

Washington State Auditor's Office
Financial Statements Audit Report

City of Chehalis
Lewis County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010756

Issue Date
November 25, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

November 25, 2013

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,

TROY KELLEY
STATE AUDITOR

Table of Contents

**City of Chehalis
Lewis County
January 1, 2012 through December 31, 2012**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Financial Statements.....	3
Financial Section.....	6

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**City of Chehalis
Lewis County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Chehalis
Chehalis, Washington

We have audited, 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, the financial statements of the City of Chehalis, Lewis County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 30, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

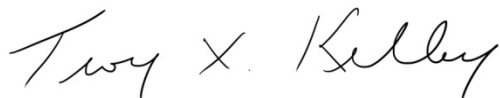
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.



TROY KELLEY
STATE AUDITOR

October 30, 2013

Independent Auditor's Report on Financial Statements

**City of Chehalis
Lewis County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Chehalis
Chehalis, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Chehalis, Lewis County, Washington, for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2012, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with 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 basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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.

Purpose of this Report

The report is intended for the information and use of the management and the Mayor and City 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 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 internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

October 30, 2013

Financial Section

**City of Chehalis
Lewis County
January 1, 2012 through December 31, 2012**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2012
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2012
Notes to Financial Statements – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 GENERAL FUND	102 ARTERIAL STREET	107 TOURISM
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	3,753,633	86,768	26,808	73,255
30880	Beg Fund Bal-Unreserved	3,593,990	815,787	0	0
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	6,316,450	6,099,041	0	165,025
320	Licenses & Permits	50,464	50,464	0	0
330	Intergovernmental Revenues	484,974	328,132	149,372	0
340	Charges for Goods and Services	7,128,731	786,853	0	0
350	Fines & Penalties	153,616	153,616	0	0
360	Miscellaneous Revenues	226,237	183,592	62	160
Total Operating Revenues:		14,360,472	7,601,698	149,434	165,185
Operating Expenditures					
510	General Government	1,669,725	1,669,725	0	0
520	Public Safety	4,185,108	4,003,180	0	0
530	Utilities And Environment	4,738,965	82,775	0	0
540	Transportation	680,977	543,704	137,273	0
550	Economic Environment	432,624	256,472	0	169,920
560	Mental & Physical Health	1,997	1,997	0	0
570	Culture And Recreation	913,986	913,986	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		12,623,382	7,471,839	137,273	169,920
Net Operating Increase (Decrease):		1,737,090	129,859	12,161	-4,735
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	361,481	13,321	366	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	94,855	0	0	0
Total Nonoperating Revenues:		456,336	13,321	366	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	250,000	0	0	0
591-593	Debt Service	1,988,939	0	0	0
594-595	Capital Expenditures	956,906	151,068	0	0
597	Transfers-Out	94,855	23,714	0	0
Total Nonoperating Expenditures:		3,290,700	174,782	0	0
Increase (Decrease) in Cash and Investments		-1,097,274	-31,602	12,527	-4,735
Ending Cash and Investments					
50810	End Fund Bal-Reserved	2,262,932	99,012	39,335	68,520
50880	End Fund Balance-Unreserved	3,987,417	771,941	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		195 1982-93 COMM DEVELOP BLK GRANT	197 HUD BLOCK GRANT	198 GAMBLING ENFORCEMENT	200 2011 G.O. BOND FUND
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	21,725	319,920	260,592	4,272
30880	Beg Fund Bal-Unreserved	0	0	0	0
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	4,483	0	0
340	Charges for Goods and Services	4,679	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	34	861	342	54
Total Operating Revenues:		4,713	5,344	342	54
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	181,928	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	6,232	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		6,232	0	181,928	0
Net Operating Increase (Decrease):		-1,519	5,344	-181,586	54
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	94,855
Total Nonoperating Revenues:		0	0	0	94,855
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	99,127
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		0	0	0	99,127
Increase (Decrease) in Cash and Investments		-1,519	5,344	-181,586	-4,218
Ending Cash and Investments					
50810	End Fund Bal-Reserved	20,206	325,264	79,006	54
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		305 FIRST QUARTER PERCENT REET	306 SECOND QUARTER PERCENT REET	402 GARBAGE	404 WASTEWATER FUND
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	139,987	47,816	0	2,072,243
30880	Beg Fund Bal-Unreserved	0	0	11,796	216,625
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	26,192	26,192	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	1,026
340	Charges for Goods and Services	0	0	6,447	3,417,901
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	748	75	20	12,903
Total Operating Revenues:		26,940	26,267	6,467	3,431,830
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	11,831	2,508,632
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	0	11,831	2,508,632
Net Operating Increase (Decrease):		26,940	26,267	-5,364	923,198
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	296,623
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		0	0	0	296,623
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	1,735,604
594-595	Capital Expenditures	0	0	0	282,655
597	Transfers-Out	40,313	30,828	0	0
Total Nonoperating Expenditures:		40,313	30,828	0	2,018,259
Increase (Decrease) in Cash and Investments		-13,373	-4,561	-5,364	-798,438
Ending Cash and Investments					
50810	End Fund Bal-Reserved	126,614	43,255	0	1,128,436
50880	End Fund Balance-Unreserved	0	0	6,432	361,994

