

Washington State Auditor's Office
Financial Statements Audit Report

City of Chehalis
Lewis County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008814

Issue Date
December 24, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 24, 2012

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

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Lewis County
January 1, 2011 through December 31, 2011**

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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, 2011 through December 31, 2011

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, 2011, and have issued our report thereon dated November 7, 2012.

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.

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", with a stylized, flowing script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 7, 2012

Independent Auditor's Report on Financial Statements

**City of Chehalis
Lewis County
January 1, 2011 through December 31, 2011**

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, 2011. 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, 2011, 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 Liabilities 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 7, 2012

Financial Section

**City of Chehalis
Lewis County
January 1, 2011 through December 31, 2011**

FINANCIAL STATEMENTS

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FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2011

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	\$3,155,038	\$35,755	\$56,203
308.80	Unreserved	3,595,879	722,490	
Revenues and Other Sources:				
310	Taxes	6,220,032	6,004,500	
320	Licenses and Permits	79,618	79,618	
330	Intergovernmental	487,012	300,383	172,109
340	Charges for Goods and Services	7,088,668	762,670	
350	Fines and Penalties	152,793	152,793	
360	Miscellaneous	256,016	205,525	85
370	Capital Contributions	115,268		
390	Other Financing Sources	1,228,152	1,185,839	
Total Revenues and Other Financing Sources		15,627,559	8,691,328	172,194
Total Resources		22,378,476	9,449,573	228,397
Operating Expenditures:				
510	General Government	1,667,734	1,667,734	
520	Public Safety	4,238,049	4,053,500	
530	Physical Environment	4,677,877	68,832	
540	Transportation	669,214	467,625	201,589
550	Economic Environment	422,588	240,305	
560	Mental and Physical Health	1,722	1,722	
570	Culture and Recreation	922,137	842,137	
Total Operating Expenditures		12,599,321	7,341,855	201,589
591-593	Debt Service	1,238,129	1,133,168	
594-595	Capital Outlay	513,708	75,909	
Total Expenditures		14,351,158	8,550,932	201,589
597-599	Other Financing Uses	0		
Total Expenditures and Other Financing Uses		14,351,158	8,550,932	201,589
Excess (Deficit) of Resources Over Uses		8,027,318	898,641	26,808
380	Nonrevenues (Except 384)	1,135,276	3,914	
580	Nonexpenditures (Except 584)	1,814,971		
Ending Cash and Investments:				
508.10	Reserved	3,753,633	86,768	\$26,808
508.80	Unreserved	3,593,990	\$815,787	

The accompanying notes are an integral part of this financial statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2011

BARS CODE		Fund 107	Fund 195	Fund 197
		Tourism Fund	Community Dev. Block Grant Fund	HUD Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	\$90,773		\$321,558
308.80	Unreserved		\$1,877	
Revenues and Other Sources:				
310	Taxes	161,285		
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services		20,935	
350	Fines and Penalties			
360	Miscellaneous	153	79	523
370	Capital Contributions			
390	Other Financing Sources		0	
Total Revenues and Other Financing Sources		161,438	21,014	523
Total Resources		252,211	22,891	322,081
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment			
540	Transportation			
550	Economic Environment	178,956	1,166	2,161
560	Mental and Physical Health			
570	Culture and Recreation			
Total Operating Expenditures		178,956	1,166	2,161
591-593	Debt Service		0	
594-595	Capital Outlay	0		
Total Expenditures		178,956	1,166	2,161
597-599	Other Financing Uses			0
Total Expenditures and Other Financing Uses		178,956	1,166	2,161
Excess (Deficit) of Resources Over Uses		73,255	21,725	319,920
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$73,255	\$21,725	\$319,920
508.80	Unreserved			

The accompanying notes are an integral part of this financial statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2011

