



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Wenatchee

For the period January 1, 2017 through December 31, 2017

Published September 20, 2018

Report No. 1022060





**Office of the Washington State Auditor
Pat McCarthy**

September 20, 2018

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Wenatchee January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Wenatchee 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, the business-type activities, the aggregate discretely presented component units, 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 no deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control over Major Programs:

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

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

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 program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – 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 City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Wenatchee
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Wenatchee
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, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Wenatchee, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2018. As discussed in Note 17 to the financial statements, the 2016 financial statements have been restated to correct a misstatement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

In addition, we noted certain matters that we will report to the management of the City in a separate letter dated September 13, 2018.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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Pat McCarthy

State Auditor

Olympia, WA

August 31, 2018

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

**City of Wenatchee
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

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

We have audited the compliance of the City of Wenatchee, 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 City's major federal programs for the year ended December 31, 2017. The City'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 City'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 City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City 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, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City 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 City'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 City's internal control over compliance.

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

Pat McCarthy
State Auditor
Olympia, WA

August 31, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Wenatchee January 1, 2017 through December 31, 2017

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Wenatchee, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Wenatchee, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Street and Arterial Street funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis – Correction of Prior Year Misstatement

As discussed in Note 17 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. 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 and required supplementary information listed on page 16 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 City'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 August 31, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

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

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

Pat McCarthy

State Auditor

Olympia, WA

August 31, 2018

FINANCIAL SECTION

City of Wenatchee January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net
Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2017

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of the Governmental Funds to the Statement of Activities – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– General Fund – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– Street Fund – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– Arterial Street Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Net Position – Fiduciary Funds – 2017

Statement of Changes in Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Post Employment Benefits (OPEB) – 2017

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, 2/3, LEOFF 1, 2
– 2017

Schedule of Employer Contributions – PERS 1, 2/3, LEOFF 2 – 2017

Schedule of Changes in Net Pension Liability and Related Ratios – Firemen’s Pension
Fund – 2017

Schedule of Employer Contributions and Money-Weighted Rate of Return – Firemen’s
Pension Fund – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Wenatchee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Wenatchee for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which immediately follows this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Wenatchee's basic financial statements. The City'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 themselves.

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 the City. 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. These statements also include the legally separate public facilities district. The City of Wenatchee has limited financial responsibility for the district requiring inclusion of their financial information. Financial information for this component unit is reported separately from the financial information presented for the City.

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. The City of Wenatchee, 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 long-term debt, and the inclusion of the internal service fund net position. The City 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.

The proprietary fund financial statements are prepared using the same basis of accounting as the government-wide financial statements. The City's proprietary funds include enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utilities that are expected to fully recover costs. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal services funds to account for the maintenance and replacement of its fleet of vehicles, the maintenance of facilities, the administration of property and liability insurance and its management information systems. Because all of these services predominantly benefit government rather than business-type functions, they have been included with the governmental activities in the government-wide financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City'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 the City of Wenatchee's pension and OPEB obligations 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 the City of Wenatchee, assets exceeded liabilities by \$182,842,574 at the close of the most recent fiscal year. The largest portion of the City's net position (72%) is comprised of its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in 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 the liabilities.

An additional portion of the City's net position (7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of \$37,099,642 is unrestricted and may be used to meet the government's ongoing obligation to its citizens and creditors.

City of Wenatchee's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 41,591,826	\$ 37,559,720	\$ 22,006,293	\$ 21,152,765	\$ 63,598,119	\$ 58,712,485
Capital assets	98,973,545	92,547,961	68,767,883	69,651,961	167,741,428	162,199,922
Total assets	<u>140,565,371</u>	<u>130,107,681</u>	<u>90,774,176</u>	<u>90,804,726</u>	<u>231,339,547</u>	<u>220,912,407</u>
Deferred Outflows	1,673,806	2,311,490	227,833	308,127	1,901,639	2,619,617
Liabilities						
Long-term debt	13,688,312	14,871,771	21,355,152	23,115,975	35,043,464	37,987,746
Other liabilities	11,760,177	12,377,675	2,060,779	2,283,742	13,820,956	14,661,417
Total liabilities	<u>25,448,489</u>	<u>27,249,446</u>	<u>23,415,931</u>	<u>25,399,717</u>	<u>48,864,420</u>	<u>52,649,163</u>
Deferred Inflows	1,255,961	254,882	278,231	93,373	1,534,192	348,255
Net Position						
Invested in capital assets	85,285,233	77,676,190	47,412,731	46,535,986	132,697,964	124,212,176
Restricted	10,348,215	10,979,969	2,696,756	2,721,352	13,044,971	13,701,321
Unrestricted	19,901,279	16,258,684	17,198,360	16,362,425	37,099,639	32,621,109
Total net position	<u>\$ 115,534,727</u>	<u>\$ 104,914,843</u>	<u>\$ 67,307,847</u>	<u>\$ 65,619,763</u>	<u>\$ 182,842,574</u>	<u>\$ 170,534,606</u>

