Service	16,566	29,206	-	-
594-595	Capital Outlay	1,407,000	1,112,137	-	47,296
	Total Expenditures	3,471,011	2,926,406	342,575	432,515
597-599	Other Financing Uses	-	282,488	-	-
	Total Expenditures and Other Financing Uses	3,471,011	3,208,894	342,575	432,515
	Excess (Deficit) of Resources Over Uses	243,895	3,285,880	354,688	432,579
380	Non Revenues (Except 384 and 388.80)	100,000	-	-	-
580	Non Expenditures (Except 584 and 588.80)	47,329	64,001	-	-
	Ending Net Cash & Investments	\$ 296,566	\$ 3,221,879	\$ 354,688	\$ 432,579

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

Page 1 of 2

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ending December 31, 2007

Fund Type: Special Revenue Funds	Fund 107 - Tourism		Fund 110 - Compensated Absences Reserve	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 71,772	\$ 92,964	\$ -	\$ 2,998
Revenues and Other Financing Sources	94,500	110,918		148
Total Resources	166,272	203,882	-	3,146
Expenditures & Other Financing Uses	109,000	85,986		-
Excess(Deficit) of Resources	57,272	117,896	-	3,146
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 57,272	\$ 117,896	\$ -	\$ 3,146

Fund Type: Special Revenue Funds	Fund 195 - 1982-93 Community Development Block Grant		Fund 197 - HUD Block Grant	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 727,432	\$ 619,075	\$ 486,196	\$ 386,176
Revenues and Other Financing Sources	32,000	101,262	25,000	24,192
Total Resources	759,432	720,337	511,196	410,368
Expenditures & Other Financing Uses	246,000	71,964	20,000	8,742
Excess(Deficit) of Resources	513,432	648,373	491,196	401,626
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	513,432	-	-	-
Ending Net Cash & Investments	\$ -	\$ 648,373	\$ 491,196	\$ 401,626

Fund Type: Capital Project Funds	Fund 301 - Public Facilities Reserve		Fund 302 - Automotive/Equipment Reserve	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 981,592	\$ 21,351	\$ 199,863	\$ 494,559
Revenues and Other Financing Sources	110,000	131,258	314,100	61,513
Total Resources	1,091,592	152,609	513,963	556,072
Expenditures & Other Financing Uses	84,000	397,160	31,200	32,318
Excess(Deficit) of Resources	1,007,592	(244,551)	482,763	523,754
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 1,007,592	\$ (244,551)	\$ 482,763	\$ 523,754

Fund Type: Capital Project Funds	Fund 305 - First Quarter Percent REET		Fund 306 - Second Quarter Percent REET	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 104,117	\$ 397,505	\$ 504,117	\$ 322,443
Revenues and Other Financing Sources	65,000	107,355	65,000	103,660
Total Resources	169,117	504,860	569,117	426,103
Expenditures & Other Financing Uses	-	504,860	-	422,358
Excess(Deficit) of Resources	169,117	-	569,117	3,745
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 169,117	\$ -	\$ 569,117	\$ 3,745

The accompanying notes are an integral part of this statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ending December 31, 2007

Fund Type: Trust Fund			Fund 611 - Firemen's Pension	
	Budget	Actual		
Beginning Cash & Investment	\$ 446,705	\$ 459,594		
Revenues and Other Financing Sources	19,000	41,400		
Total Resources	465,705	500,994		
Expenditures & Other Financing Uses	9,500	7,368		
Excess(Deficit) of Resources	456,205	493,626		
NonRevenues (except 384 and 388.80)	-	-		
NonExpenditures(except 584 and 588.80)	-	-		
Ending Net Cash & Investments	\$ 456,205	\$ 493,626		

Fund Type: Agency Fund			Fund 633 - City Agency	
	Budget	Actual		
Beginning Cash & Investment	\$ -	\$ -		
Revenues and Other Financing Sources	-	285,541		
Total Resources	-	285,541		
Expenditures & Other Financing Uses	-	-		
Excess(Deficit) of Resources	-	285,541		
NonRevenues (except 384 and 388.80)	-	-		
NonExpenditures(except 584 and 588.80)	-	-		
Ending Net Cash & Investments	\$ -	\$ 285,541		

The accompanying notes are an integral part of this statement.

**CITY OF CHEHALIS
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2007 THROUGH DECEMBER 31, 2007**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

The City of Chehalis was incorporated in September 22, 1890 and operates under the laws of the State of Washington applicable to a non-charter code city with a Mayor-Council form of government.

