

Washington State Auditor's Office
Financial Statements Audit Report

City of Chehalis
Lewis County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006069

Issue Date
August 1, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

August 1, 2011

Mayor and City Council
City of Chehalis
Chehalis, Washington

Report on Financial Statements

Please find attached our report on the City of Chehalis' financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**City of Chehalis
Lewis County
January 1, 2010 through December 31, 2010**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Financial Statements.....	3
Financial Section.....	5

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, 2010 through December 31, 2010

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, 2010, and have issued our report thereon dated July 19, 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.

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 and the Mayor and City Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 19, 2011

Independent Auditor's Report on Financial Statements

**City of Chehalis
Lewis County
January 1, 2010 through December 31, 2010**

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, 2010. 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, 2010, 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 Long-Term Debt is presented for purposes of

additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 19, 2011

Financial Section

**City of Chehalis
Lewis County
January 1, 2010 through December 31, 2010**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2010
Notes to Financial Statements – 2010

SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2010

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2010

BARS CODE		Total for All Funds	Fund 001 General Fund	Fund 102 Arterial Street Fund
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	\$2,901,359	\$25,515	\$197,796
308.80	Unreserved	4,969,335	1,112,327	
Revenues and Other Sources:				
310	Taxes	6,200,471	5,962,287	
320	Licenses and Permits	60,363	60,363	
330	Intergovernmental	640,457	484,832	155,625
340	Charges for Goods and Services	7,109,386	1,042,360	
350	Fines and Penalties	110,326	110,326	
360	Miscellaneous	801,039	101,734	511
370	Capital Contributions	204,049	0	
390	Other Financing Sources	128,907	53,875	
Total Revenues and Other Financing Sources		15,254,998	7,815,777	156,136
Total Resources		23,125,692	8,953,619	353,932
Operating Expenditures:				
510	General Government	2,008,933	2,000,829	
520	Public Safety	4,394,882	4,264,111	
530	Physical Environment	4,657,912	64,012	
540	Transportation	836,240	442,736	297,706
550	Economic Environment	496,812	306,995	
560	Mental and Physical Health	1,862	1,862	
570	Culture and Recreation	1,032,034	1,029,636	
Total Operating Expenditures		13,428,675	8,110,181	297,706
591-593	Debt Service	161,585	72,481	23
594-595	Capital Outlay	816,298	127,107	
Total Expenditures		14,406,558	8,309,769	297,729
597-599	Other Financing Uses	118,558	33,558	
Total Expenditures and Other Financing Uses		14,525,116	8,343,327	297,729
Excess (Deficit) of Resources Over Uses		8,600,576	610,292	56,203
380	Nonrevenues (Except 384)	5,699	5,699	
580	Nonexpenditures (Except 584)	1,855,358		
Ending Cash and Investments:				
508.10	Reserved	3,155,038	35,755	\$56,203
508.80	Unreserved	\$3,595,879	\$580,236	

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2010

BARS CODE		Fund 107	Fund 110	Fund 195
		Tourism Fund	Compensated Absences Fund	Community Dev. Block Grant Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	\$82,974		
308.80	Unreserved		\$53,289	\$1,365
Revenues and Other Sources:				
310	Taxes	155,502		
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services			4,754
350	Fines and Penalties			
360	Miscellaneous	383	285	231
370	Capital Contributions			
390	Other Financing Sources		25,000	43,558
Total Revenues and Other Financing Sources		155,885	25,285	48,543
Total Resources		238,859	78,574	49,908
Operating Expenditures:				
510	General Government		8,104	
520	Public Safety		8,355	
530	Physical Environment			
540	Transportation			
550	Economic Environment	121,535		47,965
560	Mental and Physical Health			
570	Culture and Recreation		2,398	
Total Operating Expenditures		121,535	18,857	47,965
591-593	Debt Service			66
594-595	Capital Outlay	26,551		
Total Expenditures		148,086	18,857	48,031
597-599	Other Financing Uses			
Total Expenditures and Other Financing Uses		148,086	18,857	48,031
Excess (Deficit) of Resources Over Uses		90,773	59,717	1,877
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$90,773		
508.80	Unreserved		\$59,717	\$1,877

