



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
Chelan County

For the period January 1, 2016 through December 31, 2016

Published August 24, 2017

Report No. 1019451





Office of the Washington State Auditor
Pat McCarthy

August 24, 2017

Board of Commissioners
Chelan County
Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Chelan County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Chelan County January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Chelan County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.665	Schools and Roads – Grants to States
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The County did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2016-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Chelan County January 1, 2016 through December 31, 2016

2016-001 The County's internal controls over financial statement preparation were inadequate to ensure accurate reporting.

Background

Management is responsible for designing, implementing and maintaining internal controls to fairly present financial statements and provide reasonable assurance regarding reliability of financial reporting. The County prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the *Budgeting, Accounting and Reporting System (BARS) Manual*.

Our audit identified deficiencies in controls over financial statement reporting that hindered the County's ability to produce reliable financial statements. These deficiencies represent a material weakness.

Government Auditing Standards requires the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness over financial reporting:

- Although Management has a process for reviewing the year-end financial statements, this review did not identify the omission of a bond refunding on the Fund Financial Statements and the netting of cash receipts and payments on the Statement of Cash Flows.
- The Public Works Department did not communicate the correct completion date of projects in construction in progress to the Accounting Department; also, it included misclassified costs such as land and costs to be expensed immediately.
- Decentralized departments do not consistently post expenses to the correct period. The Accounting Department's review is limited and did not

identify certain expenses paid after year-end but incurred in the prior year that required reclassification.

- The Natural Resources Department's review of year-end receivables was insufficient to identify overstatements and misclassifications.
- County management was unable to acquire capital asset information to calculate the equity interest in a joint venture and did not include long-term liabilities in the estimate.
- County personnel were unable to accurately calculate and report a court judgment receivable for the District Court Probation Department.

Cause of Condition

We identified the following causes:

- County management's final review of the financial statements was not effectively applied throughout the financial statement preparation and review process, which resulted in unidentified misstatements.
- The Accounting Department relies heavily on financial information posted and received from decentralized departments. Those departments do not always have adequate knowledge of financial reporting requirements, and they have not dedicated the necessary time and resources to ensure financial information communicated to the Accounting Department is accurate and complies with the applicable financial reporting framework.
- Rivercom reports on the cash basis of accounting and does not provide the necessary capital asset information for the County to calculate its equity interest in accordance with generally accepted accounting principles (GAAP). However, the County did receive long-term debt information and did not include this in the calculation.
- The District Court Probation Department recently converted to using new software and is unable to retrieve financial information sufficient to calculate a court judgement receivable.

Effect of Condition

We identified the following errors in the financial statements. The County:

- Did not report a bond refunding on the Statement of Revenues, Expenditures and Change in Fund Balance, resulting in an understatement of:

- Other financing uses - payments to refunded bond escrow agent of \$9,889,831
- Expenditures for debt issuance costs of \$109,260
- Other financing sources - refunding bonds issued of \$8,955,000
- Other financing sources - premium on refunding bonds of \$1,044,091
- Understated cash received from customers and users and cash payments to suppliers both by \$5,442,196 on the Statement of Cash Flows
- Overstated construction in progress by \$1,143,069 and understated infrastructure, transportation expenses and land by \$677,588, \$313,636 and \$151,845, respectively
- Overstated due from other governments for the Natural Resources Fund by \$195,484, including \$175,000 that should have been reported as a deposit
- Did not report \$131,870 in expenses on the Proprietary Statement of Revenues, Expenses and Changes in Net Position and \$33,957 in expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balance
- Understated its Equity Interest in Joint Venture by an estimated \$880,000
- Did not report an estimated \$300,000 court judgements receivable

The County corrected most of the above errors and all material errors.

Recommendations

We recommend the County:

- Apply designed internal controls to the financial statement preparation and review processes effectively and consistently
- Provide training on financial reporting requirements to decentralized departments responsible for communicating financial information and recording financial transactions
- Research methods to calculate or estimate a court judgment receivable for the District Court Probation Department and investigate possible methods to acquire the information needed to calculate the County's equity interest in Rivercom

County's Response

Management of Chelan County would like to thank the State Auditor's Office for its review of the County's financial statements, the professionalism they displayed during the conduct of their audit, and for the opportunity to provide the response below.

The single item that raised the reporting threshold of this audit report to that of a finding rather than a lower level of reporting relates to a bond refinancing that occurred in mid-2016. The refinancing was never recorded in the fund financial statements at the time the transaction occurred. The omission was discovered by County management, but not until after the financial statements were given to the auditors to begin the conduct of their audit. The impact of the refinancing was originally included in the financial statements in the government wide financial statements, notes, and management discussion and analysis. The single transaction, had it not been omitted originally, would have been completely eliminated during the conversion from fund financial statements to government wide financial statements. As such, the government wide financial statements, notes and management discussion and analysis were accurate as originally presented to the auditors. Despite the fact that management felt the financial statements as originally presented were not materially misstated, the transaction was later recorded in the fund financial statements before the annual report was filed with the Auditors Office at the end of May, and the transaction was recorded and reflected in the fund financial statement portion of the final comprehensive annual financial report.

County management is working with the software provider used by the District Court Probation office in an attempt to get reports or data from that system to accurately calculate the amount of receivables at year-end rather than using an estimate similar to the one used by the auditors. Our desire is to have actual data from which to report the correct amount of Probation receivable at year-end. County management will reinforce with the departments the proper cutoff procedures at year-end, including when capital projects are completed for capitalization purposes.

The rest of the items contained in this finding report relate to items that the auditors requested changes in classification in the financial statements, which the County has done, or one-time corrections to spreadsheets used to compile the financial statements. These items have been corrected. The financial statements were prepared after turnover in the position responsible for preparing these statements. Management is confident that with the typical time allotted for preparing and reviewing the financial statements, there will be improvement in the accuracy of the preparation and review of the statements.

Auditor's Remarks

The County was very helpful during the audit process, and we appreciate the steps the County is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

Deficiency in internal control. A deficiency in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be

prevented, or detected and corrected, on a timely basis. A reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Probable. The future event or events are likely to occur.

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

A11 Indicators of material weaknesses in internal control include:

- identification of fraud, whether or not material, on the part of senior management. For the purpose of this indicator, the term “senior management” includes the principal executive and financial officers as well as any other members of senior management who play a significant role in the entity's financial reporting process;
- restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
- identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control; and
- ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting, Accounting, and Reporting System (BARS) Manual - Accounting, Accounting Principles and Internal Control, Internal Control states in part:

3.1.3.20 Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

3.1.3.30 Management and the governing body are responsible for the government’s performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor’s Office or standard setting bodies.

- Correctly accounting for all financial events – Controls should ensure that:
 - Only valid transactions are recorded and reported.
 - All transactions occurred during the period are recorded and reported.
 - Transactions are recorded and reported at properly valued and calculated amounts.
 - Recorded and reported transactions accurately reflect legal rights and obligations.
 - Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Chelan County January 1, 2016 through December 31, 2016

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Chelan County. The State Auditor's Office has reviewed the status as presented by the County.

Audit Period: January 1, 2014 – December 31, 2014	Report Ref. No: 1015226	Finding Ref. No: 2014-002	CFDA Number(s): 10.665
Federal Program Name and Granting Agency: Schools and Roads Grants to States – U.S. Department of Agriculture – U.S. Forest Service		Pass-Through Agency Name: Office of the State Treasurer	
Finding Caption: The County did not have adequate internal controls to ensure compliance with federal grant requirements for allowable costs and the public comment period.			
Background: The County did not have adequate controls to ensure costs charged to the Title III grant were allowable under program requirements. We determined that the County spent \$13,484 on an ATV and related accessories that were not permitted under grant regulations and also that \$49,457 in payroll costs were not supported by appropriate records. Lastly, we found that the County did not provide the required 45 day public comment period regarding proposed use of Title III funds. We recommend the County establish an effective internal control process over Title III grant compliance.			
Status of Corrective Action: <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>While the county disagreed with the finding concerning the ATV purchase, the county will not charge these types of costs to Title III. The county will not charge Community Development payroll costs to Title III. While the county felt that the budget hearing and notification procedures met the 45-day comment period, the county will provide specific notice in the local newspaper about the 45-day comment period for Title III expenditures.</i>			

**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**

**Chelan County
January 1, 2016 through December 31, 2016**

Board of Commissioners
Chelan County
Wenatchee, 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 governmental activities, each major fund and the aggregate remaining fund information of Chelan County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 26, 2017.

As discussed in Note 1 to the financial statements, the County has elected to change its method of presenting judicial expenditures by separating it from general government expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balance. In prior years, the County combined these judicial and general government expenditures. As discussed in Note 1 to the financial statements, the County has elected to change its method of presenting the elimination of internal service charges of approximately \$11.3 million by allocating those charges to the specific related functions on the Statement of Activities. In prior years, the County allocated these eliminations entirely to the general government function.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the County'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 County'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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of the County'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*.

COUNTY'S RESPONSE TO FINDINGS

The County's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 County'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 County'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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

June 26, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Chelan County
January 1, 2016 through December 31, 2016**

Board of Commissioners
Chelan County
Wenatchee, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Chelan County, Chelan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2016. The County's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

June 26, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Chelan County **January 1, 2016 through December 31, 2016**

Board of Commissioners
Chelan County
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Chelan County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 25.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions 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 County'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 County'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Chelan County, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Roads, Regional Justice Center and Natural Resources funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the County has elected to change its method of presenting judicial expenditures by separating it from general government expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balance. In prior years, the County combined these judicial and general government expenditures. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the County has elected to change its method of presenting the elimination of internal service charges of approximately \$11.3 million by allocating those charges to the specific related functions on the Statement of Activities. In prior years, the County allocated these eliminations entirely to the general government function. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 26 through 29, information on postemployment benefits other than pensions on page 69 and pension plan information on pages 70 through 71 be presented to supplement the basic financial statements. Such information, although not a part of

the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017 on our consideration of the County'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 County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

June 26, 2017

FINANCIAL SECTION

Chelan County January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –
2016

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary and
Actual – General Fund – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– County Roads Special Revenue Fund – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– Regional Justice Center Special Revenue Fund – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
– Natural Resources Special Revenue Fund – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds –
2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Fiduciary Net Position – Fiduciary Funds – 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Chelan County's discussion and analysis presents the readers of the County's annual financial report a narrative overview of the County's financial performance during the fiscal year that ended on December 31, 2016. We encourage readers to consider the information presented here in conjunction with the County's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction of Chelan County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic statements.

The government-wide financial statements are comprised of the statement of net position (assets and liabilities) and the statement of activities (revenues and expenses). These statements present the entire financial position of Chelan County. The government-wide financial statements use full accrual accounting, which reports both current and long-term liabilities and assets. The upper section of the statement of activities shows how general government activities do not support themselves based on charges for services. Rather the lower section of this statement shows the tax revenue that is required to support the general government functions.

The fund financial statements are presented immediately following the government-wide financial statements. There are three categories of the fund financial statements, 1) governmental, 2) proprietary, and 3) fiduciary. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chelan County, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The governmental fund financial statements are prepared using the modified accrual basis of accounting, which does not include long-term liabilities and assets, focusing on current resources. Therefore a reconciliation is provided alongside the government fund financial statements to bridge the differences between the governmental fund financial statements and the government-wide financial statements. The major differences between the two types of financial statements are due to the capitalization and depreciation of assets, recognition of bonds payable, and the inclusion of the internal service net position. The county reports its major funds separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. A budgetary comparison statement is also provided for the general fund and each of the major special revenue funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements after the notes to the financial statements.

The proprietary fund financial statements are prepared using the same basis of accounting as the government-wide financial statements. Chelan County's proprietary funds include only internal service funds, which support the county government by accounting for the accumulation of assets for vehicle/equipment replacement and insurance functions. Because these services predominately benefit governmental functions, they have been included with the governmental funds in the government-wide financial statements. Individual fund data for each of the internal service funds is provided in the form of combining statements after the notes to the financial statements.