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

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund (001)

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

Special Revenue Funds (100-199)

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

Capital Project Funds (300 – 399)

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

PROPRIETARY FUND TYPES:

Enterprise Funds (400-499)

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

FIDUCIARY FUND TYPES:

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

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

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

Agency Funds (631-630)

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

b. Basis of Accounting

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

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

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

c. Budgets

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

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

The City Manager is authorized to transfer budgeted amounts between departments within any/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Chehalis' Council.

d. Cash

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

e. Deposits

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

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

g. Capital Assets

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

h. Compensated Absences

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

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

i. Long-Term Debt See Note (Long-Term Debt Note No. 5)

j. Other Financing Sources Or Uses

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

k. Risk Management

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 126 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$12 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$15 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all state guidelines. These revenues directly offset portions of the membership's annual assessment.

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

The pool is fully funded by its member participants. Claims are filed by members with the WCIA, which performs pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the WCIA under this arrangement for the years ending December 31, 2006 and 2007 were \$257,269 and \$244,591, respectively.

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

The City also carried flood insurance with National Flood Services on certain Wastewater facilities. The premiums paid for the years ending December 31, 2006 and 2007 were \$8,701 and \$9,267, respectively.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions with the exception of expenditures in excess of legal appropriations. The following funds have exceeded legal appropriations by the amounts listed:

Fund Number and Name	Amount
001 General Fund	\$1,383,521
102 Arterial Street	2,908
301 Public Facilities Reserve	313,160
302 Auto/Equipment Reserve	1,118
305 First Quarter Percent REET	504,860
306 Second Quarter Percent REET	422,358
402 Garbage	71,675
406 Storm & Surface Water	89,940

No other funds have exceeded their legal appropriations.

Two funds ended 2007 with cash deficits. The Public Facilities Reserve and Garbage Funds had cash deficits amounting to \$244,551 and \$93,942, respectively.

NOTE 3 – INVESTMENTS

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

Investments by type at December 31, 2007 are as follows:

Type of Investment	City of Chehalis' Own Investments	Investments held by the City of Chehalis as an Agent for Other Governments or Individuals	Total
Washington State Local Government Investment Pool	\$37,297	\$23,241	\$60,538
Certificates of Deposits	1,305,663	-	1,305,663
U.S. Government Agency Securities	1,825,561	175,047	2,000,608
Total	\$3,168,521	\$198,288	\$3,366,809

NOTE 4 – PROPERTY TAX

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

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

The City's regular levy for the year 2007 was \$2.493755097338 per \$1,000 on an assessed valuation of \$442,010,092 for a total regular levy of \$1,102,264.92.

The City also has a levy for Emergency Medical Services (EMS). In 2007, the EMS levy was \$0.474095826753 per \$1,000 on an assessed valuation of \$442,010,092 for a total EMS levy of \$209,555.

NOTE 5 – LONG TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Chehalis and summarizes the City's debt transactions for the year 2007. The debt service requirements, including interest, are as follows:

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2008	\$70,757	\$2,140,040	\$ -	\$2,210,797
2009	70,758	2,136,933	-	2,207,691
2010	68,867	2,135,800	-	2,204,667
2011	-	2,103,413	-	2,103,413
2012	-	2,101,497	-	2,101,497
2013-2017	-	9,594,888	-	9,594,888
2018-2022	-	9,294,890	-	9,294,890
2023-2027	-	7,607,273	-	7,607,273
TOTALS	\$210,382	\$37,114,734	\$ -	\$37,325,116

Chehalis Airport debt should the airport default. As of December 31, 2007, the airport debt outstanding was \$3,380,537.09. Based upon current airport ownership interests, the City would be responsible for half of the debt: \$1,690,269.

NOTE 6 – PENSION PLANS

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

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

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

NOTE 7 – CONVERSION TO NEW BASIS OF ACCOUNTING

In 2007, the City of Chehalis converted from modified accrual and full accrual accounting to cash basis accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as discussed in note 1 b.

This conversion required the restatement of beginning cash balances to reduce them by the amount of accounts payable accrued as of December 31, 2006. All balance sheet accounts other than cash and investments were eliminated.

In order to clearly distinguish cash and investments not belonging to the City of Chehalis, an Agency Fund, the City Agency Fund, was created using cash and investments transferred from the General and the Water Funds.