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2010

BARS CODE		Fund 197	Fund 198	Fund 301
		HUD Fund	Gambling Enforcement Fund	Public Facilities Reserve Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	\$375,676		
308.80	Unreserved			\$46,557
Revenues and Other Sources:				
310	Taxes			
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services			
350	Fines and Penalties			
360	Miscellaneous	1,199	\$645,427	231
370	Capital Contributions			
390	Other Financing Sources			160
Total Revenues and Other Financing Sources		1,199	645,427	391
Total Resources		376,875	645,427	46,948
Operating Expenditures:				
510	General Government			
520	Public Safety		122,416	
530	Physical Environment			
540	Transportation			
550	Economic Environment	20,317		
560	Mental and Physical Health			
570	Culture and Recreation			
Total Operating Expenditures		20,317	122,416	0
591-593	Debt Service			
594-595	Capital Outlay		74,872	
Total Expenditures		20,317	197,288	0
597-599	Other Financing Uses	35,000		
Total Expenditures and Other Financing Uses		55,317	197,288	0
Excess (Deficit) of Resources Over Uses		321,558	448,139	46,948
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$321,558	\$448,139	
508.80	Unreserved			\$46,948

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2010

BARS CODE		Fund 302	Fund 305	Fund 306
		Automotive/Equip. Reserve Fund	First Quarter Percent REET Fund	Second Quarter Percent REET Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved		\$110,809	\$114,696
308.80	Unreserved	\$114,627		
Revenues and Other Sources:				
310	Taxes		41,341	41,341
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services			
350	Fines and Penalties			
360	Miscellaneous	304	456	397
370	Capital Contributions			
390	Other Financing Sources			
Total Revenues and Other Financing Sources		304	41,797	41,738
Total Resources		114,931	152,606	156,434
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment			
540	Transportation			95,798
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreation			
Total Operating Expenditures		0	0	95,798
591-593	Debt Service	62		52
594-595	Capital Outlay	29,280		
Total Expenditures		29,342	0	95,850
597-599	Other Financing Uses	50,000		
Total Expenditures and Other Financing Uses		79,342	0	95,850
Excess (Deficit) of Resources Over Uses		35,589	152,606	60,584
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved		\$152,606	\$60,584
508.80	Unreserved	\$35,589		

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2010

BARS CODE		Fund 402	Fund 404	Fund 405
		Garbage Fund	Wastewater Fund	Water Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved		\$1,856,368	\$137,525
308.80	Unreserved	\$23,730	1,268,493	2,094,568
Revenues and Other Sources:				
310	Taxes			
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services	6,191	3,375,367	2,276,213
350	Fines and Penalties			
360	Miscellaneous	120	29,357	19,465
370	Capital Contributions		149,881	49,078
390	Other Financing Sources		4,622	1,692
Total Revenues and Other Financing Sources		6,311	3,559,227	2,346,448
Total Resources		30,041	6,684,088	4,578,541
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment	13,252	2,362,649	1,863,977
540	Transportation			
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreation			
Total Operating Expenditures		13,252	2,362,649	1,863,977
591-593	Debt Service		59,544	29,357
594-595	Capital Outlay		54,895	459,703
Total Expenditures		13,252	2,477,088	2,353,037
597-599	Other Financing Uses			
Total Expenditures and Other Financing Uses		13,252	2,477,088	2,353,037
Excess (Deficit) of Resources Over Uses		16,789	4,207,000	2,225,504
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)		1,726,281	129,077
Ending Cash and Investments:				
508.10	Reserved		1,851,214	138,206
508.80	Unreserved	\$16,789	\$629,505	\$1,958,221

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2010

BARS CODE		Fund 406
		Storm and Surface Water Fund
		Actual Amount
Beginning Cash and Investments:		
308.10	Reserved	
308.80	Unreserved	\$254,379
Revenues and Other Sources:		
310	Taxes	
320	Licenses and Permits	
330	Intergovernmental	
340	Charges for Goods and Services	404,501
350	Fines and Penalties	
360	Miscellaneous	939
370	Capital Contributions	5,090
390	Other Financing Sources	
Total Revenues and Other Financing Sources		410,530
Total Resources		664,909
Operating Expenditures:		
510	General Government	
520	Public Safety	
530	Physical Environment	354,022
540	Transportation	
550	Economic Environment	
560	Mental and Physical Health	
570	Culture and Recreation	
Total Operating Expenditures		354,022
591-593	Debt Service	
594-595	Capital Outlay	43,890
Total Expenditures		397,912
597-599	Other Financing Uses	
Total Expenditures and Other Financing Uses		397,912
Excess (Deficit) of Resources Over Uses		266,997
380	Nonrevenues (Except 384)	
580	Nonexpenditures (Except 584)	
Ending Cash and Investments:		
508.10	Reserved	
508.80	Unreserved	\$266,997

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2010

BARS CODE		Total	Fund 611	Fund 633
		for All Funds	Firemen's Pension Fund	City Agency Fund
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
Reserved		\$710,035	\$407,779	\$302,256
Revenues and Other Financing Sources:		33,200	15,715	17,485
Total Resources		743,235	423,494	319,741
Expenditures and Other Financing Uses:		124,192	124,192	
Excess (Deficit) of Resources Over Uses		619,043	299,302	319,741
Nonrevenues (Except 384)		0		
Nonexpenditures (Except 584)		0		
Ending Cash and Investments:				
Reserved		\$619,043	\$299,302	\$319,741

CITY OF CHEHALIS
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

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.