BARS CODE		Fund 198	Fund 200	Fund 305
		Gambling	2011 G.O.	First Quarter
		Enforcement Fund	Bond Fund	Percent REET Fund
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	\$448,139		\$152,606
308.80	Unreserved			
Revenues and Other Sources:				
310	Taxes			27,123
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services			
350	Fines and Penalties			
360	Miscellaneous	615	\$2	258
370	Capital Contributions			
390	Other Financing Sources		32,570	
Total Revenues and Other Financing Sources		615	32,572	27,381
Total Resources		448,754	32,572	179,987
Operating Expenditures:				
510	General Government			
520	Public Safety	184,549	0	
530	Physical Environment			
540	Transportation			
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreation			40,000
Total Operating Expenditures		184,549	0	40,000
591-593	Debt Service		28,300	
594-595	Capital Outlay	3,613	0	
Total Expenditures		188,162	28,300	40,000
597-599	Other Financing Uses			
Total Expenditures and Other Financing Uses		188,162	28,300	40,000
Excess (Deficit) of Resources Over Uses		260,592	4,272	139,987
380	Nonrevenues (Except 384)			
580	Nonexpenditures (Except 584)			
Ending Cash and Investments:				
508.10	Reserved	\$260,592	\$4,272	\$139,987
508.80	Unreserved			

The accompanying notes are an integral part of this financial statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2011

BARS CODE		Fund 306	Fund 402	Fund 404
		Second Quarter	Garbage Fund	Wastewater Fund
		Percent REET Fund		
		Actual Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
308.10	Reserved	\$60,584		\$1,851,214
308.80	Unreserved		\$16,789	629,505
Revenues and Other Sources:				
310	Taxes	27,124		
320	Licenses and Permits			
330	Intergovernmental			
340	Charges for Goods and Services		6,775	3,417,047
350	Fines and Penalties			
360	Miscellaneous	108	28	28,944
370	Capital Contributions			48,539
390	Other Financing Sources			9,743
Total Revenues and Other Financing Sources		27,232	6,803	3,504,273
Total Resources		87,816	23,592	5,984,992
Operating Expenditures:				
510	General Government			
520	Public Safety			
530	Physical Environment		11,796	2,412,604
540	Transportation			
550	Economic Environment			
560	Mental and Physical Health			
570	Culture and Recreation	40,000		
Total Operating Expenditures		40,000	11,796	2,412,604
591-593	Debt Service	0		50,165
594-595	Capital Outlay			113,142
Total Expenditures		40,000	11,796	2,575,911
597-599	Other Financing Uses			
Total Expenditures and Other Financing Uses		40,000	11,796	2,575,911
Excess (Deficit) of Resources Over Uses		47,816	11,796	3,409,081
380	Nonrevenues (Except 384)			565,681
580	Nonexpenditures (Except 584)			1,685,894
Ending Cash and Investments:				
508.10	Reserved	\$47,816		2,072,243
508.80	Unreserved		\$11,796	\$216,625

The accompanying notes are an integral part of this financial statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2011

BARS CODE		Fund 405	Fund 406
		Water Fund	Storm and Surface Water Fund
		Actual Amount	Actual Amount
Beginning Cash and Investments:			
308.10	Reserved	\$138,206	
308.80	Unreserved	\$1,958,221	\$266,997
Revenues and Other Sources:			
310	Taxes		
320	Licenses and Permits		
330	Intergovernmental	14,520	
340	Charges for Goods and Services	2,467,870	413,371
350	Fines and Penalties		
360	Miscellaneous	18,692	1,004
370	Capital Contributions	66,240	489
390	Other Financing Sources	0	
Total Revenues and Other Financing Sources		2,567,322	414,864
Total Resources		4,663,749	681,861
Operating Expenditures:			
510	General Government		
520	Public Safety		
530	Physical Environment	1,867,560	317,085
540	Transportation		
550	Economic Environment		
560	Mental and Physical Health		
570	Culture and Recreation		
Total Operating Expenditures		1,867,560	317,085
591-593	Debt Service	26,496	
594-595	Capital Outlay	321,044	0
Total Expenditures		2,215,100	317,085
597-599	Other Financing Uses		
Total Expenditures and Other Financing Uses		2,215,100	317,085
Excess (Deficit) of Resources Over Uses		2,448,649	364,776
380	Nonrevenues (Except 384)	565,681	
580	Nonexpenditures (Except 584)	129,077	
Ending Cash and Investments:			
508.10	Reserved	700,247	
508.80	Unreserved	\$2,185,006	\$364,776