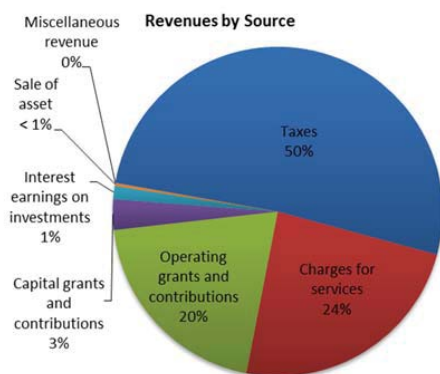
Fiduciary fund are used to account for resources held for the benefit of parties outside the government, which consists mostly of special purpose districts within Chelan County. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Chelan County's progress in funding its obligation to provide other post-employment benefits to its LEOFF 1 retirees as well as information regarding pension liabilities. Required supplementary information can be found immediately following the notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Chelan County, assets exceeded liabilities by \$92,321,508 at the close of the most recent fiscal year. This increased by \$4,162,395 over the previous year. Sales tax continues to grow with improvements in the economy. This improved overall economic condition is also reflected in real estate excise tax receipts, hotel/motel tax revenue and other miscellaneous taxes and fees that typically follow cyclical changes in the overall economy. Local sales tax and the building permits continued to show strong signs of recovery. These continue to provide increased revenues and general county expenses have been held low ever since the

Chelan County's Changes in Net Position		
Revenues		
Program revenues:	2016	2015
Charges for services	17,716,797	18,516,974
Operating grants and contrib.	14,947,904	14,552,515
Capital grants and contributions	2,225,868	2,223,322
General revenues:		
Taxes	38,184,029	35,284,159
Interest earnings on invest.	960,556	876,720
Gain on sale of capital assets	188,278	-
Miscellaneous revenue	19,906	-
Total revenues	74,243,338	71,453,690
Program Expenses		
General government	18,833,204	10,794,604
Judicial	3,893,534	3,682,693
Public safety	25,017,130	27,540,791
Utilities	2,129,575	2,030,413
Transportation	10,779,600	13,124,102
Natural & economic environment	6,392,887	4,991,609
Social services	1,384,630	1,411,139
Culture and recreation	1,174,779	1,411,628
Interest on long term debt	475,604	550,679
Total expenses	70,080,943	65,537,658
Change in net position	4,162,395	5,916,032
Net position as of Jan 1	88,159,113	96,914,765
Change in accounting principle	-	(14,620,803)
Prior period adjustment	-	(50,881)
Net position as of Dec 31	92,321,508	88,159,113

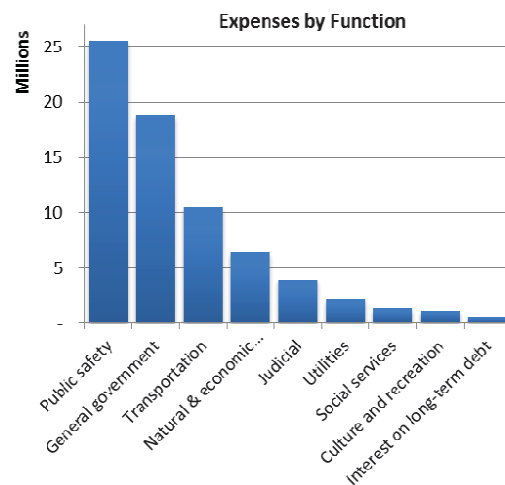


Chelan County's Net Position		
	2016	2015
Current & other assets	49,324,596	42,943,438
Capital assets (net of depr.)	83,624,757	85,610,396
Total assets	132,949,353	128,553,834
Deferred outflows of resources	4,578,442	2,495,586
Long-term liabilities	37,651,669	33,506,613
Other liabilities	6,779,685	5,915,782
Total liabilities	44,431,254	39,422,395
Deferred inflows of resources	775,033	3,467,912
Net position:		
Net investment in capital assets	72,699,757	73,895,396
Restricted	18,451,257	16,308,657
Unrestricted	1,170,494	(2,044,940)
Total net position	92,321,508	88,159,113

2009 recession.

A large portion of the County's net position (79%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position (20%) represents resources that are subject to external restrictions on how they may be used. The resulting relatively small balance of unrestricted net position (1%) is due to the implementation of GASB 68 recognizing a large pension liability.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The General fund, County Roads, Regional Justice Center and Natural Resources funds were the County's major governmental funds. Together these four funds account for 44% of total governmental fund balance.

The General fund is the chief operating fund of Chelan County. At the end of the current fiscal year, unassigned fund balance of the General fund was \$10,619,553, which represents 30% of total General fund expenditures. The fund balance of General fund increased by \$2,670,706 during the current fiscal year and is larger than it has been since Chelan County has had comparable financial statements. The tremendous growth is primarily due to an increase in sales tax revenue driven by one-time projects within the County. Sales tax generated from construction are by nature one-time revenue sources. These continue to grow year-over-year, along with retail sales tax, as there are improvements in the overall economy of the region. The housing industry has also picked up and helped bring in more building permit revenue. These revenue increases combined with holding expenditures tight has built a healthy fund balance for the General fund. At the beginning of 2016, the City of Wenatchee annexed a portion of Chelan County, which is expected to decrease sales tax by \$1 million annually. This will certainly slow the growth of the past 8 years and may even decrease the fund balance over the coming years.

The fund balance of the County Roads special revenue fund increased by \$761,622 during the current fiscal year. The County working has several major infrastructure updates in the works that it is accumulating resources for, and will soon be spending down its fund balance. However, the present infrastructure should reap benefits to future maintenance and future cost savings should grow the fund balance again. Because property taxes in this fund are collected for the explicit purpose of road construction and maintenance, these funds are restricted for that purpose.

The Regional Justice Center fund balance decreased by \$25,002, giving it a negative ending fund balance of (\$3,193). This negative fund balance is considered temporary in nature. Fund balance has been reduced over the past few years due to fewer contracted inmates being housed, which reduces the revenue brought in by this fund. Until the end of 2015, the Regional Justice Center had been borrowing from other funds to meet cash flow needs. It was determined that this fund would not be able to pay off the loans so the General fund transferred \$992,000 in 2015 to help the Regional Justice Center pay off its loans. Increased contributions by the General fund and increased contract rates should help the Regional Justice Center maintain a positive cash flow.

The Natural Resources fund balance increased by \$58,296 during the current fiscal year. The majority of revenue and expenses relate to grant funded transactions of the department. The General Fund transferred \$50,000 to the Natural Resources fund in 2016 to help pay for program related expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures are generally less than final budgeted expenditures. The main reason for this is employee turnover and unfilled positions leave budget authority that goes unspent. In addition, since elected officials are legally required to operate within their given budget, they typically spend their budgets conservatively in case something unexpected comes up. The actual revenues were greater than budgeted revenues due to continued improvement in the local economy and generally conservative budgeting. Sales tax, building and planning fees, and election reimbursements all came in greater than budgeted.

Differences between the original and the final amended expenditure budget amounted to increases of \$434,280. Of this budget increase, \$8,280 was to be funded out of unexpected grants and increased reimbursements. The remaining \$426,000 was to be spent from the available fund balance.

Department	Amount	Explanation
Clerk	26,000	For increased salaries. From available fund balance.
Commissioners	44,000	For labor relations. From available fund balance.
Non-Departmental	56,000	For contractual services and capital outlay. From available fund balance.
Non-Departmental	150,000	Transfer to Regional Justice Center. From available fund balance.
Non-Departmental	150,000	For indigent defense. From available fund balance.
Sheriff	8,280	For small tools. From increased grant revenue.
Total	434,280	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Chelan County's investment in capital assets as of December 31, 2016, amounts to \$83,624,757 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. The County's investment in capital assets decreased by 2%. The decrease was mostly due to depreciation of \$4.9 million on existing capital assets. There was also a transfer of \$6.9 million from construction in progress to infrastructure due to the completion of a number of projects throughout the County.

Chelan County's Capital Assets (net of depreciation)		
	2016	2015
Land	5,937,110	5,637,769
Construction in progress	3,132,227	8,161,602
Other improvements	549,951	607,110
Buildings	25,816,194	26,779,674
Equipment	6,261,282	6,302,081
Infrastructure	41,927,993	38,122,159
Total	83,624,757	85,610,395

Additional information on the County's capital assets can be found in note 4.

Long-term Debt. At the end of the current fiscal year, Chelan County had total bonded debt outstanding of \$11,905,000. The total amount of this debt is backed by the full faith and credit of the government. Chelan County's total bonded debt decreased by decreased by \$975,000 (8%) during the current fiscal year. This was due to advance refunding of the 2002 and 2003A bonds, and partial refunding of the 2009 G.O. bonds. The refunding resulted in a reduction of \$120,000 of the principal amount of bonds outstanding, the difference between the principal amount of the refunded debt and the new debt that replaced it. Outstanding debt was also reduced by \$855,000 of regularly scheduled bond payments. See note 7 for further information about long term debt.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Chelan County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chelan County Auditor's Office, 350 Orondo Avenue, Suite 306, Wenatchee, WA 98801. Financial information requests can also be emailed to accounting@co.chelan.wa.us

CHELAN COUNTY, WASHINGTON

Statement of Net Position December 31, 2016

Assets

Cash and cash equivalents	29,762,061
Deposits with fiscal agents	233,330
Investments	10,663,910
Accounts receivable	111,656
Property tax receivable	702,880
Court judgements receivable	1,129,496
Due from other governments	2,181,678
Inventory	927,413
Equity interest in joint venture	2,251,180
Net pension asset	1,360,993
Capital assets not being depreciated:	
Land	5,937,110
Construction in progress	3,132,227
Capital assets, net of accumulated depreciation:	
Other improvements	549,951
Buildings	25,816,194
Equipment	6,261,282
Infrastructure	41,927,993
Total assets	<u>132,949,353</u>

Deferred Outflows of Resources

Deferred outflows related to pensions	<u>4,578,442</u>
Total deferred outflows of resources	<u>4,578,442</u>

Liabilities

Accounts payable	2,090,070
Due to other governments	140,510
Accrued payroll liabilities	3,110,119
Deposits payable	18,330
Noncurrent liabilities:	
Due within one year	1,420,656
Due in more than one year	<u>37,651,569</u>
Total liabilities	<u>44,431,254</u>

Deferred Inflows of Resources

Deferred inflows related to debt refunding	362,853
Deferred inflows related to pensions	<u>412,180</u>
Total deferred inflows of resources	<u>775,033</u>

Net Position

Net investment in capital assets	72,699,757
Restricted for:	
Capital projects	6,407,182
Transportation	2,171,831
Public safety	4,233,410
Natural & economic environment	4,621,191
General government technology	737,967
Judicial improvements	362,597
Health services	(82,922)
Unrestricted	<u>1,170,494</u>
Total net position	<u>92,321,508</u>

The notes to financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Statement of Activities

For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
General government	18,833,204	1,788,197	5,739,604	-	(11,305,404)
Judicial	3,893,534	1,594,562	267,679	-	(2,031,294)
Public safety	25,017,130	7,565,537	2,073,385	-	(15,378,208)
Utilities	2,129,575	2,464,712	298,997	-	634,135
Transportation	10,779,600	192,595	3,255,541	2,225,868	(5,105,596)
Natural & economic environ	6,392,887	2,549,556	3,037,243	-	(806,089)
Social services	1,384,630	579,041	236,426	-	(569,163)
Culture and recreation	1,174,779	982,598	39,030	-	(153,151)
Interest on long-term debt	475,604	-	-	-	(475,604)
Total primary government	70,080,944	17,716,797	14,947,904	2,225,868	(35,190,375)
General revenues					
Taxes:					
Property					19,979,006
Sales and use					11,966,336
Emergency communication tax					2,831,664
Other taxes					3,407,025
Interest and investment earnings					960,556
Gain on sale of capital assets					188,278
Miscellaneous revenue					19,907
Total general revenues					39,352,770
Change in net position					4,162,395
Net position - beginning (restated - see Note 14)					88,159,113
Net position - ending					92,321,508

