

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

City of Chehalis
Lewis County

Audit Period
January 1, 2008 through December 31, 2008

Report No. 1002687

Issue Date
January 19, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 19, 2010

Council
City of Chehalis
Chehalis, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Chehalis' financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Lewis County
January 1, 2008 through December 31, 2008**

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Federal Summary

City of Chehalis Lewis County January 1, 2008 through December 31, 2008

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 programs.

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	- Highway Planning and Construction
66.468	- Capitalization Grants for Drinking Water State Revolving Funds
97.036	- Public Assistance Grants

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, 2008 through December 31, 2008

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, 2008, and have issued our report thereon dated December 4, 2009.

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 City'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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 4, 2009

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

City of Chehalis
Lewis County
January 1, 2008 through December 31, 2008

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 programs for the year ended December 31, 2008. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs 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 programs for the year ended December 31, 2008.

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", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 4, 2009

Independent Auditor's Report on Financial Statements

**City of Chehalis
Lewis County
January 1, 2008 through December 31, 2008**

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, 2008. 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, 2008, on the basis of accounting described in Note 1.

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

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Debt is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 4, 2009

Financial Section

**City of Chehalis
Lewis County
January 1, 2008 through December 31, 2008**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2008
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Schedule of Long-Term Debt – 2008
Schedule of Expenditures of Federal Awards – 2008
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CITY OF CHEHALIS

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**Fund Resources and Uses Arising from Cash Transactions
For the Year Ending December 31, 2008**

BARS CODE		001 - General Fund		102 - Arterial Street	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ 86,000	\$ 85,622	\$ 128,314	\$ 244,604
	Revenues & Other Sources				
310	Taxes	7,119,646	7,133,158	-	-
320	License & Permits	301,700	355,004	-	-
330	Intergovernmental	3,967,824	3,595,910	176,760	161,304
340	Charges for Services	816,854	934,009	-	-
350	Fines & Forfeits	117,745	106,404	-	-
360	Miscellaneous	191,030	134,629	-	10,232
370	Capital Contributions	-	-	-	-
390	Other Financing	1,461,320	7,613	-	-
	Total Revenues and Other Financing Sources	13,976,119	12,266,727	176,760	171,536
	Total Resources	14,062,119	12,352,349	305,074	416,140
	Operating Expenditures:				
510	General Government	2,169,492	2,141,477	-	-
520	Public Safety	4,277,059	4,239,090	-	-
530	Physical Environment	80,199	70,343	-	-
540	Transportation	1,540,307	1,319,975	65,000	15,606
550	Economic Environment	568,227	480,699	-	-
560	Mental & Phy Health	1,600	1,631	-	-
570	Culture & Recreational	1,212,780	1,252,408	-	-
	Total Operating Expenditures	9,849,664	9,505,623	65,000	15,606
591-593	Debt Service	88,758	90,549	-	-
594-595	Capital Outlay	2,901,375	2,953,650	-	-
	Total Expenditures	12,839,797	12,549,822	65,000	15,606
597-599	Other Financing Uses	505,286	310,000	-	-
	Total Expenditures and Other Financing Uses	13,345,083	12,859,822	65,000	15,606
	Excess (Deficit) of Resources Over Uses	717,036	(507,473)	240,074	400,534
380	Non Revenues (Except 384 and 388.80)	-	1,458,454	-	-
580	Non Expenditures (Except 584 and 588.80)	-	-	-	-
	Ending Net Cash & Investments	\$ 717,036	\$ 950,981	\$ 240,074	\$ 400,534

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

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**Fund Resources and Uses Arising from Cash Transactions
For the Year Ending December 31, 2008**