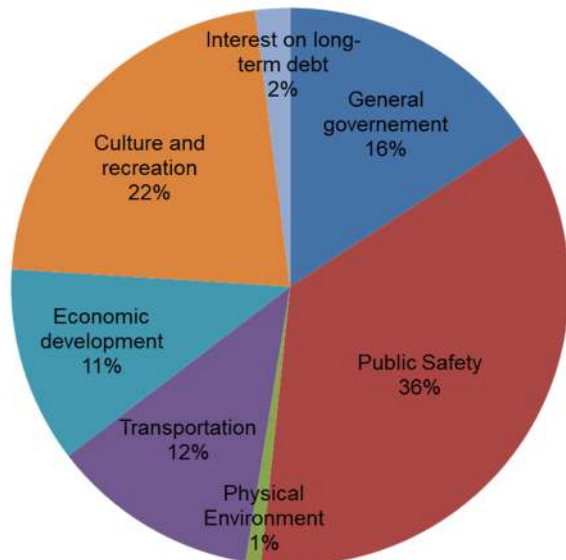
Governmental activities increased the City of Wenatchee's net position by \$10,619,884, accounting for 86% of total growth in the government's net position. The increase in net position is due to general capital asset purchases or construction and strong economy-related revenue performance.

Business-type activities increased City of Wenatchee's net position by \$1,812,721, accounting for 14% of total growth in the government's net position. The increase in net position for business-type activities was driven by the repayment of debt, acquisition of utility infrastructure, and utility rates that are designed to provide slightly more revenue than the utility expenses.

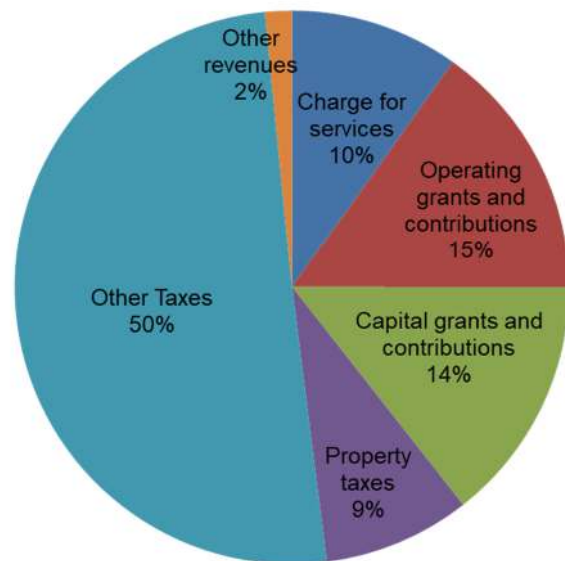
City of Wenatchee's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charge for services	\$ 4,006,454	\$ 2,736,149	\$ 16,213,339	\$ 15,515,459	\$ 20,219,793	\$ 18,251,608
Operating grants and contributions	6,161,368	9,739,091	39,897	25,000	6,201,265	9,764,091
Capital grants and contributions	5,601,069	5,889,427	64,349	620,320	5,665,418	6,509,747
General revenues:						
Property taxes	3,489,198	3,301,665	-	-	3,489,198	3,301,665
Other Taxes	20,500,685	18,611,712	-	-	20,500,685	18,611,712
Other revenues	635,972	1,741,505	148,420	184,962	784,392	1,926,467
Total revenues	40,394,746	42,019,549	16,466,005	16,345,741	56,860,751	58,365,290
Expenses:						
General government	4,717,107	4,862,291	-	-	4,717,107	4,862,291
Public Safety	10,697,004	12,072,755	-	-	10,697,004	12,072,755
Physical Environment	266,443	253,305	-	-	266,443	253,305
Transportation	3,594,596	3,128,656	-	-	3,594,596	3,128,656
Economic development	3,394,139	3,767,271	-	-	3,394,139	3,767,271
Culture and recreation	6,560,063	5,753,483	-	-	6,560,063	5,753,483
Interest on long-term debt	600,595	538,548	-	-	600,595	538,548
Water/Sewer	-	-	11,294,298	10,179,084	11,294,298	10,179,084
Storm Drain	-	-	1,605,216	1,518,036	1,605,216	1,518,036
Regional Water	-	-	1,251,620	833,001	1,251,620	833,001
Regional Decan Facility	-	-	54,091	16,204	54,091	16,204
Solid Waste	-	-	-	-	-	-
Cemetery	-	-	392,974	292,625	392,974	292,625
Total expenses	29,829,947	30,376,309	14,598,199	12,838,950	44,428,146	43,215,259
Increase in net position before transfers	10,564,799	11,643,240	1,867,806	3,506,791	12,432,605	15,150,031
Transfers	55,085	128,100	(55,085)	(128,100)	-	-
Increase in net position	10,619,884	11,771,340	1,812,721	3,378,691	12,432,605	15,150,031
Net position January 1,	104,914,843	91,410,926	65,619,763	62,241,072	170,534,606	153,651,998
Prior Period Correction	-	1,732,577	(124,637)	-	(124,637)	1,732,577
Net position December 31,	\$ 115,534,727	\$ 104,914,843	\$ 67,307,847	\$ 65,619,763	\$ 182,842,574	\$ 170,534,606