The notes to financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	County Roads	Regional Justice Center	Natural Resources	Nonmajor Governmental Funds	Total
Assets						
Cash and cash equivalents	12,112,295	3,290,594	392,586	82,830	8,734,847	24,613,152
Deposits with fiscal agents	-	-	-	175,000	18,330	193,330
Investments	425,845	-	-	-	7,975,322	8,401,167
Accounts receivable	23,569	1,350	75	5,495	81,168	111,656
Property tax receivable	391,458	284,539	-	-	26,883	702,880
Court judgements receivable	1,129,496	-	-	-	-	1,129,496
Due from other funds	37,893	55,593	417	22,927	2,242	119,073
Interfund loan receivable	-	-	-	-	540,000	540,000
Due from other governments	352,197	485,313	193,332	963,229	187,606	2,181,678
Total assets	<u>14,472,753</u>	<u>4,117,390</u>	<u>586,411</u>	<u>1,249,481</u>	<u>17,566,398</u>	<u>37,992,432</u>
Liabilities						
Accounts payable	275,383	287,263	32,758	528,873	742,241	1,866,517
Due to other funds	110,301	717,598	1,827	3,201	25,654	858,581
Interfund loan payable	-	-	-	540,000	-	540,000
Due to other governments	72,535	5,195	3,347	17,835	40,003	138,916
Accrued payroll	1,874,027	434,219	551,672	71,361	83,810	3,015,089
Deposits payable	-	-	-	-	18,330	18,330
Total liabilities	<u>2,332,246</u>	<u>1,444,274</u>	<u>589,604</u>	<u>1,161,270</u>	<u>910,038</u>	<u>6,437,432</u>
Deferred Inflows of Resources						
Unavailable revenue - property tax	391,458	284,539	-	-	26,883	702,880
Unavailable revenue - court judgements	1,129,496	-	-	-	-	1,129,496
Total deferred inflows of resources	<u>1,520,954</u>	<u>284,539</u>	<u>-</u>	<u>-</u>	<u>26,883</u>	<u>1,832,376</u>
Fund Balances						
Restricted	-	2,388,576	-	88,211	15,082,605	17,559,392
Committed	-	-	-	-	1,546,872	1,546,872
Unassigned	10,619,553	-	(3,193)	-	-	10,616,360
Total fund balances	<u>10,619,553</u>	<u>2,388,576</u>	<u>(3,193)</u>	<u>88,211</u>	<u>16,629,477</u>	<u>29,722,624</u>
Total liabilities, fund balances, and deferred inflows of resources	<u>14,472,753</u>	<u>4,117,390</u>	<u>586,411</u>	<u>1,249,481</u>	<u>17,566,398</u>	<u>37,992,432</u>

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2016**

Amounts reported in the statement of net position are different because:

Fund balances of governmental funds:		29,722,624
Capital assets are not financial resources, and therefore not reported in the fund financial statements.		
Capital assets	159,152,808	
Depreciation	<u>(80,072,270)</u>	
Capital assets net of depreciation		79,080,538
Deferred inflows of resources that are not available to finance current liabilities are excluded from the government-wide statements.		
Property tax	702,880	
Court judgments	<u>1,129,496</u>	
Deferred inflows of resources		1,832,376
Assets that are not available financial resources are not reported in the fund financial statements.		
Equity interest in joint venture		2,251,180
Long-term liabilities that have not been included in governmental fund activity		
Bonds payable	(11,905,000)	
Plus: Deferred charge on refunding	(362,853)	
Compensated absences	(2,389,040)	
OPEB benefit for LEOFF	(2,796,735)	
Working capital loan for Substance Abuse	(110,394)	
Pension related debt (net)	<u>(15,757,907)</u>	
Long-term liabilities		(33,321,929)
Internal service funds are used by management to charge the cost of certain activities, such as equipment management and insurance to individual funds. These assets and liabilities of certain internal service funds are included in the statement of net position.		
Assets	13,663,282	
Deferred outflows of resources - pensions	99,630	
Liabilities	(988,539)	
Deferred inflows of resources - pensions	<u>(17,653)</u>	
Internal service net position		<u>12,756,719</u>
Net position		<u><u>92,321,508</u></u>

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2016

	General Fund	County Roads	Regional Justice Center	Natural Resources	Nonmajor Governmental Funds	Total
Revenues						
Taxes	21,240,457	7,333,661	-	-	9,705,926	38,280,044
Licenses and permits	1,296,315	-	-	-	-	1,296,315
Intergovernmental revenues	6,861,862	5,418,396	40,962	2,726,611	1,947,656	16,995,487
Charges for services	5,654,552	91,883	8,184,230	223,846	3,748,910	17,903,420
Fees and fines	1,356,198	-	8,272	-	28,536	1,393,006
Miscellaneous	1,153,736	60,238	77,507	15,510	1,282,545	2,589,536
Total revenues	37,563,121	12,904,178	8,310,971	2,965,967	16,713,572	78,457,809
Expenditures						
Current:						
General government	10,086,908	35,677	-	-	196,974	10,319,559
Judicial	3,664,311	-	-	-	190,837	3,855,148
Public safety	19,140,744	-	8,335,831	-	4,037,714	31,514,289
Utilities	-	-	-	-	2,190,223	2,190,223
Transportation	-	10,134,581	-	-	20,235	10,154,816
Natural and economic environment	1,284,607	-	-	2,940,754	2,511,986	6,737,347
Social services	305,845	-	-	-	1,092,385	1,398,229
Culture and recreation	270,390	-	-	-	853,279	1,123,670
Debt service:						
Principal	89,364	-	-	-	765,636	855,000
Interest and other charges	22,957	-	143	16,916	600,586	640,603
Capital outlay	67,288	2,256,202	-	-	1,600,556	3,924,046
Total expenditures	34,932,415	12,426,460	8,335,973	2,957,671	14,060,412	72,712,931
Excess (deficiency) of revenues over (under) expenditures	2,630,706	477,718	(25,002)	8,296	2,653,161	5,744,879
Other Financing Sources (Uses)						
Sale of capital assets	-	3,905	-	-	15,438	19,342
Transfers in	120,000	400,000	-	50,000	30,000	600,000
Transfers out	(80,000)	(120,000)	-	-	(400,000)	(600,000)
Refunding bonds issued	-	-	-	-	8,955,000	8,955,000
Premium on bonds issued	-	-	-	-	1,044,091	1,044,091
Payment to refunding escrow agent	-	-	-	-	(9,889,831)	(9,889,831)
Total other financing sources and uses	40,000	283,905	-	50,000	(245,303)	128,602
Net change in fund balances	2,670,706	761,622	(25,002)	58,296	2,407,858	5,873,481
Fund balances - beginning (restated)	7,948,847	1,626,953	21,809	29,915	14,221,619	23,849,143
Fund balances - ending	10,619,553	2,388,576	(3,193)	88,211	16,629,477	29,722,624

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2016

Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds	5,873,481
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	2,814,791	
Capital contributions	4,442	
Disposition of capital assets	(34,342)	
Depreciation expense	<u>(4,913,441)</u>	
		(2,128,550)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Decreases in governmental fund court judgements receivable	(96,325)	
Increases in governmental fund taxes receivable	(96,014)	
Increase in Rivercom joint venture equity interest	<u>518,603</u>	
		326,264

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Decreases in governmental fund bonds payable	855,000	
Refunding debt issuance costs	109,260	
Refunding bonds issued	(8,955,000)	
Premium on refunding bonds issued	(1,044,091)	
Payment to refunding escrow agent	<u>9,889,831</u>	
		855,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Increase in liability for OPEB benefit for LEOFF	(727,967)	
Contributions toward OPEB benefit for LEOFF	281,482	
Increases in governmental fund compensated absences payable	(608,382)	
Decreases in governmental fund compensated absences payable	509,023	
Amortization of deferred charge on bond refunding	55,739	
Increase in pension expense	<u>(651,773)</u>	
		(1,141,878)

The net revenue of certain activities of internal service funds is reported on the statement of activities

378,078

Change in net position	<u>4,162,395</u>
------------------------	------------------

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON**General Fund****Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary and Actual**

For the Year Ended December 31, 2016

Revenues	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Assessor	1,170	1,170	2,530	1,360
Auditor	923,003	923,003	1,042,178	119,175
Community Development	1,636,907	1,636,907	1,831,128	194,221
Clerk	645,900	645,900	832,631	186,731
Commissioners	12,447,626	12,447,626	14,130,664	1,683,038
Coroner	15,000	15,000	16,550	1,550
Information Technology	134,005	134,005	134,004	(1)
Facilities Maintenance	673,946	673,946	675,615	1,669
District Court	1,391,275	1,391,275	1,143,998	(247,277)
District Court Probation	378,100	378,100	458,991	80,891
Extension	33,000	33,000	32,273	(727)
Juvenile	659,516	659,516	720,264	60,748
Non-Departmental	406,736	406,736	569,960	163,224
Child Support Enforcement	397,098	397,098	364,945	(32,153)
Prosecuting Attorney	518,742	518,742	553,786	35,044
Sheriff	3,223,272	3,231,552	3,228,295	(3,257)
Superior Court	97,139	97,139	98,866	1,727
Treasurer	1,400,957	1,400,957	1,448,024	47,067
Taxes	11,660,444	11,660,444	11,942,035	281,591
Traffic Safety	172,820	172,820	173,357	537
Total revenues	36,816,656	36,824,936	39,400,215	2,575,279
Expenditures				
Assessor	1,308,057	1,308,057	1,258,845	(49,212)
Auditor	1,227,850	1,227,850	1,213,312	(14,538)
Community Development	1,739,175	1,739,175	1,631,038	(108,137)
Human Resources	127,165	127,165	114,754	(12,411)
Clerk	1,202,889	1,228,889	1,214,263	(14,626)
Commissioners	678,195	722,195	690,677	(31,518)
Coroner	241,271	241,271	218,604	(22,667)
Information Technology	884,388	884,388	870,678	(13,710)
Facilities Maintenance	1,628,226	1,628,226	1,532,235	(95,991)
District Court	1,380,491	1,380,491	1,308,229	(72,262)
District Court Probation	471,031	471,031	422,980	(48,051)
Extension	343,429	343,429	259,788	(83,641)
Juvenile	2,856,027	2,856,027	2,836,836	(19,191)
Non-Departmental	8,558,665	8,914,665	8,773,713	(140,952)
Child Support Enforcement	353,156	353,156	336,535	(16,621)
Prosecuting Attorney	2,137,988	2,137,988	2,081,958	(56,030)
Sheriff	10,027,496	10,035,776	10,025,571	(10,205)
Superior Court	1,187,073	1,187,073	1,172,434	(14,639)
Treasurer	630,854	630,854	615,502	(15,352)
Taxes	30,000	30,000	30,000	-
Traffic Safety	122,054	122,054	121,554	(500)
Total expenditures	37,135,480	37,569,760	36,729,509	(840,251)
Excess (deficiency) of revenues over (under) expenditures	(318,824)	(744,824)	2,670,706	3,415,530
Fund balances - beginning (restated)	7,070,000	7,070,000	7,948,847	878,847
Fund balances - ending	6,751,176	6,325,176	10,619,553	4,294,377