BARS CODE		402 - Garbage		404 - Wastewater	
		Budget	Actual	Budget	Actual
	Beginning Cash & Investments	\$ (94,000)	\$ (93,942)	\$ 3,431,000	\$ 3,430,613
	Revenues & Other Sources				
310	Taxes	-	-	-	-
320	License & Permits	-	-	-	-
330	Intergovernmental	-	-	64,385	24,000
340	Charges for Services	328,960	339,234	3,890,910	3,809,866
350	Fines & Forfeits	-	-	-	-
360	Miscellaneous	-	224	147,269	129,219
370	Capital Contributions	-	-	-	63,630
390	Other Financing	135,000	135,000	427,000	427,009
	Total Revenues and Other Financing Sources	463,960	474,458	4,529,564	4,453,724
	Total Resources	369,960	380,516	7,960,564	7,884,337
	Operating Expenditures:				
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Physical Environment	359,089	353,827	2,518,599	2,462,667
540	Transportation	-	-	-	-
550	Economic Environment	-	-	-	-
560	Mental & Phy Health	-	-	-	-
570	Culture & Recreational	-	-	-	-
	Total Operating Expenditures	359,089	353,827	2,518,599	2,462,667
591-593	Debt Service	3,500	1,691	76,782	76,782
594-595	Capital Outlay	-	-	820,000	488,223
	Total Expenditures	362,589	355,518	3,415,381	3,027,672
597-599	Other Financing Uses	-	-	600,000	-
	Total Expenditures and Other Financing Uses	362,589	355,518	4,015,381	3,027,672
	Excess (Deficit) of Resources Over Uses	7,371	24,998	3,945,183	4,856,665
380	Non Revenues (Except 384 and 388.80)	-	-	200,000	278,608
580	Non Expenditures (Except 584 and 588.80)	-	-	1,968,281	2,251,158
	Ending Net Cash & Investments	\$ 7,371	\$ 24,998	\$ 2,176,902	\$ 2,884,115

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

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**Fund Resources and Uses Arising from Cash Transactions
For the Year Ending December 31, 2008**

BARS CODE		405 - Water		406 - Storm & Surface Water	
		Budget	Actual	Budget	Actual
Beginning Cash & Investments		\$ 3,222,000	\$ 3,221,879	\$ 465,788	\$ 432,579
Revenues & Other Sources					
310	Taxes	-	-	-	-
320	License & Permits	-	-	-	-
330	Intergovernmental	8,924	48,704	-	2,895
340	Charges for Services	1,825,525	2,353,694	406,640	402,848
350	Fines & Forfeits	-	-	-	-
360	Miscellaneous	188,900	96,236	22,000	12,783
370	Capital Contributions	459,238	304,822	43,000	42,152
390	Other Financing	-	-	-	-
Total Revenues and Other Financing Sources		2,482,587	2,803,456	471,640	460,678
Total Resources		5,704,587	6,025,335	937,428	893,257
Operating Expenditures:					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Physical Environment	1,962,434	1,911,000	483,850	473,988
540	Transportation	-	-	-	-
550	Economic Environment	-	-	-	-
560	Mental & Phy Health	-	-	-	-
570	Culture & Recreational	-	-	-	-
Total Operating Expenditures		1,962,434	1,911,000	483,850	473,988
591-593	Debt Service	16,250	28,413	-	1,652
594-595	Capital Outlay	2,920,430	2,458,006	225,877	211,142
Total Expenditures		4,899,114	4,397,419	709,727	686,782
597-599	Other Financing Uses	850,000	11,604	-	-
Total Expenditures and Other Financing Uses		5,749,114	4,409,023	709,727	686,782
Excess (Deficit) of Resources Over Uses		(44,527)	1,616,312	227,701	206,475
380	Non Revenues (Except 384 and 388.80)	992,633	1,065,958	-	-
580	Non Expenditures (Except 584 and 588.80)	50,001	946,438	-	-
Ending Net Cash & Investments		\$ 898,105	\$ 1,735,832	\$ 227,701	\$ 206,475

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, 2008

Fund Type: Special Revenue Funds	Fund 107 - Tourism		Fund 110 - Compensated Absences Reserve	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ 92,964	\$ 117,896	\$ 2,998	\$ 3,146
Revenues and Other Financing Sources	104,500	110,945	32,814	92
Total Resources	197,464	228,841	35,812	3,238
Expenditures & Other Financing Uses	135,500	123,419	32,814	-
Excess(Deficit) of Resources	61,964	105,422	2,998	3,238
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 61,964	\$ 105,422	\$ 2,998	\$ 3,238