Expenses - Governmental Activities



Revenues by Source - Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The General Fund, Street Fund, and Arterial Street Fund made up the City's major funds during the most recent fiscal year. Together these three funds account for \$16,560,599 (54%) of total governmental fund assets and \$15,400,457 (55%) of the total governmental fund balance.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27,858,732, an increase of \$1,781,903 compared to prior year. Of this figure, \$10,462,582 (38%) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either legally required to be maintained intact (\$1,115,101), restricted by external regulation (\$12,377,455), committed by internal regulation (\$133,856), or assigned by the City for particular purposes (\$3,769,738).

The general fund is the chief operating fund of the City of Wenatchee. At the end of the current fiscal year, the total fund balance of the General Fund was \$12,059,988. Of this, the unassigned fund balance is \$10,471,865 and \$1,315,375 is assigned to Pre-LEOFF and LEOFF 1 mandated health costs. As of December 31, 2017, the total General fund balance represented 48% of total General fund expenditures and the unassigned fund balance represented 41% of total general fund expenditures. The fund balance increased by \$1,229,416. The reasons for the increase is due to the economic growth in the valley and sales tax revenues coming in much higher than anticipated.

The Street Fund balance increased by \$413,425 during 2017. The increase is due to 100% of the property tax revenues being transferred into the Street Fund compared to 75% in 2016.

Year	Total Fund Balance	Unassigned Fund Balance	Expenditures and other Financing Uses	Fund Balance as a % of Expenditures	
				Total	Unassigned
2017	12,059,988	10,471,865	25,284,423	47.70%	41.42%
2016	10,830,572	9,250,136	20,990,684	51.60%	44.07%
2015	7,846,364	6,532,100	23,713,026	33.09%	27.55%
2014	5,774,387	4,582,586	22,580,317	25.57%	20.29%
2013	4,072,503	2,765,157	20,841,503	19.54%	13.27%

The Arterial Street Fund balance increased by \$779,721 during 2017. One million dollars of the Public Facilities District repayment was receipted into this fund to support the growing demands for street improvements.

Proprietary funds. The Water/Sewer Utility Fund, Storm Drain Utility Fund and the Regional Water Fund made up the City's major business-type funds during the most recent fiscal year. Together these three funds accounted for \$87,569,365 (96%) of total enterprise fund assets. These funds also accounted for \$64,214,170 (95%) of total enterprise fund net position.

Unrestricted net position of the Water/Sewer Utility Fund was \$11,202,140 at the end 2017, a decrease of \$151,800. This decrease is due capital activities: the payment of debt and construction of assets.

Unrestricted net position of the Storm Drain Utility was \$3,693,994 at the end of 2017, an increase of \$788,999. Much of this increase is due to utility rates designed to exceed expenses so capital projects can be financed in the future.

Unrestricted net position of the Regional Water Fund was \$1,931,259 at the end of 2017, an increase of \$202,554. Much of this increase is due to utility rates designed to exceed expenses so capital projects can be financed in the future.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures are generally less than final budgeted expenditures. The main reason for this is that employee turnover and unfilled positions leave budget authority that goes unspent. In addition, the City is legally required to operate within its given budget and typically spends its budget conservatively. The actual revenues were greater than budgeted revenues due a strengthening local economy and generally conservative budgeting.

Through the course of the year General Fund appropriations were amended from \$25,297,180 to \$29,286,934 for a total increase of \$3,989,754. Major increases were approved for a \$500,000 transfer to the Rainy Day fund, \$2,565,000 for various facility repairs and capital outlay, and several minor budget adjustments for one-time purchases and tasks.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. City of Wenatchee's investment in capital assets for its governmental and business-type activities as of December 31, 2017, is \$167,741,428 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets. Major capital asset events during the current fiscal year included the following:

- Recreation land \$820,000 funded 50% by grant revenues and 50% donated.
- Land purchased with Local Revitalization Financing debt \$2 million.