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON**County Roads Special Revenue Fund****Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	7,099,151	7,099,151	7,333,661	234,510
Intergovernmental revenues	5,725,470	5,725,470	5,418,396	(307,074)
Charges for services	83,500	83,500	103,480	19,980
Miscellaneous	5,000	5,000	60,238	55,238
Total revenues	12,913,121	12,913,121	12,915,775	2,654
Expenditures				
Current:				
General government	51,219	51,219	35,677	(15,542)
Transportation	10,497,665	10,497,665	10,146,178	(351,487)
Capital outlay	3,515,000	3,515,000	2,256,202	(1,258,798)
Total expenditures	14,063,884	14,063,884	12,438,057	(1,625,827)
Excess (deficiency) of revenues over (under) expenditures	(1,150,763)	(1,150,763)	477,718	1,628,481
Other Financing Sources (Uses)				
Sale of capital assets	5,000	5,000	3,905	(1,095)
Transfers in	400,000	400,000	400,000	-
Transfers out	(120,000)	(120,000)	(120,000)	-
Total other financing sources and uses	285,000	285,000	283,905	(1,095)
Net change in fund balances	(865,763)	(865,763)	761,622	1,627,385
Fund balances - beginning	1,803,480	1,803,480	1,626,953	(176,527)
Fund balances - ending	937,717	937,717	2,388,576	1,450,859

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Regional Justice Center Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenues	48,000	48,000	40,962	(7,038)
Charges for services	8,339,293	8,339,293	8,184,230	(155,063)
Fees and fines	17,700	17,700	8,272	(9,428)
Miscellaneous	90,100	90,100	77,507	(12,593)
Total revenues	8,495,093	8,495,093	8,310,971	(184,122)
Expenditures				
Current:				
Public safety	8,364,160	8,364,160	8,335,831	(28,329)
Debt service:				
Interest and other charges	-	-	143	143
Capital outlay	50,000	50,000	-	(50,000)
Total expenditures	8,414,160	8,414,160	8,335,973	(78,187)
Excess (deficiency) of revenues over (under) expenditures	80,933	80,933	(25,002)	(105,935)
Fund balances - beginning	-	-	21,809	21,809
Fund balances - ending	80,933	80,933	(3,193)	(84,126)

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Natural Resources Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenues	3,964,192	3,964,192	2,726,611	(1,237,581)
Charges for services	5,500	5,500	223,846	218,346
Miscellaneous	-	-	15,510	15,510
Total revenues	<u>3,969,692</u>	<u>3,969,692</u>	<u>2,965,967</u>	<u>(1,003,725)</u>
Expenditures				
Current:				
Natural environment	4,013,947	4,013,947	2,940,754	(1,073,193)
Debt service				
Interest and other charges	2,500	2,500	16,916	14,416
Total expenditures	<u>4,016,447</u>	<u>4,016,447</u>	<u>2,957,671</u>	<u>(1,058,776)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(46,755)</u>	<u>(46,755)</u>	<u>8,296</u>	<u>55,051</u>
Other Financing Sources (Uses)				
Transfers in	50,000	50,000	50,000	-
Total other financing sources and uses	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Net change in fund balances	3,245	3,245	58,296	55,051
Fund balances - beginning	-	-	29,915	29,915
Fund balances - ending	<u>3,245</u>	<u>3,245</u>	<u>88,211</u>	<u>84,966</u>

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Statement of Net Position

Proprietary Funds

December 31, 2016

	Internal Service Funds
Assets	
Current assets:	
Cash and cash equivalents	5,148,908
Deposits with fiscal agents	40,000
Investments	2,262,743
Due from other funds	739,999
Inventory	927,413
Total current assets	<u>9,119,063</u>
Noncurrent assets:	
Capital assets: net of accumulated depreciation)	
Buildings	22,806
Equipment	4,521,413
Total noncurrent assets	<u>4,544,219</u>
Total assets	<u>13,663,282</u>
 Deferred Outflows of Resources - Pensions	 <u>99,630</u>
 Liabilities	
Current liabilities:	
Accounts payable	223,553
Due to other funds	491
Due to other governments	1,594
Accrued payroll liability	95,031
Compensated absences	10,050
Total current liabilities	<u>330,718</u>
Noncurrent liabilities:	
Compensated absences	35,630
Claims reserve	263,518
Net pension liability	358,673
Total noncurrent liabilities	<u>657,821</u>
Total liabilities	<u>988,539</u>
 Deferred Inflows of Resources - Pensions	 <u>17,653</u>
 Net Position	
Investment in capital assets	4,544,219
Unrestricted	8,212,500
Total net position	<u><u>12,756,719</u></u>

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

For the Year Ended December 31, 2016

	Internal Service Funds
Operating Revenues	
Charges for services	11,287,450
Total operating revenues	<u>11,287,450</u>
Operating Expenses	
Salaries	710,363
Personnel benefits	285,857
Supplies	2,041,355
Other services & charges	7,070,349
Interfund payments for services	169,085
Depreciation	838,837
Total operating expenses	<u>11,115,846</u>
Operating income (loss)	<u>171,604</u>
Nonoperating Revenues (Expenses)	
Gain (loss) on disposal of capital assets	206,474
Total nonoperating revenues (expenses)	<u>206,474</u>
Change in net position	378,078
Net position - beginning	12,378,641
Net position - ending	<u><u>12,756,719</u></u>

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2016

	Internal Service Funds
Cash Flows From Operating Activities:	
Cash received from customers and users	11,291,123
Cash payments to suppliers	(9,231,449)
Cash payments to employees and retirees	(973,480)
Net cash provided (used) by operating activities	<u>1,086,194</u>
Cash Flows From Noncapital Financing Activities	
Interfund loan payment received	84,957
Interfund loan provided	(41,607)
Net cash provided (used) by noncapital financing activities	<u>43,350</u>
Cash Flows From Capital Financing Activities	
Proceeds from sale of capital assets	206,474
Acquisition and construction of capital assets	(981,749)
Net cash provided (used) by capital financing activities	<u>(775,275)</u>
Cash Flows From Investing Activities	
Purchase of investments	(9,463)
Net cash provided (used) by investing activities	<u>(9,463)</u>
Net increase (decrease) in cash and cash equivalents	344,806
Cash and cash equivalents, January 1	<u>4,804,103</u>
Cash and cash equivalents, December 31	<u><u>5,148,908</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>171,604</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) operating activities:	
Depreciation	838,837
(Increase) decrease in due from other funds/gov	(3,789)
(Increase) decrease in inventory	50,531
(Increase) decrease in pension related deferred outflows	(42,731)
Increase (decrease) in vouchers/contracts payable	49,800
Increase (decrease) in due to other funds/gov	731
Increase (decrease) in accrued payroll liabilities	1,926
Increase (decrease) in accrued employee leave benefits	19,286
Total adjustments	<u>914,590</u>
Net cash provided (used) by operating activities	<u><u>1,086,194</u></u>

The County did not have any material noncash transactions.

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2016

	<u>Agency Funds</u>
Assets	
Cash	15,882,412
Investments	181,176,547
External trust deposits	1,231,422
Taxes receivable	2,661,579
Total assets	<u>200,951,960</u>
Liabilities	
Accounts payable	568,248
Other accrued liabilities	776,930
Custodial accounts	199,606,782
Total liabilities	<u>200,951,960</u>

The notes to the financial statements are an integral part of this statement.

CHELAN COUNTY, WASHINGTON

Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Chelan County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Chelan County, Washington, was incorporated in 1899 and operates under the laws of the State of Washington applicable to third-class counties with commissioner form of government. As required by the generally accepted accounting principles the financial statements present Chelan County, the primary government.

Chelan County is a general purpose government and provides the following services: law enforcement and public safety; juvenile, superior and district court systems; legal prosecution and indigent defense; jails and corrections; construction and maintenance of county roads, bridges, and drainage systems; community planning, development, and code compliance; and parks and recreation activities management. In addition, the County provides general government services such as property assessment, tax services, issuance of permits and licenses, and elections.

Joint Venture – A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an on-going financial interest or an on-going financial responsibility. Chelan County participates in a joint venture with Douglas County, the City of Wenatchee and the City of East Wenatchee in the RiverCom 911 multi-jurisdictional public safety dispatch center. See Note 12 for additional information about the joint venture.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Preparation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Chelan County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The County considers property taxes as

available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by Chelan County.

Chelan County reports the following major governmental funds:

- The General fund (Current Expense) is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The County Roads special revenue fund accounts for the finance, design, construction, and maintenance of Chelan County roads. The majority of its funding comes from property taxes, motor vehicle fuel taxes, and state and federal grants.
- The Regional Justice Center fund accounts for the operation of the Chelan County regional correction facility. It receives its funding from providing Jail bed space to other entities as well as the Chelan County General fund.
- The Natural Resources fund accounts for resources from federal, state, and local grants to address environmental issues including water resources, timber, fish, wildlife, and agriculture within Chelan County.

Additionally, Chelan County reports the following fund types:

- Internal service funds account for equipment and fleet management as well as insurance management services to other departments or funds of the County or to other governmental units on a cost-reimbursement basis.
- Agency funds account for the cash balances maintained by the local taxing districts. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. An exception to this rule is that interfund charges for services are not excluded when elimination would distort the direct costs and program revenues reported for the various functions.

Prior to 2016 program expenses for the Judicial function were included with General Government program expenses. Because the judicial related expenses are accounted for separately from other general government type activities, consistent with State requirements, these amounts were reported separately beginning with the 2016 financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

1. Budgetary Basis of Accounting

Annual appropriated budgets are adopted for general, special revenue, debt service, capital project, and proprietary funds on the modified accrual basis of accounting. However, interfund activity is also budgeted and must be removed (see note 1(D)(3) for a reconciliation to GAAP basis). These budgets are adopted at the fund and department levels. Appropriations for all budgeted funds lapse at year-end. Major capital projects are also included in the County's capital financing plan, which carries forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

2. Excess of Expenditures Over Appropriations

The following excess of expenditures over appropriations were not anticipated in the original 2016 budget and the expenditures occurred late in 2016 after any supplemental budget appropriations could be legally made. In each instance, the funds had sufficient cash balances to cover their expenditures.

The Auditor O&M fund had expenditures for software and systems upgrades, one of the purposes for which the fund was created, occur late enough in the year that there was not sufficient time at year-end, and total costs were not known until very late in the year, not allowing enough time for a budget amendment before all costs were incurred and expenses paid. The fund expenditures exceeded appropriations by \$14,039 for software and system upgrades.

The Mental Health fund expenditures exceeded appropriations by \$1,046. This fund operates as a pass-through fund, so the excess expenditures were covered with corresponding revenues received.

The Tourist & Convention fund collects the county portion of hotel motel bed taxes and disburses these funds for tourism promotion expenses and activities. The fund experienced successful growth in 2016 bringing in \$1,416,004 in revenue compared to \$1,100,020 in budgeted revenue, resulting in \$315,984 of revenue over budget. With the increased level of activity, expenses increased as well. The fund expenses exceeded appropriations by \$216,055 due to more activities and projects occurring during the year as the economy grew and opportunities to promote and expand tourism increased. Many of these expenses and some of the projects occurred late enough in the year that there was not sufficient time at year-end to accurately project revenue and expenses and prepare a budget amendment. The excess expenditures, however, were more than offset by revenue received in excess of budgeted revenue. The fund will be monitored closely in the future to identify trends that might need to be addressed earlier, before year-end, while there is still time to prepare budget amendments.

3. Reconciliation of Budgetary and Actual Statements

The total revenues and expenditures of the General fund from the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budgetary and Actual do not tie to the total revenues and total expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances due to the elimination of interfund activity and separation of other financing sources and uses.

	General Fund		County Roads	
	Revenues	Expenditures	Revenues	Expenditures
Budgetary basis	39,400,215	36,729,509	13,319,680	12,558,057
Interfund activity	(1,717,094)	(1,717,094)	(11,597)	(11,597)
Transfers	(120,000)	(80,000)	(400,000)	(120,000)
GAAP basis	37,563,121	34,932,415	12,908,083	12,426,460

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2016, the Treasurer was holding \$24,811,031 in residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the general fund.

For purposes of the statement of cash flows, the county considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, banker's acceptances, and certain other government agency obligations. Investments are reported at fair value.

2. Receivables

Taxes receivable consist of property taxes and related interest and penalties. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Court judgments receivable consist of fines and penalties assessed by the Superior and District Court Judges.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

3. Amounts Due To and From Other Funds and Governmental Units, and Interfund Loans Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “interfund loans receivable/payable”. All other outstanding balances between funds are reported as “due to/from other funds.” A separate schedule of interfund loans receivable and payable is furnished in Note 11.