The accompanying notes are an integral part of this financial statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2011

BARS CODE		Total for All Funds	Fund 611 Firemen's Pension Fund	Fund 633 City Agency Fund
		Total Amount	Actual Amount	Actual Amount
Beginning Cash and Investments:				
Reserved		\$619,043	\$299,302	\$319,741
Revenues and Other Financing Sources:		43,326	14,064	29,262
Total Resources		662,369	313,366	349,003
Expenditures and Other Financing Uses:		122,875	122,875	
Excess (Deficit) of Resources Over Uses		539,494	190,491	349,003
Nonrevenues (Except 384)		0		
Nonexpenditures (Except 584)		0		
Ending Cash and Investments:				
Reserved		\$539,494	\$190,491	\$349,003

The accompanying notes are an integral part of this financial statement.

CITY OF CHEHALIS

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

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 on November 23, 1883 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.

Debt Service Funds (200-299)

These funds account for the financial resources which are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

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

The City of Chehalis adopts annual appropriated budgets for the general, special revenue, debt service, 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. However, as outlined below, the City's 2011 budget did not blend managerial funds into the General Fund budget.

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	\$98,313	\$98,276	\$37
City Manager	328,706	325,853	2,853
City Clerk	91,305	89,685	1,620
Municipal Court	337,548	327,525	10,023
Finance	317,680	311,793	5,887
Human Resources	153,030	149,190	3,840
Police	2,269,433	2,211,850	57,583
Fire	1,808,836	1,769,502	39,334
Community Development	1,226,672	1,198,075	28,597
Public Works - Streets	464,160	439,428	24,732
Public Works - Engineering	126,628	122,961	3,667
Non-Departmental	1,490,887	1,451,065	39,822
Total General Fund	\$8,713,198	\$8,495,203	\$217,995
Arterial Streets Fund	\$229,183	\$201,589	\$27,594
Tourism Fund	185,900	178,956	6,944
Compensated Absences Fund	55,810	55,731	79
CDBG Fund	2,200	1,166	1,034
HUD Fund	2,500	2,161	339
Gambling Enforcement Fund	189,313	188,162	1,151
2011 G.O. Bond Fund	28,300	28,300	0
Public Facilities Reserve Fund	18,000	18,000	0
Automotive/Equipment Res. Fund	0	0	0
1 st Quarter REET Fund	40,000	40,000	0
2 nd Quarter REET Fund	40,000	40,000	0
Wastewater Fund	4,278,424	4,261,806	16,618
Water Fund	2,416,416	2,344,176	72,240
Storm and Surface Water Fund	333,139	317,085	16,054
Garbage Fund	12,845	11,796	1,049
Firemen's Pension Fund	135,000	122,875	12,125
Total All Funds	\$16,680,228	\$16,307,006	\$373,222

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.