City of Wenatchee's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 17,533,318	14,324,068	\$ 2,528,206	2,528,206	\$ 20,061,524	16,852,274
Intangible Assets	0	0	2,704,831	2,704,831	2,704,831	2,704,831
Buildings and system	23,167,661	23,798,744	61,602,196	62,276,419	84,769,857	86,075,163
Improvements other than buildings	4,223,585	2,012,889	463,427	9,796	4,687,012	2,022,685
Machinery and equipment	3,991,019	3,610,599	607,639	394,649	4,598,658	4,005,248
Infrastructure	49,004,050	48,020,723	0	0	49,004,050	48,020,723
Construction in progress	1,053,912	780,938	861,584	1,738,060	1,915,496	2,518,998
Total	<u>\$ 98,973,545</u>	<u>\$ 92,547,961</u>	<u>\$ 68,767,883</u>	<u>\$ 69,651,961</u>	<u>\$ 167,741,428</u>	<u>\$ 162,199,922</u>

Additional information on the City's capital assets can be found in Note 6.

Long-term Debt. At the end of the current fiscal year, the City of Wenatchee had bond and loan related long-term debt of \$35,043,462. Of this amount, \$13,246,537 is comprised of general obligation bonds issued by the City that are backed by the full faith and credit of the government, \$441,775 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment, \$15,695,000 represents revenue bonds secured solely by utility revenue sources, \$3,689,639 represents a Washington Department of Ecology State Revolving Fund (SRF) Loan that was used to renovate our wastewater treatment plant and \$1,970,513 Public Works Trust Fund (PWTF) Loan to provide funded for miscellaneous sewer improvements. The SRF and PWTF loan will be repaid solely by utility revenue sources. The City also has guaranteed debt issued by Chelan County for the bi-county emergency dispatch center RiverCom. The City has never paid on this guarantee.

The City's bond related total long-term debt decreased by \$2,277,632 (7%) during the current fiscal year. The decrease is due to scheduled principal payments.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	13,246,537	14,284,169	0	0	13,246,537	14,284,169
Loan Guaranty	217,500	217,500	0	0	217,500	217,500
Special assessment debt	441,775	587,604	0	0	441,775	587,604
Revenue bonds	0	0	15,695,000	16,935,000	15,695,000	16,935,000
Loans	0	0	5,660,150	6,180,975	5,660,150	6,180,975
Total	<u>13,905,812</u>	<u>15,089,273</u>	<u>21,355,150</u>	<u>23,115,975</u>	<u>35,260,962</u>	<u>38,205,248</u>

The bond ratings held by the City of Wenatchee on its various issues are as follows:

Bond Type	Moody's	Standard & Poor's
Revenue	A3	AA-
Unlimited Tax General Obligation (UTGO)	A3	AA-
Limited Tax General Obligation (LTGO)	A3	AA-

The City's has approximately \$28 million in non-voted debt capacity available as indicated below:

	2.5% General Purpose		With a Public Vote		Total
	Without a Public Vote 1.50%	With a Public Vote 1.00%	Utility Purpose 2.50%	Open Space, Park, and Capital Facilities 2.50%	
Legal Limit*	43,390,362	28,926,908	72,317,270	72,317,270	216,951,810
Outstanding Indebtedness	(12,039,000)	(1,207,538)	0	0	(13,246,538)
Loan Guarantees	(3,017,500)	0	0	0	(3,017,500)
Margin Available	<u>28,333,862</u>	<u>27,719,370</u>	<u>72,317,270</u>	<u>72,317,270</u>	<u>200,687,772</u>
* Based upon the Chelan County Assessors 2016 assessment of property values for 2017 property taxes					\$2,892,690,819

Additional information on the City's long-term debt can be found in Note 10.

SIGNIFICANT EVENTS

In October 2017, the City Council approved Limited Tax General Obligation Bonds, not to exceed \$5,000,000, in the form of a line-of-credit from North Cascades Bank. This borrowing is to be used to finance the purchase and redevelopment of properties in North Wenatchee. As of December 31, 2017 no draws on the line-of-credit had occurred. In April 2018, a North Wenatchee property purchase was transacted and a \$1,600,000 draw on the line-of-credit was made. More property purchases are expected during 2018. The principal and interest on the general obligation debt is expected to be repaid with proceeds from property sales after the area is redeveloped.

On May 10, 2018 the City Council authorized the sale of up to \$17,500,000 in water/sewer revenue bonds. \$14,000,000 is expected to be used for sewer projects and \$3,100,000 is expected to be used to refund the outstanding 2007 revenue bonds. The Water/Sewer fund is expected to pay for the debt issuance from sewer rate increases that were adopted by the Council in 2017. The bonds are expected to be issued by the end of June 2018.