4. Inventories

Inventories in proprietary funds are valued by the FIFO method (which approximates the market value).

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than \$5,000, or in the case of infrastructure assets with an initial cost of more than \$100,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost for normal maintenance and repairs are not capitalized.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives: Buildings for 31.5 years, land improvements over 10 years, equipment varies between 3 and 10 years; infrastructure between 20 and 45 years. See Note 4 for additional information on capital assets.

6. Other Accrued Liabilities

These accounts consist of accrued wages, accrued employee benefits, and accrued use tax.

7. Deferred Inflows of Resources

Deferred inflows of resources in the governmental fund financial statements include delinquent taxes and court judgments that are earned, but not yet available under the modified accrual basis of accounting.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Fund Balance Policies

Chelan County fund balances are classified into five categories in accordance with Statement 54 from the Governmental Accounting Standards Board: nonspendable, restricted, committed, assigned, and unassigned. Committed, assigned, and unassigned categories are considered to be “unrestricted.”

When expenditures are incurred that could be paid from either restricted, committed, assigned, or unassigned resources the county's policy varies by fund type. In the General fund, the county uses restricted resources first, committed resources second, assigned resources third, and unassigned resources last. In the special revenue and capital projects funds, the county uses assigned resources first, committed resources second, and restricted resources last.

The fund balance is committed when the Board of County Commissioners commits a revenue source to a specific purpose by formal resolution. The fund balance is assigned when the Board of County Commissioners approve in writing, other than formal resolution, an intended use for a revenue source. The approved budget does not create committed or assigned amounts.

F. Revenues and Expenditures/Expense

1. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Property taxes are levied and become an enforceable lien against properties on January 1st. Tax bills are mailed on February 14th, and the first of two equal installment payments is due on April 30. Assessed value of property is established at 100% of market value for next year's levy on May 31. The second installment payment is due on October 31st.

In governmental funds, property taxes are recorded as a receivable when levied, offset by unavailable revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 60 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Washington State Constitution and Washington State law (RCW 84.55.010) allow counties to limit the rate of property taxes. A county may levy taxes at a maximum rate of \$1.80 per \$1,000 of assessed value against all real and personal property subject to taxation for general county purposes. This includes payment of principal and interest on bonds issued by the County without a vote of the people, including limited tax general bond obligations (RCW 84.52). The County's regular levy for 2016 was \$1.23 per \$1,000 on an assessed valuation of \$9.7 billion for a total regular tax levy of \$11,952,385.

The County is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The County's road levy for 2016 was \$1.32 per \$1,000 on assessed valuation of \$5.6 billion for a total road levy of \$7,434,042. The diverted road levy for 2016 was \$400,000, which equates to \$0.04120 per \$1,000 of assessed valuation on total valuation of \$9.7 billion.

The County assesses a mental health levy of \$0.025 per \$1,000 on assessed valuation of \$9.7 billion for a total tax levy of \$242,731. The County also assesses a flood control zone levy of \$0.068 per \$1,000 on assessed valuation of \$9.7 billion for a total tax levy of \$657,041.

A county may increase its levy from \$1.80 to \$2.475 for general county purposes if the total levies for both county and road purposes do not exceed \$4.05 per \$1,000 of assessed value and no other taxing district has had its levy reduced as a result of the increased county levy.

The \$1.80 per \$1,000 limitation on the general purposes levy is exclusive of certain regular property taxes: (i) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.069); (ii) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.105); and (iii) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 (authorized by RCW 84.34.230).

Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per \$1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050. Within the one percent limitation, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low-income households and acquiring conservation futures. If aggregate regular property tax levies exceed the one percent or \$5.90 per \$1,000 limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010), in order to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

2. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave, sick leave, and compensation time. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement or death.

Chelan County allows employees to accumulate up to 960 hours of sick leave after which time it lapses or is paid out at year-end (depending on union affiliation). Upon setting an official date of retirement, an employee is paid out all accumulated sick leave hours in excess of 720 hours to a maximum of 240 hours.

The County also allows 80 or 120 hours (depending on union affiliation) of compensatory leave after which time it is paid out month by month. In addition, any compensatory leave accumulated in excess of 40 or 80 hours (depending on union affiliation) is paid out at year-end.

3. Internal Service Expense Classification

Internal service charges to departments, which are eliminated from program expenses on the government wide financial statements to prevent double counting the same expense, were previously eliminated primarily from the general government program function prior to 2016. With the 2016 financial statements, specific functions were identified for elimination of internal service charges of \$11,287,450 from program expenses. Management believes this gives a more accurate accounting of program expenses after the elimination of the internal service charges.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Note 1.D.2 describes budgetary violations that occurred for the year ended December 31, 2016. It also addresses the action taken to cover the expenses.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits

The County's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. Investments

Investments Measured at Amortized Cost

As of December 31, 2016, the County held the following investments at amortized cost:

Type of Investment	Maturities	City's own investments	Investments held by County as an agent for others	Total
Certificate of deposit	N/A	256,006	1,826,995	2,083,001
Municipal money market	N/A	5,461,329	-	5,461,329
State investment pool	less than 90 days	17,268,726	177,623,848	194,892,574
Total		22,986,061	179,450,843	202,436,904

Investments Measured at Fair Value

The County measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;

Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2016 the County had the following investments measured at fair value:

		Fair Value Measurement Using		
Investments	Weighted average maturity of Chelan County's own investments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value of County Investments:				
U.S. government securities	16 months	-	19,112,592	-
Total		-	19,112,592	-
Fair value of investments held by Chelan County as an agent for other local governments:				
U.S. government securities	16 months	-	1,714,475	-
Total		-	1,714,475	-
Fair value of investments held by Chelan County and as an agent for other local governments:				
U.S. government securities		-	20,827,067	-
Total		-	20,827,067	-
Surplus cash pooled and invested, listed as cash and cash equivalents in the financial statements				
Municipal money market	less than 90 days		2,447,432	
Interest bearing checking	less than 90 days		3,006,226	
Certificate of deposit	4 months		260,784	
U.S. government securities	16 months		19,096,589	
			24,811,031	

State investment pool. The Local Government Investment Pool (LGIP) is an unrated investment pool, as defined by GASB 79. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to the risk that the fair value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The policy also states that no single security will be purchased with a maturity date of more than five years from the date of purchase.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The state investment pool does not have a credit rating. Chelan County holds municipal bonds with Moody's ratings of A3. The County also holds federal securities all holding a Moody's rating of Aaa and Aa1 and S&P rating of AA+ and AA-. Chelan County does not have a policy related to credit risk.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2016 was as follows:

	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital assets, not being depreciated:				
Land	5,637,769	299,341	-	5,937,110
Construction in progress	8,161,602	1,940,536	6,969,911	3,132,227
Total capital assets, not being depreciated	13,799,371	2,239,877	6,969,911	9,069,338
Capital assets, being depreciated:				
Other improvements	2,211,433	-	-	2,211,433
Buildings and structures	54,641,592	160,689	-	54,802,281
Machinery and equipment	24,126,142	1,314,973	823,084	24,618,031
Infrastructure	79,973,477	7,099,514	-	87,072,992
Total capital assets being depreciated	160,952,644	8,575,176	823,084	168,704,737
Less accumulated depreciation for:				
Other improvements	1,604,323	57,159	-	1,661,482
Buildings and structures	27,861,918	1,124,169	-	28,986,088
Machinery and equipment	17,824,061	1,277,269	744,580	18,356,750
Infrastructure	41,851,318	3,293,680	-	45,144,999
Total accumulated depreciation	89,141,620	5,752,278	744,580	94,149,318
Total capital assets, being depreciated, net	71,811,024	2,822,898	78,504	74,555,419
Total capital assets, net	85,610,395	5,062,775	7,048,415	83,624,757

Depreciation expense was charged to functions as follows:

General Government	842,306
Judicial	38,386
Public Safety	612,865
Utilities	128,928
Transportation	3,904,987
Natural Environment	20,653
Economic environment	53,583
Culture and recreation	150,570
Total depreciation	5,752,278

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Net pension liabilities	\$ 21,561,858
Net pension assets	\$ 1,360,995
Deferred outflows of resources	\$ 4,578,442
Deferred inflows of resources	\$ 412,180
Pension expense/expenditures	\$ 3,433,935

A. State Sponsored Pension Plans

Substantially all Chelan County's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state

Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

B. Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

* For employees participating in JBM, the contribution rate was 15.30%.

The County's actual PERS plan contributions were \$1,062,903 for PERS Plan 1 and \$1,146,892 to PERS Plan 2/3 for the year ended December 31, 2016.

C. Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2016 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.54%	6.59%

The County's actual plan contributions, not including funding of the PERS Plan 1 UAAL, were \$152,798 to PSERS Plan 2 for the year ended December 31, 2016.

D. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%

The County's actual contributions to the plan were \$253,572 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the County as its proportionate share of this amount is \$178,285.

E. Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the County's proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$12,888,122	\$ 10,687,560	\$ 8,793,840
PERS 2/3	\$19,450,816	\$ 10,564,322	\$(5,499,339)
PSERS 2	\$ 1,345,969	\$ 309,977	\$ (427,963)
LEOFF 1	\$ (190,856)	\$ (321,284)	\$ (432,772)
LEOFF 2	\$ 2,915,634	\$ (1,039,710)	\$(4,020,891)

F. Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

G. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the County reported a total pension liability of \$21,561,858 and total pension asset of \$1,360,994 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 10,687,560
PERS 2/3	\$ 10,564,322
PSERS 2	\$ 309,977
LEOFF 1	\$ (321,284)
LEOFF 2	\$ (1,039,710)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the County. The amount recognized by the County as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the County were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (321,284)	\$ (1,039,710)
State's proportionate share of the net pension asset associated with the employer	\$(2,173,160)	\$ (677,815)
TOTAL	\$(2,494,444)	\$ (1,717,526)

At June 30, the County's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.186394%	0.199006%	0.012612%
PERS 2/3	0.198093%	0.209821%	0.011728%
PSERS 2	0.659134%	0.729392%	0.070258%
LEOFF 1	0.031844%	0.031184%	(0.000660%)
LEOFF 2	0.177599%	0.178758%	0.001159%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

H. Pension Expense

For the year ended December 31, 2016, the County recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 1,320,924
PERS 2/3	\$ 1,612,401
PSERS 2	\$ 212,954
LEOFF 1	\$ (34,943)
LEOFF 2	\$ 322,599
TOTAL	\$ 3,433,935

I. Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 269,096	\$
Contributions subsequent to the measurement date	\$ 447,073	\$
TOTAL	\$ 716,169	\$

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 562,543	\$ (348,746)
Net difference between projected and actual investment earnings on pension plan investments	\$ 1,292,768	\$
Changes of assumptions	\$ 109,191	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 503,422	\$
Contributions subsequent to the measurement date	\$ 484,300	\$
TOTAL	\$ 2,952,223	\$ (378,746)

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 105,587	\$
Net difference between projected and actual investment earnings on pension plan investments	\$ 63,931	\$
Changes of assumptions	\$ 1,203	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 6,048	\$(162)
Contributions subsequent to the measurement date	\$ 67,899	\$
TOTAL	\$ 244,669	\$(162)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 32,658	\$
TOTAL	\$ 32,658	\$

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 142,468	\$
Net difference between projected and actual investment earnings on pension plan investments	\$ 373,610	\$
Changes of assumptions	\$ 3,920	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$(63,272)
Contributions subsequent to the measurement date	\$ 112,725	\$
TOTAL	\$ 632,723	\$(63,272)

Total-All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 810,598	\$ (348,746)
Net difference between projected and actual investment earnings on pension plan investments	\$ 2,032,063	\$
Changes of assumptions	\$ 114,315	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 509,469	\$ (63,434)
Contributions subsequent to the measurement date	\$ 1,111,997	\$
TOTAL	\$ 4,578,442	\$ (412,180)

Deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1 Outflows	PERS 2/3 Inflows	PERS 2/3 Outflows	PSERS Inflows	PSERS Outflows	LEOFF 1 Outflows	LEOFF 2 Inflows	LEOFF 2 Outflows
2017	(66,257)	(108,983)	287,493	(33)	21,889	(6,749)	(14,768)	(5,071)
2018	(66,257)	(108,983)	287,493	(33)	21,889	(6,749)	(14,768)	(5,071)
2019	247,136	(108,983)	1,235,318	(32)	61,276	28,284	(14,768)	308,713
2020	154,474	(21,796)	657,619	(32)	48,242	17,872	(14,768)	212,547
2021				(32)	22,341		(4,201)	8,881
Thereafter					1,133			

K. Volunteer Fire Fighters and Reserve Officers' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 500 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes 40 percent of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

The VFFRPF plan does not issue a stand-alone financial report, but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at www.ofm.wa.gov.