The accompanying notes are an integral part of this Statement.

BARS Code		405 WATER FUND	406 STORM & SURFACE WATER UTILITY
Beginning Cash and Investments			
30810	Beg Fund Bal-Reserved	700,247	0
30880	Beg Fund Bal-Unreserved	2,185,006	364,776
38880/58880	Prior Period Adjustments, net	0	0
Operating Revenues			
310	Taxes	0	0
320	Licenses & Permits	0	0
330	Intergovernmental Revenues	1,961	0
340	Charges for Goods and Services	2,505,658	407,193
350	Fines & Penalties	0	0
360	Miscellaneous Revenues	19,376	8,010
Total Operating Revenues:		2,526,995	415,203
Operating Expenditures			
510	General Government	0	0
520	Public Safety	0	0
530	Utilities And Environment	1,788,329	347,398
540	Transportation	0	0
550	Economic Environment	0	0
560	Mental & Physical Health	0	0
570	Culture And Recreation	0	0
598	Intergovernmental Payments	0	0
Total Operating Expenditures:		1,788,329	347,398
Net Operating Increase (Decrease):		738,666	67,805
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	45,694	5,477
391-393	Debt Proceeds	0	0
397	Transfers-In	0	0
Total Nonoperating Revenues:		45,694	5,477
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	250,000	0
591-593	Debt Service	154,208	0
594-595	Capital Expenditures	498,318	24,865
597	Transfers-Out	0	0
Total Nonoperating Expenditures:		902,526	24,865
Increase (Decrease) in Cash and Investments		-118,166	48,417
Ending Cash and Investments			
50810	End Fund Bal-Reserved	333,230	0
50880	End Fund Balance-Unreserved	2,433,857	413,193

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds	611 FIREMEN'S PENSION	633 CITY AGENCY FUND
308	Beginning Cash and Investments	539,494	190,491	349,003
388 and 588	Prior Period Adjustments, net	0	0	0
310-360	Revenues	144,707	144,707	0
370-390	Other Increases and Financing Sources	7,124	0	7,124
510-570	Expenditures	126,138	126,138	0
580-590	Other Decreases and Financing Uses	0	0	0
Increase (Decrease) in Cash and Investments		25,693	18,569	7,124
508	Ending Cash and Investments	565,187	209,060	356,127

The accompanying notes are an integral part of this Statement.