NOTE 8 – RESTATED BEGINNING BALANCES

Beginning cash and cash equivalent balances were restated due to the conversion to a new basis of accounting. In addition, the previous classification of Local Government Investment Pool balances as cash equivalents was corrected to an investment classification, thus increasing beginning investment amounts and reducing cash equivalent amounts. Finally, the correction of a prior year erroneous coding of an interest payment has resulted in an increase and equal decrease in two funds. The schedule below summarizes the reconciliations between the original beginning cash and investment balances and the restated beginning cash and investment balances for restated funds. Funds which were not restated are excluded:

Fund and Name	Number	Category	Beginning Balance	Cash Conversion	LGIP Reclass- ification	Prior Interest	Year	Restated Beginning Balance
001 General		Cash	\$1,076,935	(\$88,500)	(\$14,978)			\$973,457
001 General		Investment	283,497	(1)	14,978			298,474
107 Tourism		Cash	98,127	(5,164)	(3,139)			89,824
107 Tourism		Investment	0		3,139			3,139
195 CDBG		Cash	181,874	(1)	(5,435)			176,439
195 CDBG		Investment	437,202		5,435			442,636
197 HUD		Cash	216,655		(3,277)			213,378
197 HUD		Investment	169,521		3,277			172,798
301 Public Fac.		Cash	3,725	(3,455)		\$21,082		21,351
302 Equip. Res.		Cash	494,559		(2,258)			492,301
302 Equip. Res.		Investment	0		2,258			2,258
402 Garbage		Cash	16,628	(25,514)				(8,886)
404 Wastewater		Cash	1,494,587	(826,957)		(21,082)		646,549
405 Water		Cash	1,052,306	(57,469)	(866)			993,971
405 Water		Investment	2,741,361		866			2,742,227
406 Storm		Cash	359,243	(3,783)	(5,464)			349,996
406 Storm		Investment	0		5,464			5,464
611 Pension		Cash	384,594	(1)	(22,069)			362,524
611 Pension		Investment	75,000		22,069			97,069
Total			\$9,085,814	(\$1,010,845)	\$0		\$0	\$8,074,969

In addition, the beginning balance for revenue debt was restated. One debt issuance from 1993 was not reported on the financial statements for the year ending December 31, 2006. The inclusion of Public Works Trust Fund loan #4 increased the beginning balance of outstanding debt by \$285,915 from what was reported in 2006.

NOTE 9 – SUBSEQUENT EVENTS

With passage of Substitute Senate Bill 5089 (“Streamlined Sales Tax”), Washington changed from an origin-based system for local retail sales tax to a destination-based system effective July 1, 2008. With this new system, sales originating within the City of Chehalis may not result in sales tax revenues to the city, and sales occurring outside of city limits could result in sales tax revenues to the city.

Washington Department of Revenue projections based upon five year-old data have indicated that the city could lose sales and use tax revenues with the implementation of Streamlined Sales Tax. However, at this time, it is not known what the impact of implementation will be to the city.

CITY OF CHEHALIS

SCHEDULE OF LONG TERM DEBT - G.O. DEBT - ALL FUNDS

For the Year Ending December 31, 2007

ID NO.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt As Of 1/1/2007	Amount Issued in Current Year	BARS Code for Receipt	Receiving Fund Number	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	Ending Outstanding Debt As Of 12/31/2007
(Bank)										
Fire Truck	12/31/03	12/30/10	\$ 255,837				\$ 60,375	591.022	001	\$ 195,462
(Bank)										
Note Payable	8/23/05	12/1/07	795,140				795,140	591.019	001	-
Note Payable	8/23/05	12/1/07	504,860				504,860	591.019	305	-
Note Payable	8/23/05	12/1/07	1,000,000				1,000,000	582.035	404	-
TOTALS			\$ 2,555,837				\$ 2,360,375			\$ 195,462

CITY OF CHEHALIS

SCHEDULE OF LONG TERM DEBT - REVENUE DEBT - ALL FUNDS

For the Year Ending December 31, 2007

ID NO.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt As Of 1/1/2007	Amount Issued in Current Year	BARS Code for Receipt	Receiving Fund Number	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	Ending Outstanding Debt As Of 12/31/2007
Commercial Obligations										
	8/1/79	8/1/19	\$ 241,000				\$ 14,000	582.034	405	\$ 227,000
	1/28/03	1/28/13	569,147				71,881	582.H35	404	497,266
Due To Other Governments										
(Public Works Trust Fund Loans)										
PWTF #1	5/7/90	7/1/10	116,724				29,181	582.T35	404	87,543
PWTF #2	6/30/92	7/1/12	274,027				45,671	582.T35	404	228,356
PWTF #4	9/29/93	7/1/13	285,915				40,845	582.T35	404	245,070
(State Revolving Fund Loans - Department of Ecology)										
SRFL #1	11/30/03	5/1/24	2,553,927				128,594	582.035	404	2,425,333
SRFL #2	11/30/03	12/30/23	293,913				15,294	582.C35	404	278,619
SRFL #3	10/26/05	6/30/27	26,787,318	\$ 5,009,831	382.080	404				31,797,149
(State Revolving Fund Loan - Department of Health)										
SRFL #4	10/1/04	1/1/20	700,009				50,001	582.T34	405	650,008
TOTAL LONG TERM REVENUE DEBT										
			\$ 31,821,980	\$ 5,009,831			\$ 395,467			\$ 36,436,344