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

The County contributed \$420 in 2016 to the VFFRPF for four reserve Sheriff's Office positions. The County's proportionate share of Net Pension Asset is \$31,626.

NOTE 6 - RISK MANAGEMENT

A. Liability Insurance - Risk Pool

Chelan County is a participating member of the Washington Counties Risk Pool (WCRP). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to join together for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in August of 1988 when 15 counties in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2016, 26 counties participate in the WCRP.

The Pool allows members to jointly establish a plan of self-insurance, and provides related services, such as risk management and claims administration. Members enjoy occurrence-based, jointly purchased and/or jointly self-insured liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits are \$20 million per occurrence and each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. For losses occurring in 2016, Chelan County selects a per-occurrence deductible of \$100,000.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance for further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions ("SIRs") equal to the greater of the deductible for the member with the claim or \$100,000. More recent years' reinsurance programs have included "corridor deductibles" with aggregated stop losses which have the effect of increasing the Pool's SIR. For 2015-16, this "corridor" increased the SIR to \$2 million, but with an aggregated stop loss of \$3.45 million. Other reinsurance agreements respond to the applicable policy limits. Those reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer). Since the Pool is a cooperative program, there is a joint liability among the participating members.

New members may be asked to pay modest fees to cover the costs to analyze their loss data and risk profiles, and for their proportional shares of the entry year's assessments. New members contract under the Interlocal Agreement to remain in the Pool for at least five years. Following its initial 60-month term, any member may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files the required advance written notice. Otherwise, the Interlocal Agreement and membership automatically renews for another year. Even after termination, former members remain responsible for reassessments by the Pool for the members' proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

The Pool is fully funded by its member participants. Claims are filed directly with the Pool by members and adjusted by one of the six staff members responsible for evaluating each claim for coverage, establishing reserves, and investigating for any risk-shared liability. The Pool does not contract with any third party administrators for claims adjustment or loss prevention services.

During 2015-16, Chelan County was also one of twenty-six (26) counties which participated in the Washington Counties Property Program (WCPP). Property losses are covered under the WCPP to the participating counties' buildings and contents, vehicles, mobile/contractor equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes 'All Other Perils ("AOP")' coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Each participating county is solely responsible for paying their selected deductible, ranging between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

Chelan County also participates in the jointly purchased cyber risk and security coverage from a highly-rated commercial insurer.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. The Board of Directors generally meets three-times each year with the Annual Meeting of the Pool' being held in summer. The Board approves the extent of risk-sharing, approves the Pool's self-insuring

coverage documents, approves the selection of reinsurance and excess agreements, and approves the Pool's annual operating budget.

An 11-member executive committee is elected by and from the WCRP Board for staggered, 3-year terms. Authority has been delegated to the Committee by the Board of Directors to, a) approve all disbursements and reviews the Pool's financial health, b) approve case settlements exceeding the applicable member's deductible by at least \$50,000, c) review all claims with incurred loss estimates exceeding \$100,000, and d) evaluate the Pool's operations, program deliverables, and the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board to consider and act upon.

During 2015-16, the WCRP's assets decrease 4% to \$46.8 million while its liabilities increased slightly to \$29 million. The Pool's net position decreased slightly from \$18.9 million to \$17.9 million. The Pool more than satisfies the State Risk Manager's solvency requirements (WAC 200.100.03001). The Pool is a cooperative program with joint liability amongst its participating members.

Deficits of the Pool resulting from any fiscal year are financed by reassessments of the deficient year's membership in proportion with the initially levied and collected deposit assessments. The Pool's reassessments receivable balance as of December 31, 2016 was zero (\$0). As such, there were no known contingent liabilities at that time for disclosure by the member counties.

B. Self-Insurance

1. Unemployment Compensation

Chelan County reimburses the Employment Security Department for individual unemployment compensation claims. The County pays actual claims on a pay-as-you-go basis.

<u>Unemployment Compensation</u>	
Claims liability at 12/31/2014	\$ 0
Claims incurred	\$ 32,113
Claims paid	\$ (32,113)
Claims liability at 12/31/2015	\$ 0
Claims incurred	\$ 51,050
Claims paid	\$ (51,050)
Claims liability at 12/31/2016	\$ 0

2. Workers Compensation

Chelan County is self-insured for Workers Compensation claims. The County maintains excess Workers Compensation insurance of \$400,000 per claim for regular employees and \$500,000 per claim for public safety employees.

<u>Workers Compensation</u>	
Claims liability at 12/31/2014	\$ 313,900
Claims incurred	\$ 20,007
Claims paid	\$ (305,379)
Claims adjustments	\$ 197,226
Claims liability at 12/31/2015	\$ 225,754
Claims incurred	\$ 108,519
Claims paid	\$ (175,956)
Claims adjustments	\$ 105,201
Claims liability at 12/31/2016	\$ 263,518

3. Medical Insurance

Chelan County is self-insured for medical insurance. Premiera provides the administration of the medical insurance claims for the County. The County has a \$110,000 stop-loss policy to mitigate risk of large individual claims. It also maintained an annual aggregate claims limit of \$5,107,064. Per the Washington Administrative Code, the County must maintain a reserve equal to 16 weeks of program expenses. Based on 2016's average weekly medical plan costs, this amount equals \$1,690,912. As of 12/31/2016, the Health Insurance fund was adequately funded with an ending net position of \$3,521,260.

<u>Medical Insurance</u>	
Claims liability at 12/31/2014	\$ 0
Claims incurred	\$ 3,075,117
Claims paid	\$ (3,075,117)
Claims liability at 12/31/2015	\$ 0
Claims incurred	\$ 4,017,964
Claims paid	\$ (4,017,964)
Claims liability at 12/31/2016	\$ 0

NOTE 7 - LONG TERM DEBT

A. Long-Term Debt

The County issues general obligation bonds to finance the purchase and construction of buildings and other capital assets. Bonded indebtedness has also been entered into to advance refund general obligation bonds. General obligation bonds have been issued for general government activities and are being repaid from the General, Criminal Justice Sales Tax, Distressed Counties Tax funds. These bonds are set to mature between 2022 and 2036. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount Outstanding
2007 LTGO and refunding bonds to advance refund the county's 1998 and 2000 G.O. bonds and \$1,200,000 for technology projects, original issue \$5,735,000	4.0% - 5.0%	1,985,000
2009 LTGO bonds for the law and justice facility renovation, original issue \$8,150,000	2.0% - 5.0%	1,310,000
2016 Refunding bonds to advance refund the county's 2002 and 2003A bonds and partially refund the 2009 G.O. bonds, original issue \$8,955,000	2.0% - 5.0%	8,610,000
Total		11,905,000

The annual debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2017	885,000	434,867
2018	935,000	399,467
2019	750,000	366,454
2020	765,000	340,693
2021	795,000	313,967
2022-2026	2,440,000	1,239,336
2027-2031	2,425,000	850,500
2032-2036	2,910,000	358,600
Total	11,905,000	4,303,884

B. Refunded Debt

In 2007 Chelan County issued the 2007 LTGO refunding bonds to defease the 1998 and 2000 G.O bonds. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the county's financial statements.

The reacquisition price was less than the carrying amount of the old debt by \$715,000. This difference has been classified as a deferred inflow of resources on the Statement of Net Position and is being amortized as a component of interest expense over the remaining life of the refunding debt. See note 14 for additional information on the prior period adjustment related to the amortization.

In 2016 Chelan County issued the 2016 LTGO refunding bonds to defease the 2002 and 2003A G.O bonds, as well as partially refunding the outstanding 2009 G.O. bonds. The proceeds of the new bonds were placed in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the county's financial statements.

The reacquisition price was less than the carrying amount of the old debt by \$120,000. This difference has been classified as a deferred inflow of resources on the Statement of Net Position and is being amortized as a component of interest expense over the remaining life of the refunding debt.

NOTE 8 - CHANGES IN LONG TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/16	Additions	Reductions	Ending Balance 12/31/16	Due Within One Year
Bonds payable	12,880,000	8,955,000	9,930,000	11,905,000	885,000
Net pension liability	16,948,421	4,613,437	-	21,561,858	-
OPEB benefit for LEOFF	2,350,250	727,967	281,482	2,796,735	-
DSHS Working capital advance	110,394	-	-	110,394	-
Claims reserve	225,754	213,720	175,956	263,518	-
Compensated absences	2,328,635	618,432	512,347	2,434,720	535,656
Long-term liabilities:	34,843,454	15,128,556	10,899,785	39,072,225	1,420,656

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals. At year end, \$45,680 of internal service funds compensated absences are included in the above amounts. The majority of the compensated absences above are liquidated by the General, County Roads, and Regional Justice Center funds. The OPEB benefit for LEOFF is liquidated by the General fund. The net pension liability will be liquidated by funds that have personnel costs, which are predominately the major governmental funds.

NOTE 9 – CONTINGENCIES AND LITIGATIONS

Chelan County is named as defendant in a few legal actions. Although the outcomes of these lawsuits are not presently known, the County is of the opinion that the present insurance policy and reserves are adequate to cover the potential settlements without adversely affecting the financial viability of the County.

Chelan County participates in several federal and state grant programs. These grants are subject to an annual audit examination which includes compliance with granting agency terms and provisions, and with pertinent federal and state regulations. Failure to adequately comply with these provisions could result in a requirement to repay funds to the granting agency. Disallowed expenditures cannot be determined at this time, although it is expected that such amounts, if any, will be immaterial.

During 2008 and 2009, Chelan County received a loan of \$773,203 from the Department of Community, Trade and Economic Development (CTED) for the express purpose of the construction of restroom, shower, and laundry facilities for the Monitor Park temporary farm worker camp. Repayment of the non-interest bearing loan principal has been deferred until the change of use, noncompliance with agreement, or until it is fully forgiven on December 31, 2017, whichever occurs first. During 2013, the loan agreement was modified to forgive the loan at a rate of 1/15th per year over the first 5 year period, and a rate of 2/15th per year over the second 5 year period. Upon completion of the deferral period, the entire loan will be forgiven. Since the probability of repayment is remote, loan proceeds were recorded as a capital grant in 2008 and 2009. The potential liability for the unamortized balance on December 31, 2016 was \$103,094.

NOTE 10 – FUND BALANCE**A. Minimum Fund Balance Policy**

Maintenance of an adequate fund balance for the General fund to ensure sufficient resources for cash flow and to mitigate revenue shortages or emergencies shall be a priority.

The General fund shall maintain a minimum year-end unassigned fund balance of 8% of its annual expenditures. In the event the fund balance is not at that level, the county shall create a plan to restore the fund balance to 8% within two years. The General fund's long-term fund balance target is a year-end unassigned fund balance of 15% of annual expenditures.