Due to revised reporting standards imposed by the Washington State Budget, Accounting, and Reporting System (BARS), the following three funds have been determined to be managerial funds: the Compensated Absences Fund, the Public Facilities Reserve Fund, and the Automotive/Equipment Reserve Fund. This determination mandates that they be treated as a part of the General Fund for financial reporting purposes. Because of this dichotomy between the City's budgeting and its financial reporting requirements, the financial statements will have any interfund transactions eliminated from the General Fund totals. The following reconciliation shows the summation of the General Fund and its managerial funds, less eliminated transactions:

Fund	Final Appropriated Amounts	Actual Expenditures
General Fund	\$8,713,198	\$8,495,201
Compensated Absences Fund	55,810	55,731
Public Facilities Reserve Fund	18,000	18,000
Automotive/Equipment Res. Fund	0	0
Total General Fund Including		
Managerial Funds	8,787,008	8,568,932
Less: Interfund Transfers		(18,000)
Reconciled General Fund Total	\$8,787,008	\$8,550,932

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

Compensated Absence liabilities are reported on 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; interfund loans; and proceeds from debt issuance.

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 150 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, 2010 and 2011 were \$318,653 and \$281,855, 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, 2011 are noted below:

General Fund:

UNET Funds	\$28,188
Substance Abuse Treatment	2,031
Community Policing Donation	6,511
FEMA Mapping Appeal	38,906
Parks and Recreation Donations	11,132
	<u>\$86,768</u>

Arterial Street Fund:

Paths and Trails	839
Motor Vehicle Tax Restrictions	26,799
	<u>\$26,808</u>

Tourism Fund

Hotel/Motel Tax Restrictions	<u>\$73,255</u>
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CDBG Fund

Federal CDBG Restrictions	<u>\$21,725</u>
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HUD Fund

Federal HUD Restrictions	<u>\$319,920</u>
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Gambling Enforcement Fund

Gambling Seizure Restrictions	<u>\$260,592</u>
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2011 G.O. Bond Fund

Debt Covenant Restrictions	<u>\$4,272</u>
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1 st Quarter REET Fund	
1 st Quarter REET Tax Restrictions	<u>\$139,987</u>
2 nd Quarter REET Fund	
2 nd Quarter REET Tax Restrictions	<u>\$47,816</u>
Wastewater Fund	
Debt Covenants	<u>\$2,072,243</u>
Water Fund	
Debt Covenants	<u>\$700,247</u>
Firefighters' Pension Trust Fund	
Trust Limitations	<u>\$190,491</u>
City Agency Fund	
Agency Limitations	<u>\$349,003</u>

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

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

There have been no expenditures exceeding the legal appropriations of any 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, 2011 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	\$5,567,072	\$164,575	\$5,731,647
U.S. Government Securities	1,203,113	100,000	1,303,113
Certificates of Deposits	500,000	250,000	750,000
Total	\$7,270,185	\$514,575	\$7,784,760

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 2011 was \$1.885548141048 per \$1,000 on an assessed valuation of \$632,359,410 for a total regular levy of \$1,192,344.

The City also has a levy for Emergency Medical Services (EMS). In 2011, the EMS levy was \$0.360985772316 per \$1,000 on an assessed valuation of \$632,359,410 for a total EMS levy of \$228,273.

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2011:

Borrowing Fund	Lending Fund	Balance 1/1/2011	New Loans	Repayments	Balance 12/31/11
General Fund	Wastewater Fund	\$565,681		\$565,681	\$0
General Fund	Water Fund	565,681		565,681	0
		\$1,131,362	\$0	\$1,131,362	\$0

In October of 2008, the General Fund borrowed fund from the Water and Wastewater Funds, in to 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. In December of 2011, General Obligation (G.O.) bonds were issued and the General Fund used the proceeds to repay the outstanding interfund loans. The interest on the interfund debt is variable; it is based upon the Local Government Investment Pool rate.

NOTE 6 – LONG TERM DEBT

The accompanying Schedule of Debt (09) provides a listing of the outstanding debt of the City of Chehalis and summarizes the City's debt transactions for the year 2011.

In 2011, City received a rating of "A" from Standard and Poor's, and, in December, the City issued \$1,155,000 in Limited Tax General Obligation Bonds. The maturities of these bonds extend out to fifteen years. The interest rates on this issuance are fixed.