CITY OF CHEHALIS

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

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	Actual	Variance
	Appropriated Amounts	Expenditures and Transfers Out	
General Fund:			
City Council	\$98,319	\$96,813	\$1,506
City Manager	341,340	335,439	5,901
City Clerk	94,231	93,247	984
Municipal Court	348,378	328,682	19,696
Finance	322,719	317,540	5,179
Human Resources	130,020	127,448	2,572
Police	2,361,475	2,343,937	17,538
Fire	1,687,281	1,646,060	41,221
Community Development	1,253,861	1,249,504	4,357
Public Works - Streets	577,175	540,438	36,737
Public Works - Engineering	108,617	104,944	3,673
Non-Departmental	447,420	383,142	64,278
Total General Fund	\$7,770,836	\$7,567,194	\$203,642
Arterial Streets Fund	\$155,626	\$137,273	18,353
Tourism Fund	170,200	169,920	280
Compensated Absences Fund	4,046	4,045	1
CDBG Fund	6,500	6,232	268
HUD Fund	0	0	0
Gambling Enforcement Fund	181,929	181,929	0

Federal and State Grants Fund	312,216	30,648	281,568
2011 G.O. Bond Fund	99,127	99,127	0
Public Facilities Reserve Fund	55,901	33,000	22,901
Automotive/Equipment Res. Fund	68,500	65,839	2,661
1 st Quarter REET Fund	40,313	40,313	0
2 nd Quarter REET Fund	30,828	30,828	0
Wastewater Fund	4,919,314	4,526,891	392,423
Water Fund	3,096,646	2,690,852	405,794
Storm and Surface Water Fund	416,269	372,262	44,007
Garbage Fund	12,580	11,832	748
Firemen's Pension Fund	135,000	126,137	8,863
Total All Funds	\$17,475,831	\$16,094,322	\$1,381,509

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 four funds have been determined to be managerial funds: the Compensated Absences Fund, the Public Facilities Reserve Fund, the Automotive/Equipment Reserve Fund, and the Federal and State Grant 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 the interfund transactions between the General Fund and its managerial funds have been 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 and Transfers Out
Total General Fund	\$7,770,836	\$7,567,194
Compensated Absences Fund	4,046	4,045
Federal and State Grants Fund	312,216	30,648
Public Facilities Reserve Fund	55,901	33,000
Automotive/Equipment Res. Fund	68,500	65,839
Total General Fund Including		
Managerial Funds	8,211,499	7,700,726
Less: Interfund Transfers		(54,113)
Plus: Rounding Adjustment		8
Reconciled General Fund Total	\$8,211,499	\$7,646,621

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 Long-Term Debt Note 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 153 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 \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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.

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, 2011 and 2012 were \$281,855 and \$260,184, respectively.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

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. Copies of the pool's annual report may be obtained by writing to P.O. Box 88030, Tukwila, WA 98138.

The City self-insures for unemployment taxes, and an eyeglass and contact lens program. (See Self-Insurance Note 8.)

Additionally, the City self-insures for out-of-pocket medical expenses of its pre-LEOFF1 firefighter retirees and LEOFF1 firefighter and police officer retirees. (See Other Post-Employment Benefits Note 9.)

I. Reserved Fund Balances

External parties have placed restrictions on certain balances. The nature of the restrictions and the related amounts at December 31, 2012 are noted below:

General Fund:

UNET Funds	\$22,035
Substance Abuse Treatment	4,182
K-9 Program	6,290
FEMA Mapping Appeal	44,494
Property Vacation Restrictions	11,450
Parks and Recreation Donations	10,561
	<u>\$99,012</u>

Arterial Street Fund:

Paths and Trails	1,467
Motor Vehicle Tax Restrictions	37,868
	<u>\$39,335</u>

Tourism Fund

Hotel/Motel Tax Restrictions	<u>\$68,520</u>
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CDBG Fund

Federal CDBG Restrictions	<u>\$20,206</u>
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HUD Fund

Federal HUD Restrictions	<u>\$325,264</u>
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Gambling Enforcement Fund