B. Detailed Fund Balance Constraints

Fund Balances:	Special Revenue Funds					Nonmajor Capital Projects Funds	Total
	General Fund	County Roads	Regional Justice Center	Natural Resources	Nonmajor Special Revenue Funds		
Restricted for:							
Roads & transportation	-	2,388,576	-	-	96,790	-	2,485,366
Drug enforcement	-	-	-	-	302,268	-	302,268
Law enforcement	-	-	-	-	2,570,150	-	2,570,150
Archiving	-	-	-	-	350,748	-	350,748
Housing	-	-	-	-	410,692	-	410,692
Pest control	-	-	-	-	20,717	-	20,717
Technology	-	-	-	-	247,404	-	247,404
Weed control	-	-	-	-	56,975	-	56,975
Courts	-	-	-	-	362,597	-	362,597
Veterans	-	-	-	-	27,191	-	27,191
Foreclosure costs	-	-	-	-	139,815	-	139,815
Tourism	-	-	-	-	1,232,132	-	1,232,132
Natural resources	-	-	-	88,211	95,770	-	183,981
Flood control	-	-	-	-	2,761,894	-	2,761,894
Substance abuse	-	-	-	-	282	-	282
Capital projects	-	-	-	-	3,477,357	2,929,823	6,407,180
Committed to:							
Drug enforcement	-	-	-	-	8,590	-	8,590
Prison	-	-	-	-	76,338	-	76,338
Parks & recreation	-	-	-	-	790,459	-	790,459
Education	-	-	-	-	104,950	-	104,950
Airport	-	-	-	-	53,822	-	53,822
Utilities	-	-	-	-	479,401	-	479,401
Elections	-	-	-	-	33,313	-	33,313
Unassigned	10,619,553	-	(3,193)	-	-	-	10,616,360
	10,619,553	2,388,576	(3,193)	88,211	13,699,655	2,929,823	29,722,625

NOTE 11 - INTERFUND BALANCES AND TRANSFERS

A. Due To/From Other Funds

"Due from other funds" and "due to other funds" are created from interfund transactions which usually involve the exchange of goods or services in a normal business relationship. The majority of these are due to interfund billing of equipment rental and motor pool charges. Due from other funds and due to other funds as of December 31, 2016 are as follows:

	Due From						Total
	General Fund	County Roads	Regional Justice Center	Natural Resources	Nonmajor govern- mental	Internal service	
Due To							
General Fund	-	29,874	1,366	-	6,653	-	37,893
County Roads	-	55,593	-	-	-	-	55,593
Regional Justice Center	153	190	-	-	57	17	417
Natural Resources	14,000	-	-	-	8,927	-	22,927
Nonmajor governmental	-	42	-	-	2,200	-	2,242
Internal service	96,148	631,899	460	3,201	7,817	474	739,999
Total	110,301	717,598	1,826	3,201	25,654	491	859,071

B. Interfund Loans Payable/Receivable

Interfund loans have arisen from certain funds requiring cash flow to manage their operations. The following table displays interfund loan activity during 2016:

Borrowing Fund	Lending Fund	Interfund Loans and Advances Payable			
		1/1/2016	New Loans	Repayments	12/31/2016
Solid Waste Planning	ER&R	43,350	41,607	84,957	-
Noxious Weeds	General Fund	-	7,000	7,000	-
Horticulture, Pest & Disease	General Fund	-	10,000	10,000	-
Natural Resources	REET I	416,000	914,000	790,000	540,000
Regional Justice Center	Distressed Counties Tax	-	15,000	15,000	-
Total		459,350	987,607	906,957	540,000

C. Interfund Transfers

During 2016, interfund transfers were used to move General fund property tax revenue to support the Law Library and Natural Resources operations. REET funds were transferred to County Roads so that an equal portion of the road property tax levy could be shifted to the General fund. County Roads transferred funds to the General fund to support county road traffic safety initiatives by the Sheriff. The following table displays interfund transfers during 2016:

Transfers In	Transfers Out			
	General	County Roads	Nonmajor governmental	Total
General	-	120,000	-	120,000
County Roads	-	-	400,000	400,000
Natural Resources	50,000	-	-	50,000
Nonmajor governmental	30,000	-	-	30,000
Total transfers	80,000	120,000	400,000	600,000

NOTE 12 – JOINT VENTURES

A. Rivercom

Chelan County participates in Rivercom, a joint venture, which was created with an interlocal agreement to build and operate a regional 911 communications center. The other participants in this venture include: Douglas County, the City of East Wenatchee and the City of Wenatchee. Rivercom charges the participants a fee based on the volume of calls generated by each participant. The fees are designed to cover Rivercom's costs. In addition to the fees, the participants provide their 911 tax revenues to the organization. Based on the interlocal agreement, Chelan County has a 25% equity interest in Rivercom. During 2016, Rivercom reported total revenues and other increases in fund resources of \$8,304,116 and reported total expenditures and other decreases in fund resources of \$6,229,704 resulting in an increase in cash and investment of \$2,074,412, and ending cash and investment of \$9,004,720. Rivercom produces financial statements using a cash basis of accounting. One-quarter of revenues, expenses, and fund balance are included in the full accrual government-wide financial statements. A copy of Rivercom's financial statements can be obtained from Rivercom at: PO Box 3344, Wenatchee, WA 98807 or (509) 662-4650.

NOTE 13 – RELATED ORGANIZATIONS

A. Mosquito Districts

The Chelan County Board of Commissioners appoint the majority of board members for three legally separate mosquito districts. After appointment, the districts are not accountable to Chelan County. Their combined financial information is included with the agency fund combining financial statements.

B. Water Conservation Board

The Chelan County Board of Commissioners appoint the majority of board members for the Chelan County Water Conservation Board. After appointment, the district is not accountable to Chelan County. Their combined financial information is included with the agency fund combining financial statements.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

Accounts receivable of \$217,352 for revenue recorded in the General Fund was accrued back to 2015 during the preparation of the 2015 Comprehensive Annual Financial Report (CAFR). This adjustment was based on the dates the work occurred or invoices paid, which was in 2015. In June 2016, prior to issuance of the 2015 CAFR, the accounts receivable was corrected to \$171,165. The difference, \$50,881, represents accounts receivable and revenue recorded in 2015 above the actual amount later received. Because the amount was known before the finalization and issuance of the 2015 CAFR, the item is being treated as the correction of an error and the beginning net position of the County is being restated by the net adjustment of \$50,881. Ending net position of the County previously reported was \$88,209,994, offset by the prior period adjustment of \$50,881, results in a restated ending net position of \$88,159,113.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

A. Plan Description

In addition to the pension benefits described in Note 5, the County provides single-employer defined benefit health insurance for retired public safety employees who are vested in LEOFF 1. All the County's LEOFF 1 employees retired and became eligible for these benefits when they reached normal retirement age while working for the County. There are 20 participants eligible to receive these benefits. The benefits are 100 percent provided by the County in order to meet state statutory requirements under the LEOFF 1 system whereby the County pays for their medical and dental premiums and out-of-pocket medical costs for life.

B. Funding Policy

The County has the authority to establish and amend OPEB contribution policy. The County funds its OPEB obligation on a pay-as-you-go basis, i.e. from the General fund. For the fiscal year ending December 31, 2016, the County's combined plan contributions were \$281,482.

C. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on an annual required contribution of the employer, an amount actuarially determined in accordance within the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB costs for the fiscal year ending December 31, 2016, the amount actually contributed to the plans, and changes in the County's net OPEB obligation:

Annual required contribution	845,341
Interest on net OPEB contribution	94,010
Adjustments to the annual required contribution	(211,384)
Annual OPEB cost/expense	<u>727,967</u>
Contributions made	<u>(281,482)</u>
Increase in the net OPEB obligation	446,485
Net OPEB obligation, beginning of year	<u>2,350,250</u>
Net OPEB obligation, end of year	<u>2,796,735</u>

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Actual Plan Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	\$727,967	\$281,482	39%	\$2,796,735
12/31/2015	\$726,468	\$293,814	40%	\$2,350,250
12/31/2014	\$604,217	\$277,588	46%	\$1,917,596

D. Funding Status and Funding Progress

The funded status of the plan as of December 31, 2016, was as follows:

Actuarial accrued liability (AAL)	9,398,828
Actuarial value of plan assets	0
Unfunded actuarial accrued liability	9,398,828
Funded ratio (actuarial value of plan assets / AAL)	0%

E. Methods and Assumptions

Due to the size of the plan (less than 100 participants) the County elected to use the alternative measurement method permitted under GASB Statement No. 45. Actuarial valuations involve estimates of the value of benefits and assumptions about the probability of events far into the future. Calculations are based on the current level of benefits provided by the employer. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and as new estimates are made about the future. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. Medical inflation rates were expected to start at 7% and generally decreasing to an ultimate rate of 4.9% in 2100. A return on investment earnings rate of 4.0% was assumed. General inflation was projected at 3.0%. General salary increases (including inflation) were projected at 3.75%. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

CHELAN COUNTY, WASHINGTON

Required Supplementary Information

Schedule of Funding Progress

December 31, 2016

LEOFF 1 Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2016	0	9,398,828	9,398,828	0%	0	N/A
12/31/2015	0	9,141,925	9,141,925	0%	0	N/A
12/31/2014	0	7,601,327	7,601,327	0%	0	N/A
12/31/2013	0	7,874,055	7,874,055	0%	0	N/A
12/31/2012	0	5,690,805	5,690,805	0%	0	N/A
12/31/2011	0	6,428,952	6,428,952	0%	0	N/A
12/31/2010	0	6,227,653	6,227,653	0%	0	N/A
12/31/2009	0	6,472,713	6,472,713	0%	0	N/A
12/31/2008	0	6,844,736	6,844,736	0%	0	N/A

CHELAN COUNTY, WASHINGTON

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2016

PERS 1	2016	2015	2014
County's proportion of the net pension liability	0.199006%	0.186394%	0.180347%
County's proportionate share of the net pension liability	10,687,560	9,750,140	9,085,065
County's covered employee payroll	22,928,349	20,369,507	19,175,010
County's proportionate share of the net pension liability as a percentage of covered employee payroll	46.61%	47.87%	47.38%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%
PERS 2/3	2016	2015	2014
County's proportion of the net pension liability	0.209821%	0.198093%	0.192221%
County's proportionate share of the net pension liability	10,564,322	7,077,976	3,885,480
County's covered employee payroll	19,752,838	17,600,742	16,606,855
County's proportionate share of the net pension liability as a percentage of covered employee payroll	53.48%	40.21%	23.40%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%	93.29%
PSERS	2016	2015	2014
County's proportion of the net pension liability	0.729392%	0.659134%	0.662335%
County's proportionate share of the net pension liability	309,977	120,305	(95,913)
County's covered employee payroll	2,368,244	1,929,680	1,785,782
County's proportionate share of the net pension liability as a percentage of covered employee payroll	13.09%	6.23%	-5.37%
Plan fiduciary net position as a percentage of the total pension liability	90.41%	95.08%	105.01%
LEOFF 1	2016	2015	2014
County's proportion of the net pension liability (asset)	0.031184%	0.031844%	0.034190%
County's proportionate share of the net pension liability (asset)	(321,284)	(383,791)	(414,653)
State's proportionate share of the net pension liability (asset) associated with the county	(2,173,160)	(2,595,950)	(2,804,704)
Total proportionate share of the net pension liability (asset)	(2,494,444)	(2,979,740)	(3,219,357)
County's covered employee payroll	-	-	-
County's proportionate share of the net pension asset as a percentage of covered employee payroll	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	123.74%	127.36%	126.91%
LEOFF 2	2016	2015	2014
County's proportion of the net pension liability (asset)	0.178758%	0.177599%	0.164498%
County's proportionate share of the net pension liability (asset)	(1,039,710)	(1,825,362)	(2,182,959)
State's proportionate share of the net pension liability (asset) associated with the county	(677,815)	(1,206,930)	(1,426,307)
Total proportionate share of the net pension liability (asset)	(1,717,526)	(3,032,292)	(3,609,266)
County's covered employee payroll	5,415,332	5,155,068	4,576,780
County's proportionate share of the net pension asset as a percentage of covered employee payroll	-19.20%	-35.41%	-47.70%
Plan fiduciary net position as a percentage of the total pension liability	106.04%	111.67%	116.75%

Notes: GASB 68 was implemented for the 2015 financial statements so only two years of data is available.