On April 26, 2018 the City Council authorized the Mayor to sign a real estate purchase and sale agreement for the LocalTel Federal Building. The City plans to purchase a portion of the building to remodel into a new City Hall. The purchase price is \$3.6 million and the total budget for purchase and remodel is \$14,500,000. Closing on the real estate purchase is expected by the end of May or June 2018. Long term general obligation debt is expected to be issued at the end of 2018 to finance the new City Hall.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Wenatchee'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 Finance Director, PO Box 519, Wenatchee, WA 98807-0519.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF NET POSITION
December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business Activities	Total	Public Facilities District
ASSETS				
Cash and cash equivalents	16,754,201	8,824,924	25,579,125	1,889,011
Investments	13,403,750	9,117,157	22,520,907	-
Receivables (net)	5,239,086	1,219,888	6,458,974	1,281,207
Inventories	18,089	147,568	165,657	74,006
Prepaid Expenses	-	-	-	16,885
Equity Interest in Joint Venture	2,534,474	-	2,534,474	-
Restricted assets				
Cash & Investments	609,312	2,696,756	3,306,068	6,741,591
Net Pension Asset	3,032,914	-	3,032,914	-
Capital assets				
Land / Intangible Assets	17,533,318	5,233,037	22,766,355	1,748,169
Buildings and system (net)	23,167,661	61,602,196	84,769,857	31,423,209
Other improvements (net)	4,223,585	463,427	4,687,012	-
Machinery and equipment (net)	3,991,019	607,639	4,598,658	231,225
Infrastructure (net)	49,004,050	-	49,004,050	-
Construction in progress	1,053,912	861,584	1,915,496	-
Total assets	140,565,371	90,774,176	231,339,547	43,405,303
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Refunding	126,946	-	126,946	-
Deferred Outflows Related to Pensions	1,546,860	227,833	1,774,693	-
Total Deferred Outflow of Resources	1,673,806	227,833	1,901,639	-
LIABILITIES				
Current payables	1,688,495	365,356	2,053,851	202,910
Claims and judgements payable	100,000	-	100,000	-
Custodial	24,755	65,335	90,090	290,887
Accrued interest payable	-	82,447	82,447	753,753
Grants received in advance	243,659	-	243,659	-
Noncurrent liabilities				
Due within one year	1,109,313	1,280,000	2,389,313	1,035,853
Due in more than one year	12,578,999	14,415,000	26,993,999	45,375,925
Due to other gov't current	-	526,562	526,562	-
Due to other gov't long term	-	5,133,590	5,133,590	-
Net Pension Liability	4,616,975	788,805	5,405,780	-
Net OPEB obligation	2,984,170	-	2,984,170	-
Unamortized debt premium/discount	727,094	479,281	1,206,375	(677,432)
Compensated absences non-current	1,375,029	279,555	1,654,584	-
Total liabilities	25,448,489	23,415,931	48,864,420	46,981,896
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows Related to Pensions	1,255,961	278,231	1,534,192	-
Total Deferred Inflow of Resources	1,255,961	278,231	1,534,192	-
FUND BALANCE/NET POSITION				
Invested in capital assets,	85,285,233	47,412,731	132,697,964	(10,472,397)
Restricted				
Capital Projects	6,166,168	250,000	6,416,168	-
Debt Service	34,029	2,446,756	2,480,785	7,673,345
Pension	3,032,914	-	3,032,914	-
Nonspendable	1,115,101	-	1,115,101	-
Unrestricted	19,901,282	17,198,360	37,099,642	(777,541)
Total net position	115,534,727	67,307,847	182,842,574	(3,576,593)

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

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended December 31, 2017

Functions/Programs	Program Revenues				Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities						
General government	4,717,107	1,007,167	742,873	629,732	(2,337,335)	-
Public safety	10,697,004	1,509,625	1,127,320	-	(8,060,059)	-
Physical Environment	266,443	-	-	-	(266,443)	-
Transportation	3,594,596	326,076	1,092,234	2,693,045	516,759	516,759
Economic environment	3,394,139	952,962	1,526,361	-	(914,816)	-
Culture and recreation	6,560,063	210,624	1,634,227	2,278,292	(2,436,920)	-
Interest on long-term debt	600,595	-	38,353	-	(562,242)	-
Total governmental activities	29,829,947	4,006,454	6,161,368	5,601,069	(14,061,056)	(14,061,056)
Business Activities						
Water/Sewer	11,294,298	12,409,632	9,897	-	-	1,125,231
Storm Drain	1,605,216	2,333,800	-	-	-	728,584
Regional Water	1,251,620	1,313,887	-	-	-	62,267
Regional Decant Facility	54,091	-	30,000	64,349	-	40,258
Cemetery	392,974	156,020	-	-	-	(236,954)
Total business type activities	14,598,199	16,213,339	39,897	64,349	-	1,719,386
Total Primary Government	44,428,146	20,219,793	6,201,265	5,665,418	(14,061,056)	(12,341,670)
Component Units						
Public Facilities District	8,047,050	2,860,015	-	5,950,529		763,494
Total Component Unit	8,047,050	2,860,015	-	5,950,529		763,494
General Revenues:						
Property Taxes					3,489,198	-
Sales Taxes					11,856,384	-
City Utility Taxes					2,261,369	-
Other Taxes					6,382,932	-
Licenses					279,090	-
Unrestricted investment earnings					237,330	3,500
Miscellaneous general revenues					119,552	-
Transfers					55,085	-
Total general revenues					24,680,940	3,500
Change in net position					10,619,884	766,994
Net position beginning balance					104,914,843	(4,343,587)
Prior Period Correction					-	-
Net position ending balance					115,534,727	(3,576,593)