Gambling Seizure Restrictions	<u>\$79,006</u>
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2011 G.O. Bond Fund	
Debt Covenant Restrictions	\$54
1 st Quarter REET Fund	
1 st Quarter REET Tax Restrictions	\$126,614
2 nd Quarter REET Fund	
2 nd Quarter REET Tax Restrictions	\$43,255
Wastewater Fund	
Debt Covenants	\$1,128,436
Water Fund	
Debt Covenants	\$333,230
Firefighters' Pension Trust Fund	
Trust Limitations	\$209,060
City Agency Fund	
Agency Limitations	\$356,127

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, 2012 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	\$4,725,908	\$146,730	\$4,872,638
U.S. Government Securities	702,442	149,936	852,378
Certificates of Deposits		250,000	250,000
Total	\$5,428,350	\$546,666	\$5,975,016

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 2012 was \$2.217021654195 per \$1,000 on an assessed valuation of \$605,989,787 for a total regular levy of \$1,343,492.

The City also has a levy for Emergency Medical Services (EMS). In 2012, the EMS levy was \$0.378952426140 per \$1,000 on an assessed valuation of \$605,989,787 for a total EMS levy of \$229,641.

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2012:

Borrowing Fund	Lending Fund	Balance 1/1/2012	New Loans	Repayments	Balance 12/31/12
Wastewater Fund	Water Fund	\$0	\$250,000		\$250,000

In 2012, the Wastewater Fund borrowed \$250,000 from the Water Fund, in order to ensure sufficient unreserved funds for operations. The City Council authorized this interfund loan at an interest rate of 0.65% per annum with three annual payments scheduled to service the interfund loan, with the final payment scheduled for October 1, 2015.

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 2012.

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

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2013	\$166,018	\$2,038,140		\$2,204,158
2014	169,922	1,940,494		2,110,416
2015	163,767	1,939,269		2,103,036
2016	161,826	1,938,019		2,099,845
2017	164,886	1,936,694		2,101,580
2018-2022	822,355	9,492,616		10,314,971
2023-2027	663,220	7,805,002		8,468,222
2028-2032		39,546		39,546
TOTALS	\$2,311,994	\$27,129,780	\$0	\$29,441,774

In addition to the debt noted above, the City of Chehalis and Lewis County are jointly responsible for Chehalis-Centralia Airport debt, should the airport default. As of December 31, 2012, the airport's debt totaled \$2,442,055. Based upon current airport ownership interests, the City would be responsible for half of the debt: \$1,221,027.

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 - SELF INSURANCE

The City self-insures for several programs: an eyeglass and contact lens program; unemployment taxes; and out-of-pocket medical costs incurred by pre-LEOFF1 and LEOFF1 retirees.

The eyeglass and contact lens program provides eyeglasses and contact lenses to council members, Teamsters police officers, and non-represented employees and their dependents. In 2012, \$3,508 was expended on this program.

As a government agency, the City has the option to pay unemployment taxes on a reimbursement basis to the State of Washington. For 2012, the City paid \$22,063 in unemployment taxes.

Pre-LEOFF1 and LEOFF1 medical costs reimbursed by the City are addressed in the Other Post-Employment Benefits Note 9, below.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (OPEB)

In accordance with state law, the City provides OPEB to its pre-LEOFF1 firefighter retirees and LEOFF1 firefighter and police officer retirees.

Pre-LEOFF1 benefits are two-fold: eligible retirees receive a supplemental pension payment and medical benefits. Supplemental pension payments are based upon formulas using the City's current compensation levels. In the event that the pension paid by the State falls short of what the retiree should receive based upon the formula, the City pays for the difference. Should the retiree receive more from the State than would result from the application of the formula, no adjustments or paybacks are requested.

For both pre-LEOFF1 and LEOFF1 retirees, the City provides full medical insurance through its regular carrier and reimburses the full cost of Medicare premiums of those retirees eligible for Medicare. Additionally, the City self-insures for all eligible out-of-pocket costs including but not limited to: co-pays for doctor visits and medicines, as well as long-term care costs not covered by Medicare.