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	\$ 648,000	\$ 648,373	\$ 402,000	\$ 401,626
Revenues and Other Financing Sources	375,000	348,226	29,000	17,393
Total Resources	1,023,000	996,599	431,000	419,019
Expenditures & Other Financing Uses	1,019,173	924,903	20,000	13,452
Excess(Deficit) of Resources	3,827	71,696	411,000	405,567
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 3,827	\$ 71,696	\$ 411,000	\$ 405,567

Fund Type: Capital Project Funds	Fund 301 - Public Facilities Reserve		Fund 302 - Automotive/Equipment Reserve	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ (245,000)	\$ (244,551)	\$ 524,000	\$ 523,754
Revenues and Other Financing Sources	383,588	419,209	416,472	92,922
Total Resources	138,588	174,658	940,472	616,676
Expenditures & Other Financing Uses	133,835	132,011	593,070	474,647
Excess(Deficit) of Resources	4,753	42,647	347,402	142,029
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 4,753	\$ 42,647	\$ 347,402	\$ 142,029

Fund Type: Capital Project Funds	Fund 305 - First Quarter Percent REET		Fund 306 - Second Quarter Percent REET	
	Budget	Actual	Budget	Actual
Beginning Cash & Investment	\$ -	\$ -	\$ -	\$ 3,745
Revenues and Other Financing Sources	101,136	72,808	78,795	72,918
Total Resources	101,136	72,808	78,795	76,663
Expenditures & Other Financing Uses	-	-	-	-
Excess(Deficit) of Resources	101,136	72,808	78,795	76,663
NonRevenues (except 384 and 388.80)	-	-	-	-
NonExpenditures(except 584 and 588.80)	-	-	-	-
Ending Net Cash & Investments	\$ 101,136	\$ 72,808	\$ 78,795	\$ 76,663

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, 2008

Fund Type: Trust Fund	Fund 611 - Firemen's Pension	
	Budget	Actual
Beginning Cash & Investment	\$ 494,000	\$ 493,626
Revenues and Other Financing Sources	10,400	23,295
Total Resources	504,400	516,921
Expenditures & Other Financing Uses	9,500	7,368
Excess(Deficit) of Resources	494,900	509,553
NonRevenues (except 384 and 388.80)	-	-
NonExpenditures(except 584 and 588.80)	-	-
Ending Net Cash & Investments	\$ 494,900	\$ 509,553

Fund Type: Agency Fund	Fund 633 - City Agency	
	Budget	Actual
Beginning Cash & Investment	\$ 285,000	\$ 285,541
Revenues and Other Financing Sources	-	(6,284)
Total Resources	285,000	279,257
Expenditures & Other Financing Uses	-	-
Excess(Deficit) of Resources	285,000	279,257
NonRevenues (except 384 and 388.80)	-	-
NonExpenditures(except 584 and 588.80)	-	-
Ending Net Cash & Investments	\$ 285,000	\$ 279,257

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

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

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

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund (001)

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

Special Revenue Funds (100-199)

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

Capital Project Funds (300 — 399)

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

PROPRIETARY FUND TYPES:

Enterprise Funds (400-499)

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

FIDUCIARY FUND TYPES:

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

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

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

Agency Funds (631-630)

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

b. Basis of Accounting

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

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

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

c. Budgets

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

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

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

d. Cash

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

e. Deposits

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

f. Investments

See Note (Investment Note No. 3)

g. Capital Assets

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

h. Compensated Absences

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

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

i. Long-Term Debt

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

j. Other Financing Sources Or Uses

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

k. Risk Management

The City of Chehalis is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 129 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by

the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

The pool is fully funded by its member participants. Claims are filed by members with the WCIA, which performs pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the WCIA under this arrangement for the years ending December 31, 2007 and 2008 were \$244,591 and \$225,914, 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, 2007 and 2008 were \$9,267 and \$0, respectively.

NOTE 2 — COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City of Chehalis.

NOTE 3 — INVESTMENTS

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

Investments by type at December 31, 2008 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	\$5,696,362		\$5,696,362
Certificates of Deposits	120,290		120,290
U.S. Government <u>Agency Securities</u>	824,745	\$175,047	999,792
Total	\$6,641,397	\$175,047	\$6,816,444

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 2008 was \$1.895170209739 per \$1,000 on an assessed valuation of \$610,719,108 for a total regular levy of \$1,157,417.