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

CITY OF WENATCHEE, WA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General	Street	Arterial Street	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	5,375,790	956,480	793,834	6,743,857	13,869,961
Investments	4,307,071	745,798	810,052	5,333,266	11,196,187
Receivables:					
Taxes	271,237	-	-	6,649	277,886
Accounts	429,005	-	-	742,228	1,171,233
Due from Other Funds	11,896	-	-	-	11,896
Intergovernmental	2,156,129	64,259	122,641	1,273,036	3,616,065
Restricted Assets:					
Cash	272,748	-	243,659	19,692	536,099
Interfund Loans Receivable	-	-	-	52,843	52,843
Total assets	<u>12,823,876</u>	<u>1,766,537</u>	<u>1,970,186</u>	<u>14,171,571</u>	<u>30,732,170</u>
LIABILITIES					
Accounts Payable	511,166	50,936	66,282	960,008	1,588,392
Wages Payable	5,932	9,383	-	42	15,357
Due To Other Funds	-	-	-	11,897	11,897
Deposits Payable	24,755	-	-	-	24,755
Interfund Loans Payable	52,838	-	-	-	52,838
Grants received in advance	-	-	243,659	-	243,659
Total Liabilities	<u>594,691</u>	<u>60,319</u>	<u>309,941</u>	<u>971,947</u>	<u>1,936,898</u>
DEFERRED INFLOWS of RESOURCES					
Unavailable revenues:					
Special Assessments	-	-	-	458,668	458,668
Property Taxes	42,160	-	-	4,035	46,195
Grant Reimbursements	-	-	25,994	-	25,994
Misc. Billings	127,037	-	-	278,646	405,683
Total Deferred Inflows of Resource:	<u>169,197</u>	<u>-</u>	<u>25,994</u>	<u>741,349</u>	<u>936,540</u>
FUND BALANCE					
Nonspendable	-	-	-	1,115,101	1,115,101
Restricted	272,748	-	1,634,251	10,470,456	12,377,455
Committed	-	-	-	133,856	133,856
Assigned	1,315,375	1,706,218	-	748,145	3,769,738
Unassigned	10,471,865	-	-	(9,283)	10,462,582
Total Fund Balances	<u>12,059,988</u>	<u>1,706,218</u>	<u>1,634,251</u>	<u>12,458,275</u>	<u>27,858,732</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>12,823,876</u>	<u>1,766,537</u>	<u>1,970,186</u>	<u>14,171,571</u>	<u>30,732,170</u>

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

CITY OF WENATCHEE, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2017

Total Fund Balance Governmental Funds	27,858,732
The amounts for the governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	94,943,050
Long term liabilities such as bonded debt is not reported in the governmental funds.	(15,452,994)
Net Pension and OPEB Obligations	(3,991,745)
Joint venture equity interest is not available financial resources and not reported in the fund financial statements	2,534,474
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	936,540
The Internal Service Funds' assets and liabilities are reported in the governmental funds.	8,706,670
Net position of governmental activities	<u><u>115,534,727</u></u>

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

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For Fiscal Year Ended December 31, 2017

	General	Street	Arterial Street	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	20,481,318	-	-	6,890,280	27,371,598
Licenses and Permits	1,067,102	-	-	-	1,067,102
Intergovernmental	1,371,862	470,776	2,706,271	2,391,687	6,940,596
Charges for services	1,693,651	328,168	19,710	701,789	2,743,318
Fines and Forfeits	1,037,898	-	-	-	1,037,898
Investment earnings	86,328	11,481	9,697	120,393	227,899
Special Assessment Payments	-	-	-	77,968	77,968
Miscellaneous	478,030	(5,428)	-	259,648	732,250
Total Revenues	<u>26,216,189</u>	<u>804,997</u>	<u>2,735,678</u>	<u>10,441,765</u>	<u>40,198,629</u>
EXPENDITURES					
Current:					
General Government	5,030,031	-	-	185,419	5,215,450
Security of Persons & Property	10,621,953	-	-	-	10,621,953
Physical Environment	277,566	-	-	-	277,566
Transportation	15,000	2,788,483	89,421	360,458	3,253,362
Economic Environment	1,932,995	-	-	1,470,848	3,403,843
Culture & Recreation	2,432,588	-	-	3,621,897	6,054,485
Capital Outlay					
Culture & Recreation	907,309	-	-	4,081,169	4,988,478
Economic Development	-	-	-	2,304,913	2,304,913
Highway/streets	232,998	-	1,866,536	315,228	2,414,762
Debt Service					
Principal Retirement	-	-	-	1,183,461	1,183,461
Interest and other charges	3,234	-	-	541,761	544,995
Total Expenditures	<u>21,453,674</u>	<u>2,788,483</u>	<u>1,955,957</u>	<u>14,065,154</u>	<u>40,263,268</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>4,762,515</u>	<u>(1,983,486)</u>	<u>779,721</u>	<u>(3,623,389)</u>	<u>(64,639)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	297,650	2,525,252	-	2,449,144	5,272,046
Sale of Fixed Asset	-	-	-	2,298,940	2,298,940
Transfers Out	(3,830,749)	(128,341)	-	(1,765,354)	(5,724,444)
Total Other Financing Sources (Uses)	<u>(3,533,099)</u>	<u>2,396,911</u>	<u>-</u>	<u>2,982,730</u>	<u>1,846,542</u>
Change in Fund Balance	1,229,416	413,425	779,721	(640,659)	1,781,903
Fund Balance January 1	<u>10,830,572</u>	<u>1,292,793</u>	<u>854,530</u>	<u>13,098,934</u>	<u>26,076,829</u>
Fund Balance December 31	<u><u>12,059,988</u></u>	<u><u>1,706,218</u></u>	<u><u>1,634,251</u></u>	<u><u>12,458,275</u></u>	<u><u>27,858,732</u></u>