All costs associated with the pre-LEOFF1 firefighter retirees are accounted for in the Firefighters Pension Trust Fund. In 2012, the fund incurred expenditures totaling \$116,904 and \$9,233, for medical and pension costs, respectively. Of the \$116,904 in medical costs, \$56,479 consisted of self-insured costs.

LEOFF1 benefits for firefighter and police officer retirees are limited to medical benefits. These costs are accounted for in the General Fund in Non-Departmental. In 2012, the City expended \$130,179 and \$95,086 on LEOFF1 police officer and firefighter retirees'

medical costs, respectively. Of the \$130,179 in LEOFF1 police officer medical costs, \$12,496 consisted of self-insured costs. Of the \$95,086 in LEOFF1 firefighter costs, \$5,523 consisted of self-insured costs.

NOTE 10: JOINT VENTURE

The City of Chehalis jointly participated with the City of Centralia and Lewis County in the Chehalis-Centralia Airport (Airport), which was organized under RCW 14.08.200. On August 24, 2005, by joint resolution of the cities of Chehalis and Centralia and Lewis County, the City of Centralia was removed from the joint operating agreement of the Chehalis-Centralia Airport.

Currently, the Airport is jointly governed by an appointed seven-member board of which the City of Chehalis appoints three, Lewis County appoints three, and the appointment of the seventh member is alternated between the two entities. The City of Chehalis and Lewis County each have a half equity interest in the Airport.

The Airport prepares its financial statements on the cash-basis of accounting. The ending balance of cash and investments as of December 31, 2012 was \$1,902,210.

Debt related to the Airport consists of a bond issued by Lewis County in 2007 on behalf of the Airport in the amount of \$3,500,000. The Airport makes debt service payments to Lewis County. The outstanding balance of the debt as of December 31, 2012 was \$2,442,055, as noted in the long-term debt note.

Financial statements for the Airport can be obtained from its administrator at: Chehalis-Centralia Airport, P.O. Box 1344, Chehalis, WA 98532.

City of Chehalis

Schedule of Liabilities

For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2012
General Obligations								
	251.11	2011 G.O. Bond	12/1/2026	577,500		32,500	59134	545,000
	251.11	2011 G.O. Bond	12/1/2026	577,500		32,500	59135	545,000
	259.11	Compensated Absences		1,035,960	667,952	652,093		1,051,819
	263.81	SRFL #5 (DOH)	10/1/2026	946,138		63,075	58234	883,063
Total General Obligations:				3,137,098	667,952	780,168		3,024,882
Revenue Obligations								
	252.11	1979 Revenue Bond	8/1/2019	167,000		17,000	58234	150,000
	259.12	Compensated Absences		240,885	188,827	186,130		243,582
	263.62	Individual Note Payable	1/28/2013	154,769		101,395	58235	53,374
	263.82	PWTF #2	7/1/2012	45,671		45,671	58235	0
	263.82	PWTF #4	7/1/2013	81,690		40,845	58235	40,845
	263.82	SRFL #1 (DOE)	5/1/2024	1,891,241		138,603	58235	1,752,638
	263.82	SRFL #2 (DOE)	12/30/2023	215,099		16,484	58235	198,615
	263.82	SRFL #3A (DOE)	6/30/2027	25,274,657		1,630,623	58235	23,644,034
	263.82	SRFL #3B (DOE)	9/30/2028	672,275		39,545	58235	632,730
	263.82	SRFL #4 (DOH)	1/1/2020	450,005		50,000	58234	400,005

MCAG NO. 0487

City of Chehalis

Schedule 09

Schedule of Liabilities

For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2012
Total Revenue Obligations:				29,193,292	188,827	2,266,296		27,115,823
Total Liabilities:				32,330,390	856,779	3,046,464		30,140,705



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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Director of Performance and State Audit
Director of Local Audit
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Deputy Director of Local Audit
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