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other ID Number	From Pass-Through Awards	Expenditures From Direct Awards	Total	Foot-note Ref.
U.S. Dept. of Agriculture-Farm Service Agency	Direct and Counter-Cyclical Payments Program	10.055			774	774	
U.S. Department of Justice-Bureau of Justice Assistance	Bulletproof Vest Partnership FY06	16.607			1,412	1,412	
U.S. Environmental Protection Agency	Congressionally Mandated Projects STAG Grant-Chehalis Regional Water Redamation Facility Construction	66.202			144,200	144,200	
Department of Homeland Security	Assistance to Firefighters Grant - FY07	97.044	EMW-2007-FO-00512		0	0	
U.S. Environmental Protection Agency/WA Department of Ecology	Capitalization Grant for Clean Water, State Revolving Funds	66.458	LO500014	1,618,161		1,618,161	2, 3
U.S. Environmental Protection Agency/Office of Ground water and Drinking Water WA Public Works Board	Capitalization Grant for Drinking Water, State Revolving Funds Fund - Phase IV Water Filtration - FY05	66.468	05-96300-008	25,360		25,360	2
U.S. Department of Transportation - FHIA/WA Dept. of Transportation	Highway Planning and Construction Community Pathway Plan - FY06 (SAFET LU High Priority Project)	20.205	HPP-ACHPP-0190 LA 6117	36,735		36,735	
Department of Homeland Security/Lewis County Fire District #12	Assistance to Firefighters - FY06	97.044	EMW-2006-FG-16866	119,872		119,872	2, 4
Department of Homeland Security/Lewis County	Law Enforcement Terrorism Prevention Program (LETPP) - FY06	97.074	N/A	9,005		9,005	4
Department of Homeland Security - FEMAWA Military Department	Disaster Grants -Public Assistance FEMA Disaster Grant - FY06	97.036	1671-DR-WA Grant# E07-715	15,334		15,334	2
Department of Homeland Security - FEMAWA Military Department	Disaster Grants -Public Assistance FEMA Wind Storm Grant - FY06	97.036	1682-DR-WA Grant # E07-929	10,054		10,054	2
U.S. Department of Justice Office on Violence against Women WA Dept. of Community, Trade & Economic Dev.	Disaster Grants -Public Assistance FEMA Flood Grant - FY07	97.036	1734-DR-WA Grant# E08-737	61,294		61,294	2
U.S. Department of Justice Office on Violence against Women WA Dept. of Community, Trade & Economic Dev.	Violence Against Women Formula Grant STOP Formula Grant - FY06	16.588	2006-WF-AX-0076 F06-31103-046	7,777		7,777	5
U.S. Department of Justice Office on Violence against Women WA Dept. of Community, Trade & Economic Dev.	Violence Against Women Formula Grant STOP Formula Grant - FY07	16.588	2007-WF-AX-0008 F07-31103-060	373		373	
U.S. Department of Justice Programs, Bureau of Justice Assistance WA Dept of Community, Trade & Economic Dev.	Edward Byrne Memorial Justice Assistance Grant Program						
U.S. Housing Urban Development Agency	Gang & Drug Grant: Thermal Camera/Emergency Light	16.738	F07-66201-109	0		0	
Community Planning Development . Department of Housing and Urban Development	Block Grant	14.156	N/A	0		0	6
	Community Development Block Grants						
	State's Program and Non-Entitlement Grants in Hawaii	14.228	N/A	71,864		71,864	6
Total Federal Awards Expended					1,975,829	146,386	2,122,215

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – FEDERAL LOANS

The City of Chehalis was approved by the U.S. Environmental Protection Agency and Washington Department of Ecology to receive a loan totaling \$32,572,175 to build a sewer treatment plant and two pump stations.

The City of Chehalis was approved by the U.S. Environmental Protection Agency and Washington Public Works Board to receive a loan totaling \$1,167,803 for the Phase IV Water Filtration project.

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

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

NOTE 4 – NONCASH AWARDS – EQUIPMENT

The City of Chehalis received equipment and supplies that were purchased with federal Homeland Security funds by Lewis County Fire District #12 and Lewis County. The amounts reported on the schedule are the values of the property on the dates it was received by the City of Chehalis and priced by Lewis County Fire District #12 and Lewis County.

NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENTS

The entire amount expended for this program and reported to the granting agency is the amount expended by a subrecipient that administered its portion of the project.

NOTE 6 – PROGRAM INCOME

The City has a loan program for low income housing assistance and for housing renovation. Under these federal programs, repayments to the City are considered program revenues and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$0 for low income housing assistance and \$71,864 for housing renovation.

The amount of loan principal and interest received in loan repayments for the year was \$0 for low income housing assistance and \$67,278 for housing renovation.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

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We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

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