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

CITY OF WENATCHEE, WASHINGTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended December 31, 2017

Net change in fund balance - total governmental funds	1,781,903
The amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures and sales of capital assets as revenue. However in the Statement of Activities the cost of those assets is instead allocated over their estimated useful lives and reported as depreciation expense. The sale of assets on the Statement of Activities will only report a profit or loss if the proceeds of the sale are more or less than the net value of the asset. This is the amount by which capital outlays exceeded depreciation in the current period and the net effect of the sale of capital assets and donations.	
	6,031,552
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	117,629
The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long term debt and related items	
	1,127,861
The Internal Service funds are used to support governmental activities. The net revenue (expense) of these funds are reported in governmental activities.	
	926,867
Pension / OPEB Costs	476,010
Compensated Absences	158,062
Change in net position of governmental activities.	<u><u>10,619,884</u></u>

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

CITY OF WENATCHEE, WA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended December 31, 2017

			ACTUAL	VARIANCE WITH
			AMOUNTS	FINAL BUDGET -
	ORIGINAL	FINAL		POSITIVE
				(NEGATIVE)
REVENUES				
Taxes:				
Property	3,220,000	3,220,000	3,193,051	(26,949)
Sales	9,920,000	9,920,000	10,626,272	706,272
Business	6,170,240	6,170,240	6,551,470	381,230
Other	36,000	36,000	110,525	74,525
Licenses & Permits	750,500	750,500	1,067,102	316,602
Intergovernmental	1,141,400	1,144,400	1,371,862	227,462
Charges for Services	1,470,410	1,500,410	1,684,569	184,159
Fines & Forfeits	982,000	982,000	1,030,478	48,478
Interest Earnings	29,000	29,000	65,663	36,663
Rentals	30,060	30,060	31,516	1,456
Miscellaneous	424,000	854,000	446,514	(407,486)
Total Revenues	24,173,610	24,636,610	26,179,022	1,542,412
EXPENDITURES				
Current:				
General Government Services:				
Legislative	1,835,160	1,914,310	1,835,246	79,064
Judicial	874,280	874,280	874,823	(543)
Financial	890,800	903,300	862,758	40,542
Legal	460,130	460,130	424,011	36,119
Personnel	351,260	351,260	287,022	64,238
Transportation	-	35,000	15,000	20,000
Facility Maintenance	904,240	1,001,240	729,760	271,480
Total General Government Services	5,315,870	5,539,520	5,028,620	510,900
Security of Persons & Property:				
Police	10,183,450	10,287,441	9,605,199	682,242
Fire	318,450	693,450	644,163	49,287
Total Security of Persons & Property	10,501,900	10,980,891	10,249,362	731,529
Physical Environment	194,960	250,148	249,063	1,085
Economic Environment	1,994,610	2,296,825	1,932,995	363,830
Culture & Recreation	2,383,990	2,468,990	2,432,588	36,402
Capital Outlay	1,266,000	1,691,000	1,156,720	534,280
Debt Service:				
Principal Retirement	68,280	68,280	-	68,280
Interest and Fiscal Charges	3,240	3,240	3,234	6
Total Expenditures	21,728,850	23,298,894	21,052,582	2,246,312
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	2,444,760	1,337,716	5,126,440	3,788,724
OTHER FINANCING SOURCES (USES)				
Transfers In	257,400	257,400	257,650	250
Transfers Out	(3,568,330)	(5,988,040)	(4,744,319)	1,243,721
Total Other Financing Sources (Uses)	(3,310,930)	(5,730,640)	(4,486,669)	1,243,971
Change in Fund Balance	(866,170)	(4,392,924)	639,771	5,032,695
Fund Balance January 1	8,515,783	8,515,783	8,515,783	-
Fund Balance December 31	7,649,613	4,122,859	9,155,554	5,032,695