In accordance with State law the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

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

The City of Chehalis adopts annual appropriated budgets for the general, special revenue, capital, trust, and enterprise funds. These budgets are appropriated at the fund level (except the general fund, where the budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
City Council	\$97,431	\$89,360	\$8,071
City Manager	346,621	340,402	6,219
City Clerk	351,256	338,688	12,568
Municipal Court	93,912	90,886	3,026
Finance	504,145	495,970	8,175
Human Resources	141,077	135,376	5,701
Police	2,462,423	2,335,310	127,113
Fire	1,900,704	1,889,641	11,063
Community Development	1,515,291	1,506,683	8,608
Public Works - Streets	556,414	520,130	36,284
Public Works - Engineering	269,737	269,433	304
Non-Departmental	338,419	331,448	6,971
Total General Fund	\$8,577,430	\$8,343,327	\$234,103
Arterial Streets Fund	\$332,168	\$297,729	\$34,439
Tourism Fund	151,700	148,086	3,614
Compensated Absences Fund	20,000	18,857	1,143
CDBG Fund	48,058	48,031	27
HUD Fund	62,500	55,317	7,183
Gambling Enforcement Fund	197,500	197,288	212
Public Facilities Reserve Fund	0	0	0
Automotive/Equipment Res. Fund	81,000	79,342	1,658
1 st Quarter REET Fund	0	0	0
2 nd Quarter REET Fund	103,180	95,850	7,330
Wastewater Fund	4,194,526	4,203,369	(8,843)
Water Fund	2,539,544	2,482,113	57,431
Storm and Surface Water Fund	428,975	397,913	31,062
Garbage Fund	13,467	13,252	215
Firemen's Pension Fund	127,000	124,192	2,808
Total All Funds	\$16,877,048	\$16,504,666	\$372,382

Budgeted amounts are authorized to be transferred between departments within any fund or 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 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.

Starting in 2010, compensated absences are disclosed on the schedules reporting long-term debt activity. As this is the first year of reporting compensated absences on the schedules, the amounts reported as the annual increases equal the ending balances for the year. See Schedule (Long-Term Debt Schedule 09)

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 145 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, 2009 and 2010 were \$281,039 and \$318,653, 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 88030, Tukwila, WA 98138.

I. Reserved Fund Balances

External parties have placed restrictions on certain balances. The nature of the restrictions and the related amounts at December 31, 2010 are noted below:

General Fund:	
UNET Funds	\$27,774
Paths and Trails	201
Substance Abuse Treatment	1,269
Community Policing Donation	6,511
	<u>\$35,755</u>
Arterial Street Fund:	
Motor Vehicle Tax Restrictions	<u>\$56,203</u>
Tourism Fund	
Hotel/Motel Tax Restrictions	<u>\$90,773</u>
HUD Fund	
Federal HUD Restrictions	<u>\$321,558</u>
Gambling Enforcement Fund	
Gambling Seizure Restrictions	<u>\$448,139</u>
1 st Quarter REET Fund	
1 st Quarter REET Tax Restrictions	<u>\$152,606</u>
2 nd Quarter REET Fund	
2 nd Quarter REET Tax Restrictions	<u>\$60,584</u>
Wastewater Fund	
Debt Covenants	<u>\$1,851,214</u>
Water Fund	
Debt Covenants	<u>\$138,206</u>
Firefighters' Pension Trust Fund	
Trust Limitations	<u>\$299,302</u>
City Agency Fund	
Agency Limitations	<u>\$319,741</u>

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. However, the Wastewater Fund's expenditures exceeded its legal appropriations by \$8,843.

NOTE 3 – INVESTMENTS

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

Investments by type at December 31, 2010 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	\$5,336,380	\$479,302	\$5,815,682
Certificates of Deposits	1,411,600	101,400	1,513,000
Total	\$6,747,980	\$580,702	\$7,328,682

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 2010 was \$1.886698234207 per \$1,000 on an assessed valuation of \$628,436,031 for a total regular levy of \$1,185,669.

The City also has a levy for Emergency Medical Services (EMS). In 2010, the EMS levy was \$0.361214171057 per \$1,000 on an assessed valuation of \$628,436,031 for a total EMS levy of \$227,000.

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2010:

Borrowing Fund	Lending Fund	Balance 1/1/2010	New Loans	Repayments	Balance 12/31/10
General Fund	Wastewater Fund	\$565,681			\$565,681
General Fund	Water Fund	565,681			565,681
		\$1,131,362	\$0	\$0	\$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 2010.