This issuance serves a two-fold purpose. The Water Fund and Wastewater Fund were reimbursed for the interfund loans made to the General Fund and those funds are to be used on eligible Water Fund and Wastewater Fund capital projects.

The 2011 G.O. Bond Fund debt service fund was established to account for the funds reserved for the purpose of servicing this debt issuance.

The City's total debt service requirements, including interest, are as follows:

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2012	\$166,636	\$2,141,043		\$2,307,679
2013	166,018	2,038,139		2,204,157
2014	169,922	1,940,494		2,110,416
2015	163,767	1,939,270		2,103,037
2016	161,826	1,938,019		2,099,845
2017-2021	825,213	9,572,943		10,398,156
2022-2026	825,248	8,806,512		9,631,760
2027-2031		894,403		894,403
TOTALS	\$2,478,630	\$29,270,823	\$0	\$31,749,453

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, 2011, airport debt totaled \$2,646,129. Based upon current airport ownership interests, the City would be responsible for half of the debt: \$1,323,065.

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

NOTE 8 - CHANGE IN FUND REPORTING

Due to new guidance from the State's Budgeting, Accounting, and Reporting System (BARS) Manual, unless funds meet certain criteria regarding externally imposed restrictions on the use of revenues, or restrictions formally imposed by the City Council, they are considered managerial funds subject to being reported within the General Fund.

Upon review, it has been determined that the Compensated Absences Fund, the Public Facilities Reserve Fund and the Automotive/Equipment Reserve Fund do not currently meet the exemption requirements and are therefore being reported as part of the General Fund in these statements.

NOTE 9 - RESTATED BEGINNING BALANCES

As noted above in footnote 8, the Compensated Absences Fund, the Public Facilities Reserve Fund, and the Automotive/Equipment Reserve Fund are being incorporated into the General fund for the purposes of financial reporting. In direct consequence of this, the beginning cash and investment balances have been restated as follows:

Fund Name	Beginning Balance	Adjustment	Restated Beginning Balance
General Fund	\$615,991	\$142,254	\$758,245
Compensated Absences Fund	59,717	(59,717)	0
Public Facilities Reserve Fund	46,948	(46,948)	0
Automotive/Equipment Reserve Fund	35,589	(35,589)	0
Total	\$758,245	\$0	\$758,245

City of Chehalis

Schedule of Liabilities

For the year ending December 31, 2011

ID. No.	Description	Maturity/Payment Due Date	Beginning Balance December 31, 2011	Additions	Reductions	BAKS Code for Redemption of Debt Only	Ending Balance December 31, 2011
263.81	Due to Other Governmental Units	10/1/2026	1,009,214		63,076	58234	946,138
263.67	Other Notes Payable for Capital Purposes	1/28/2013	249,422		94,653	58235	154,769
251.11	General Obligation Bonds	12/1/2026	0	1,155,000	0	58211	1,155,000
259.11	Compensated Absences		1,167,467	664,857	796,364		1,035,960
252.11	Revenue Bonds for Capital Purpose	8/1/2019	183,000		16,000	58234	167,000
263.82	Due to Other Governmental Units	1/1/2020	500,006		50,001	58234	450,005
263.82	Due to Other Governmental Units	7/1/2012	91,342		45,671	58235	45,671
263.82	Due to Other Governmental Units	7/1/2013	122,535		40,845	58235	81,690
263.82	Due to Other Governmental Units	5/1/2024	2,027,781		136,540	58235	1,891,241
263.82	Due to Other Governmental Units	12/30/2023	231,338		16,239	58235	215,099
263.82	Due to Other Governmental Units	6/30/2027	26,905,280		1,630,623	58235	25,274,657
263.82	Due to Other Governmental Units	9/30/2028	711,821		39,546	58235	672,275
259.12	Compensated Absences		223,707	192,633	175,455		240,885
	Total Liabilities:		33,422,913	2,012,490	3,105,013		32,330,390



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 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 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 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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