Up to ten years of history will be presented over time as the data is generated.

CHELAN COUNTY, WASHINGTON

Required Supplementary Information
Schedule of Employer Contributions
December 31, 2016

PERS 1	2016	2015	2014
Statutorily or contractually required contributions	1,062,903	876,552	905,944
Contributions in relation to the statutorily or contractually required contributions	1,062,903	876,552	905,944
Contribution deficiency (excess)	-	-	-
Covered County payroll	21,413,272	19,282,248	21,360,389
Contributions as a percentage of covered County payroll	4.96%	4.55%	4.24%
PERS 2/3	2016	2015	2014
Statutorily or contractually required contributions	1,146,892	927,123	921,038
Contributions in relation to the statutorily or contractually required contributions	1,146,892	927,123	921,038
Contribution deficiency (excess)	-	-	-
Covered County payroll	18,417,336	16,654,601	18,437,888
Contributions as a percentage of covered County payroll	6.23%	5.57%	5.00%
PSERS	2016	2015	2014
Statutorily or contractually required contributions	152,798	122,821	128,742
Contributions in relation to the statutorily or contractually required contributions	152,798	122,821	128,742
Contribution deficiency (excess)	-	-	-
Covered County payroll	2,318,543	1,898,929	2,031,092
Contributions as a percentage of covered County payroll	6.59%	6.47%	6.34%
LEOFF 1	2016	2015	2014
Statutorily or contractually required contributions	-	-	-
Contributions in relation to the statutorily or contractually required contributions	-	-	-
Contribution deficiency (excess)	-	-	-
Covered County payroll	-	-	-
Contributions as a percentage of covered County payroll	-	-	-
LEOFF 2	2016	2015	2014
Statutorily or contractually required contributions	253,572	238,152	272,999
Contributions in relation to the statutorily or contractually required contributions	253,572	238,152	272,999
Contribution deficiency (excess)	-	-	-
Covered County payroll	5,021,262	4,716,403	5,405,815
Contributions as a percentage of covered County payroll	5.05%	5.05%	5.05%

Notes: GASB 68 was implemented for the 2015 financial statements so only two years of data is available.

Up to ten years of history will be presented over time as the data is generated.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Agricultural Marketing Service, Department Of Agriculture (via North Yakima Conservation District)	Specialty Crop Block Grant Program - Farm Bill	10.170	k1512	4,420	-	4,420	-
Child Nutrition Cluster							
Food And Nutrition Service, Department Of Agriculture (via Office of the Superintendent of Public Instruction)	School Breakfast Program	10.553	04-246-9777	7,234	-	7,234	-
Food And Nutrition Service, Department Of Agriculture (via Office of the Superintendent of Public Instruction)	National School Lunch Program	10.555	04-246-9777	1,556	-	1,556	-
Food And Nutrition Service, Department Of Agriculture (via Office of the Superintendent of Public Instruction)	National School Lunch Program	10.555	04-246-9777	12,133	-	12,133	-
Total CFDA 10.555:				13,689	-	13,689	
Total Child Nutrition Cluster:				20,923	-	20,923	
Forest Service, Department Of Agriculture	Cooperative Forestry Assistance	10.664	14-LE- 11061720-013	-	58,520	58,520	-
Forest Service Schools and Roads Cluster							
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	N/A	-	636,323	636,323	3
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	N/A	-	115,895	115,895	3
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	11-PA- 11061700-022 Mod#5	-	3,847	3,847	-

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	14-CS- 11061707-069 SW0860	-	6,641	6,641	-
Total Forest Service Schools and Roads Cluster:				-	762,706	762,706	-
Natural Resources Conservation Service, Department Of Agriculture	Emergency Watershed Protection Program	10.923	68-0546-17-200	-	18,585	18,585	-
Natural Resources Conservation Service, Department Of Agriculture	Emergency Watershed Protection Program	10.923	68-0546-17-202	-	6,280	6,280	-
Total CFDA 10.923:				-	24,865	24,865	-
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation and Conservation Office)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	14-1732P	158	-	158	-
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation and Conservation Office)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	12-1438R	23,129	-	23,129	-
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via Upper Columbia Salmon Recovery Board)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	N/A	26,407	-	26,407	3
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	15-1209P	-	22,699	22,699	-

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
			Total CFDA 11.438:	49,694	22,699	72,393	-	
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	15-62210-003, 15-66210-003A, 16-62210-003	75,664	-	75,664	75,664	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R14AC00013	-	58,604	58,604	-	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R14AC00014	-	185,442	185,442	-	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R14AC00078	-	19,364	19,364	-	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R16AC00083	-	55,849	55,849	-	
			Total CFDA 15.517:	-	319,259	319,259	-	
Violence Against Women Office, Department Of Justice (via WA State Department of Commerce)	Violence Against Women Formula Grants	16.588	F15-31103-042	17,280	-	17,280	-	
Violence Against Women Office, Department Of Justice (via WA State Department of Commerce)	Violence Against Women Formula Grants	16.588	F15-31103-043	17,420	-	17,420	7,839	
			Total CFDA 16.588:	34,700	-	34,700	7,839	
Bureau Of Justice Assistance, Department Of Justice	State Criminal Alien Assistance Program	16.606	2016-AP-BX- 0283	-	30,962	30,962	-	4
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015BUBX1508 0100	-	7,454	7,454	-	

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Bureau Of Justice Assistance, Department Of Justice (via WA State Department of Commerce)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F-15-31440-003	72,095	-	72,095	53,811	
Bureau Of Justice Assistance, Department Of Justice (via WA State Department of Commerce)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F-16-31440-003	21,303	-	21,303	4,560	
Total CFDA 16.738:				93,398	7,454	100,852	58,371	
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	WA Chelan 933 (1)	69,388	-	69,388	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	BHOS-04WF (001) LA-7919	26,235	-	26,235	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	BHOS-2004 (082) LA-7924	123,909	-	123,909	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	BHOS-2004 (083) LA-7920	23,450	-	23,450	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	BHOS-2004 (081) LA-7946	9,523	-	9,523	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	BHS-A042(004) LA-7941	18,294	-	18,294	-	

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	BRS-F045(001) LA-8712	486,240	-	486,240	-
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-00S(398) LA-8625	5,326	-	5,326	-
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-A042 (005) LA-8621	166,662	-	166,662	-
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	WA Chelan 40040(1)	1,685	-	1,685	-
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	HLP-SR15(006) LA-8784	7,415	-	7,415	-
Total Highway Planning and Construction Cluster:				938,127	-	938,127	-
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	6,605	-	6,605	3
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	2,793	-	2,793	3
Total Highway Safety Cluster:				9,398	-	9,398	-

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Pipeline And Hazardous Materials Safety Administration, Department Of Transportation (via WA Military Department)	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	E16-204	3,778	-	3,778	-
Office Of Water, Environmental Protection Agency (via WA Dept of Ecology)	Nonpoint Source Implementation Grants	66.460	WQC-2016- ChCoNR-00298	22,740	-	22,740	-
U.S. Department of Energy	BPA-Yakama Nations	81.5666 2	56662	-	3,129	3,129	5
U.S. Department of Energy	BPA - Division of Fish & Wildlife/Entiat LW Procurement	81.6971 6	69716	-	19,766	19,766	5
U.S. Department of Energy (via Upper Columbia Salmon Recovery Board)	BPA - USCRB/Yakama nation	81.999	N/A	11,244	-	11,244	3,5
U.s. Election Assistance Commission (via WA SOS- Help America Vote Act-HAVA)	Help America Vote Act Requirements Payments	90.401	N/A	13,980	-	13,980	3
Administration For Children And Families, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Child Support Enforcement	93.563	2110-80333	146,341	-	146,341	-
Administration For Children And Families, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Child Support Enforcement	93.563	0763-15023	20,666	-	20,666	-

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Expenditures							
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
Administration For Children And Families, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Child Support Enforcement	93.563	2110-80333	222,113	-	222,113	-	
		Total CFDA 93.563:			389,120	-	389,120	-
		93.958	1463-28931	7,791	-	7,791	7,791	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Block Grants for Community Mental Health Services							
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1563-43674	21,875	-	21,875	21,875	
United States Coast Guard (uscg), Department Of Homeland Security (via Washington State Parks & Recreation Commission)	Boating Safety Financial Assistance	97.012	3316FAS16015 3	14,084	-	14,084	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-580	189,149	-	189,149	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Emergency Management Performance Grants	97.042	E17-157	32,580	-	32,580	-	

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Emergency Management Performance Grants	97.042	E16-206	42,817	-	42,817	-	
Total CFDA 97.042:				75,397	-	75,397	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Fire Management Assistance Grant	97.046	D15-032	1,854	-	1,854	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Fire Management Assistance Grant	97.046	D15-035	232	-	232	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Fire Management Assistance Grant	97.046	N/A	43,423	-	43,423	-	3
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Fire Management Assistance Grant	97.046	D16-1003	15,898	-	15,898	-	
Total CFDA 97.046:				61,406	-	61,406	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Grant County Dept of Emergency Management)	Homeland Security Grant Program	97.067	E15-104	66,191	-	66,191	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Homeland Security Grant Program	97.067	E16-065	12,391	-	12,391	-	
Total CFDA 97.067:				78,582	-	78,582	-	

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
				2,115,471	1,249,360	3,364,831	
			Total Federal Awards Expended:			171,540	

CHELAN COUNTY, WASHINGTON

Notes to the Schedules of Financial Assistance
January 1, 2016 Through December 31, 2016

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the County's financial statements. The County uses the accrual basis of accounting for all funds except the governmental fund types, which use the modified accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the County's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - NOT APPLICABLE (N/A)

The County was unable to obtain other identification number.

NOTE 4 – SCAAP GRANT

The grantor, the Department of Justice, provides the Regional Justice Center with the calculation for the amount of allowable expenditures the federal program will provide. The calculation for the 2016 grant revenues were based on the most recent data available, which was from July 1, 2014 through June 30, 2015. Since the county receives funding based on the granting agency's calculation of previous year expenditures, a current year estimation was made based on the most recent data available.

NOTE 5 – NO CFDA NUMBER

Grant funds received from the Bonneville Power Administration do not have CFDA numbers. The numbers used in place of a CFDA number are a combination of the U.S. Department of Energy CFDA prefix and a portion of the grant contract number.

NOTE 6 – INDIRECT COST RATE

The County has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Chelan County January 1, 2016 through December 31, 2016

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the Chelan County.

Finding ref number: 2016-001	Finding caption: The County's internal controls over financial statement preparation were inadequate to ensure accurate reporting.
Name, address, and telephone of auditee contact person: Shawn Hunstock, Financial Services Manager 350 Orondo Avenue Wenatchee, WA 98801 (509) 667-6655	
Corrective action the auditee plans to take in response to the finding: <i>The finding in this audit report is the result of the omission of one transaction which was the refinancing of bonds in mid-2016. The omission was discovered by County management and was later recorded in the financial statements prior to the statutory filing deadline with the State Auditor's Office, and prior to completion of the final Comprehensive Annual Financial Report for submission to the Government Finance Officers Association CAFR award program. The original financial statements containing the omission that were given to the auditors at the start of their audit were compiled after turnover in the position responsible for preparing the statements. The position was filled after year-end. Management is confident that given the typical time to prepare and review the financial statements before they are needed by the auditors to begin conducting their audit, the accuracy of the financial statements will be improved. Other items described in the audit report have been corrected, where appropriate, or will be addressed in the future with additional discussions and/or training with County staff.</i>	
Anticipated date to complete the corrective action: The cause of the finding, the omission of a transaction in 2016, has already been recorded. Other items mentioned in the audit report have been corrected, where appropriate, or will be addressed through discussions and/or training with departments during 2017 prior to year-end.	

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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