A State Revolving Fund Loan previously reported as revenue debt has been reclassified as general obligation debt for 2010 due to a review of its terms. This has resulted in the 2010 general obligation debt beginning balance being reported as \$1,072,290 higher than its 2009 total ending balance. The revenue debt starting balance reported for 2010 is lower by the same amount.

The debt service requirements, including interest, are as follows:

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2011	\$68,122	\$2,142,959		\$2,211,081
2012	67,807	2,141,043		2,208,850
2013	67,491	2,038,139		2,105,630
2014	67,176	1,940,494		2,007,670
2015	66,861	1,939,269		2,006,130
2016-2020	329,571	9,654,594		9,984,165
2021-2025	321,687	8,992,712		9,314,399
2026-2030	63,391	2,564,571		2,627,962
TOTALS	\$1,052,106	\$31,413,781	\$0	\$32,465,887

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, 2010, airport debt totaled \$2,841,663. Based upon current airport ownership interests, the City would be responsible for half of the debt: \$1,420,832.

In 2003, Lewis County Water & Sewer District #4 (LCWSD) and the City of Napavine (Napavine) conceptually agreed to reimburse the City of Chehalis's Wastewater Fund (City) for a portion of the capital expenditures incurred to build the Chehalis Regional Water Reclamation Facility (CRWRF) and Riverside Pump Station (RPS) based upon the maximum month wet-weather flow. In 2008, it was agreed that LCWSD's and Napavine's ownership interests in the CRWRF and RPS would be 12.0% and 4.0%, respectively. In addition, it was agreed that LCWSD and the City of Napavine would annually pay a total of \$69,345 and \$208,034, respectively, in semi-annual payments over a 20 year period, for a total of \$5,547,567. These payments, at zero percent interest, off-set the debt service payments made by the City. The City carries the full amount of debt obligations for both facilities on the schedule of long-term debt and accompanying notes. The obligations of LCWSD and Napavine to reimburse the City are not reflected as reductions to the City's future debt service obligations. As of December 31, 2010, the total principal outstanding for this debt is \$26,905,280.

In 1993, the City of Chehalis (City) issued debt for the partial funding of Phase I Infrastructure for the Chehalis Port, which included the installation of water services, sewer service laterals and fire hydrants. Prior to the issuance of this debt, the City entered into a contract with the Port of Chehalis (Port) in which the Port agreed to reimburse the City for all debt service payments and provided collateral. Although this contract is in place, the City carries the full amount of the debt on the schedule of long-term debt and accompanying notes. The obligation of the Port to reimburse the City is not reflected as a reduction to the City's future debt service obligations. As of December 31, 2010, the total principal outstanding for this debt is \$122,535.

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) Plan 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 CHEHALISX G.O. Debt Page 1 of 2**SCHEDULE OF LONG TERM DEBT**

___ Revenue Debt

For the Year Ended December 31, 2010

___ Assessment Debt

ID NO.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt As Of 1/1/2010	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 12/31/2010
263.66	12/31/03	12/30/10	\$66,775				\$66,775	591.22.77	001	\$0
263.81	4/9/08	10/1/26	1,072,290				63,076	582.34.78	405	1,009,214
259.11	N/A	N/A		\$1,167,467	N/A	N/A		N/A	001	1,167,467
TOTALS			\$1,139,065	\$1,167,467			\$129,851			\$2,176,681

CITY OF CHEHALIS

___ G.O. Debt

☒ Revenue Debt

___ Assessment Debt

SCHEDULE OF LONG TERM DEBT

For the Year Ended December 31, 2010

ID No.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt As Of 1/1/2010	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 12/31/2010
252.11	8/1/79	8/1/19	\$199,000				\$16,000	582.34.72	405	\$183,000
263.67	1/28/03	1/28/13	337,782				88,360	582.35.77	404	249,422
263.82	5/7/90	7/1/10	29,181				29,181	582.35.78	404	0
263.82	6/30/92	7/1/12	137,013				45,671	582.35.78	404	91,342
263.82	9/29/93	7/1/13	163,380				40,845	582.35.78	404	122,535
263.82	11/30/03	5/1/24	2,162,290				134,509	582.35.78	404	2,027,781
263.82	11/30/03	12/30/23	247,335				15,997	582.35.78	404	231,338
263.82	10/26/05	6/30/27	28,535,903				1,630,623	582.35.78	404	26,905,280
263.82	2/26/08	9/30/28	771,139				59,318	582.35.78	404	711,821
263.82	3/5/04	1/1/20	550,007				50,001	582.34.78	405	500,006
259.11	N/A	N/A		\$223,707	N/A			N/A	N/A	223,707
TOTALS			\$33,133,030	\$223,707			\$2,110,505			\$31,246,232



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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