The City also has a levy for Emergency Medical Services (EMS). In 2007, the EMS levy was \$0.360296897735 per \$1,000 on an assessed valuation of \$610,719,108 for a total EMS levy of \$220,040.

NOTE 5 — INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2008:

Borrowing Fund	Lending Fund	Balance 1/1/2008	New Loans	Repayments	Balance 12/31/08
General Fund	Wastewater Fund	\$0	\$600,000	\$0	\$600,000
General Fund	Water Fund	0	850,000	0	850,000
		\$0	\$1,450,000	\$0	\$1,450,000

In October of 2008, the General Fund borrowed fund from the Water and Wastewater Funds, in order cover a portion of the costs associated with acquiring and remodeling the new City Hall. The intent is to issue long-term debt in 2009 and repay the interfund loans. The interest on the interfund debt is variable; it is based upon the Local Government Investment Pool rate.

NOTE 6 — LONG TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Chehalis and summarizes the City's debt transactions for the year 2008. The debt service requirements, including interest, are as follows:

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2009	\$70,758	\$2,207,362		\$2,278,120
2010	68,757	2,213,084		2,281,841
2011		2,180,406		2,180,406
2012		2,178,200		2,178,200
2013		2,075,006		2,075,006
2014-2018		9,869,797		9,869,797
2019-2023		9,586,363		9,586,363
2024-2028		6,037,810		6,037,810
TOTALS	\$139,515	\$36,348,028		\$36,487,543

In addition to the debt noted above, the City of Chehalis and Lewis County are jointly responsible for Chehalis Airport debt should the airport default. As of December 31, 2008, airport debt totaled \$3,208,533. Based upon current airport ownership interests, the City would be responsible for half of the debt: \$1,604,266.

NOTE 7 — PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following pension plans: (1) Public Employees' Retirement Systems (PERS) Plans 1, 2 and 3; and (2) Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a systemwide 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 8 — SUBSEQUENT EVENTS

In January 2009, the City of Chehalis experienced flooding which was subsequently declared a FEMA disaster. This event has not materially affected the City's financial position.

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

For the Year Ending December 31, 2008

ID NO.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt As Of 1/1/2008	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 12/31/2008
(Bank)										
Fire Truck	12/31/03	12/30/10	\$ 195,462				\$ 62,996	591.022	001	\$ 132,466
										-
										-
TOTALS			\$ 195,462				\$ 62,996			\$ 132,466

CITY OF CHEHALIS

SCHEDULE OF LONG TERM DEBT - REVENUE DEBT - ALL FUNDS

For the Year Ending December 31, 2008

ID NO.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt As Of 1/1/2008	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 12/31/2008
Commercial Obligations										
1979 Revenue Bond	8/1/79	8/1/19	\$ 227,000				\$ 14,000	582.034	405	\$ 213,000
Individual Note Payable	1/28/03	1/28/13	497,266				77,000	582.H35	404	420,266
Due To Other Governments										
(Public Works Trust Fund Loans)										
PWTF #1	5/7/90	7/1/10	87,543				29,181	582.T35	404	58,362
PWTF #2	6/30/92	7/1/12	228,356				45,671	582.T35	404	182,685
PWTF #4	9/29/93	7/1/13	245,070				40,845	582.T35	404	204,225
(State Revolving Fund Loans - Department of Ecology)										
SRFL #1	11/30/03	5/1/24	2,425,333				130,536	582.035	404	2,294,797
SRFL #2	11/30/03	12/30/23	278,619				15,525	582.C35	404	263,094
SRFL #3A	10/26/05	6/30/27	31,797,149				1,630,623	582.C35	404	30,166,526
SRFL #3B	2/26/08	9/30/28	0	\$ 278,608	382.080	404				278,608
(State Revolving Fund Loan - Department of Health)										
SRFL #4	10/1/04	1/1/20	650,008				50,001	582.T34	405	600,007
SRFL #5	4/9/08	10/1/26	0	1,077,520	382.080	405	32,437	582.T34	405	1,045,083
TOTAL LONG TERM REVENUE DEBT			\$ 36,436,344	\$ 1,356,128			\$ 2,065,819			\$ 35,726,653

