

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

City of Chehalis
Lewis County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1005110

Issue Date
February 14, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

February 14, 2011

Mayor and City Council
City of Chehalis
Chehalis, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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

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Federal Summary

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

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

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

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

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

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

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

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

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

Mayor and City Council
City of Chehalis
Chehalis, Washington

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 14, 2011

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

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

Mayor and City Council
City of Chehalis
Chehalis, Washington

COMPLIANCE

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

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

INTERNAL CONTROL OVER COMPLIANCE

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

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis

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

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 14, 2011

Independent Auditor's Report on Financial Statements

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

Mayor and City Council
City of Chehalis
Chehalis, Washington

We have audited the accompanying financial statements of the City of Chehalis, Lewis County, Washington, for the year ended December 31, 2009. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 14, 2011

Financial Section

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

FINANCIAL STATEMENTS

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

SUPPLEMENTAL INFORMATION

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

CITY OF CHEHALIS

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

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

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

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

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

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

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

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

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

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

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

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

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

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

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

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

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

The accompanying notes are an integral part of this statement.

CITY OF CHEHALIS

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

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

The accompanying notes are an integral part of this statement.

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

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

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

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

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund (001)

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

Special Revenue Funds (100-199)

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

Capital Project Funds (300 – 399)

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

PROPRIETARY FUND TYPES:

Enterprise Funds (400-499)

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

FIDUCIARY FUND TYPES:

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

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

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

Agency Funds (631-630)

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

b. Basis of Accounting

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

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

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

c. Budgets

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

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

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

d. Cash

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

e. Deposits

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

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

g. Capital Assets

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

h. Compensated Absences

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

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

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

j. Other Financing Sources Or Uses

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

k. Risk Management

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 136 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

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

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

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

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

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

NOTE 3 – INVESTMENTS

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

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

| 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 | \$4,395,374 | \$156,838 | \$4,552,212 |
| Certificates of Deposits | 1,924,680 | 200,000 | 2,124,680 |
| U.S. Government Agency Securities | 500,625 | | 500,625 |
| Total | \$6,820,679 | \$356,838 | \$7,177,517 |

NOTE 4 – PROPERTY TAX

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

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

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

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

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2009:

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

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

NOTE 6 – LONG TERM DEBT

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

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

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

NOTE 7 – PENSION PLANS

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

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

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

CITY OF CHEHALIS

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

For the Year Ending December 31, 2009

| ID NO. | Date of Original Issue | Date of Maturity | Beginning Outstanding Debt As Of 1/1/2009 | Amount Issued in Current Year | BARS Code for Receipt | Receiving Fund Number | Amount Redeemed in Current Year | BARS Code for Redemption | Redeeming Fund Number | Ending Outstanding Debt As Of 12/31/2009 |
|------------|------------------------|------------------|---|-------------------------------|-----------------------|-----------------------|---------------------------------|--------------------------|-----------------------|--|
| (Bank) | | | | | | | | | | |
| Fire Truck | 12/31/03 | 12/30/10 | \$ 132,466 | | | | \$ 65,691 | 591.022 | 001 | \$ 66,775 |
| | | | | | | | | | | |
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| | | | | | | | | | | |
| TOTALS | | | \$ 132,466 | | | | \$ 65,691 | | | \$ 66,775 |

CITY OF CHEHALIS

SCHEDULE OF LONG TERM DEBT - REVENUE DEBT - ALL FUNDS

For the Year Ending December 31, 2009

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ending December 31, 2009

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

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

CITY OF CHEHALIS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – STATE/FEDERAL LOANS

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

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

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

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

NOTE 4 – MULTIPLE FUNDING SOURCES

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

NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENTS

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

NOTE 6 – PROGRAM INCOME

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

CITY OF CHEHALIS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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

NOTE 7 – NONCASH AWARDS –EQUIPMENT

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

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

Expenditures for this program were funded by ARRA.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
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