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ending December 31, 2008

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name Per the CFDA website	Federal Program Name	CFDA Number	Other ID Number	From Pass- Through Awards	Expenditures From Direct Awards	Total	Foot- note Ref.
U.S. Department of Justice- Bureau of Justice Assistance	Bulletproof Vest Partnership Program	Bulletproof Vest Partnership	16.607	N/A		0	0	
U.S. Department of Homeland Security - FEMA	Assistance to Firefighters Grant	Assistance to Firefighters - FY07	97.044	EMW-2007-FG-00512		56,525	56,525	2
U.S. Environmental Protection Agency/ WA Department of Ecology	Capitalization Grant for Cleanwater State Revolving Funds	State Revolving Funds	66.458	L0500014	75,305		75,305	2, 3
U.S. Environmental Protection Agency/ WA Public Works Board	Capitalization Grant for Cleanwater State Revolving Funds	Safe Drinking Water State Revolving Fund - Phase IV Water Filtration - FY05	66.468	05-96300-008	1,060,066		1,060,066	
U.S. Department of Transportation - FHA/ WA Dept. of Transportation	Highway Planning and Construction	Community Pathway Plan - FY06 (SAFET LU High Priority Project)	20.205	HPP-ACHPP-0190 LA-6117	247		247	
U.S. Department of Transportation - FHA/ WA Dept. of Transportation/Lewis County	Highway Planning and Construction	I-5 Interchanges in Lewis County (Chamber Way Project)	20.205	HP-1998(030) LA-5720	581,715		581,715	4
U.S. Department of Transportation - FHA/ WA Dept. of Transportation	Highway Planning and Construction	I-5/Chamber Way Channelization	20.205	STPD 5672003 LA-6109	1,155,865		1,155,865	4
U.S. Department of Transportation - FHA/ WA Dept. of Transportation	Highway Planning and Construction	Airport Way Flood Damage Repairs	20.205	ER-0801(050) LA-6617	71,702		71,702	
U.S. Department of Transportation - FHA/ WA Dept. of Transportation	Highway Planning and Construction	National Ave. Flood Damage Repairs	20.205	ER-0801(051) LA-6618	277,115		277,115	
U.S. Department of Homeland Security - FEMA/WA Military Department	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEIMA Flood Grant - FY07	97.036	1734-DR-WA Grant# E08-737	431,121		431,121	2
U.S. Department of Homeland Security - FEMA/WA Military Department	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Public Assistance FEIMA Severe Storm Grant - FY08	97.036	1825-DR-WA Grant#D09-429	9,238		9,238	2
U.S. Department of Justice/ WA Department of Commerce	Violence Against Women Formula Grants	STOP Formula Grant - FY07 Violence Against Women Grant	16.588	2007-WF-AX-0008 FY07-31103-060	5,730		5,730	5
U.S. Department of Justice/ WA Department of Commerce	Violence Against Women Formula Grants	STOP Formula Grant - FY08 Violence Against Women Grant	16.588	2008-WF-AX-0008 FY08-31103-040	0		0	
U.S. Department of Justice/ WA Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	Gang & Drug Grant: Thermal Camera/Emergency Light	16.738	F07-66201-109	9,999		9,999	
U.S. Housing Urban Development Agency	N/A	Block Grant	14.156	N/A	0		0	6
U.S. Community Development Agency	Community Development Block Grant - Section 108 Loan Guarantees	Block Grant	14.228	N/A	58,855		58,855	6
Total Federal Awards Expended						3,736,958	56,525	3,793,483

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

CITY OF CHEHALIS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Chehalis's 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 – STATE/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. Of this loan, \$26,139,743 is federal funds and \$6,432,432 is state funds.

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. This project is funded entirely with federal funds.

The amounts listed include loan eligible expenditures incurred during the year. Both 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 – MULTIPLE FUNDING SOURCES

In 2008, the Chamber Way Project was funded by two United States Department of Transportation grants and a Washington State Transportation Improvement Board grant.

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 \$58,855 for housing renovation.

The amount of loan principal and interest received in loan repayments for the year was \$7,322 for low income housing assistance and \$34,511 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 employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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

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

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