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

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STREET FUND

For the Fiscal Year Ended December 31, 2017

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
REVENUES				
Taxes	2,470,000	2,470,000	-	(2,470,000)
Intergovernmental Revenues	460,000	460,000	470,776	10,776
Charges for Services	217,500	217,500	328,168	110,668
Interest	1,500	1,500	11,481	9,981
Miscellaneous	5,000	5,000	(5,428)	(10,428)
Total Revenues	<u>3,154,000</u>	<u>3,154,000</u>	<u>804,997</u>	<u>(2,349,003)</u>
EXPENDITURES				
Current:				
Transportation	<u>2,711,020</u>	<u>2,961,020</u>	<u>2,788,483</u>	<u>172,537</u>
Total Expenditures	<u>2,711,020</u>	<u>2,961,020</u>	<u>2,788,483</u>	<u>172,537</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>442,980</u>	<u>192,980</u>	<u>(1,983,486)</u>	<u>(2,176,466)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In			2,525,252	2,525,252
Transfers (Out)	-	-	(128,341)	(128,341)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>2,396,911</u>	<u>2,396,911</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>442,980</u>	<u>192,980</u>	<u>413,425</u>	<u>220,445</u>
Fund Balance January 1	<u>1,292,793</u>	<u>1,292,793</u>	<u>1,292,793</u>	<u>-</u>
Fund Balance December 31	<u><u>1,735,773</u></u>	<u><u>1,485,773</u></u>	<u><u>1,706,218</u></u>	<u><u>220,445</u></u>

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

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ARTERIAL STREET FUND
For the Fiscal Year Ended December 31, 2017

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental Revenues	3,572,900	3,572,900	2,706,271	(866,629)
Charges for Services	-	-	19,710	19,710
Interest	1,000	1,000	9,697	8,697
Miscellaneous	1,000,000	1,000,000	-	(1,000,000)
Total Revenues	<u>4,573,900</u>	<u>4,573,900</u>	<u>2,735,678</u>	<u>(1,838,222)</u>
EXPENDITURES				
Current:				
Transportation	-	-	89,237	(89,237)
Capital Outlay	4,379,350	4,379,350	1,866,720	2,512,630
Total Expenditures	<u>4,379,350</u>	<u>4,379,350</u>	<u>1,955,957</u>	<u>2,423,393</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>194,550</u>	<u>194,550</u>	<u>779,721</u>	<u>585,171</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>194,550</u>	<u>194,550</u>	<u>779,721</u>	<u>585,171</u>
Fund Balance January 1	<u>854,530</u>	<u>854,530</u>	<u>854,530</u>	<u>-</u>
Fund Balance December 31	<u><u>1,049,080</u></u>	<u><u>1,049,080</u></u>	<u><u>1,634,251</u></u>	<u><u>585,171</u></u>

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

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
ASSETS						
Current Assets						
Cash & Cash Equivalents	5,588,649	1,951,745	1,014,291	270,239	8,824,924	2,884,240
Receivables (net)						
Accounts	951,326	214,712	-	3,038	1,169,076	173,902
Intergovernmental	-	439	50,373	-	50,812	-
Restricted Cash	-	-	250,000	-	250,000	73,213
Inventory of Material and Supplies	147,568	-	-	-	147,568	18,089
Total current assets	<u>6,687,543</u>	<u>2,166,896</u>	<u>1,314,664</u>	<u>273,277</u>	<u>10,442,380</u>	<u>3,149,444</u>
Noncurrent assets						
Investments	6,129,374	1,794,505	984,454	208,824	9,117,157	2,207,563
Restricted Assets:						
Cash-Revenue Bond Debt Service	2,098,867	347,889	-	-	2,446,756	-
Capital Assets (Net)	<u>49,726,528</u>	<u>7,866,771</u>	<u>8,451,874</u>	<u>2,722,710</u>	<u>68,767,883</u>	<u>4,030,495</u>
Total noncurrent assets	<u>57,954,769</u>	<u>10,009,165</u>	<u>9,436,328</u>	<u>2,931,534</u>	<u>80,331,796</u>	<u>6,238,058</u>
Total Assets	<u>64,642,312</u>	<u>12,176,061</u>	<u>10,750,992</u>	<u>3,204,811</u>	<u>90,774,176</u>	<u>9,387,502</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows Related to Pensions	168,144	31,036	15,223	13,430	227,833	77,533
Total Deferred Outflow of Resources	<u>168,144</u>	<u>31,036</u>	<u>15,223</u>	<u>13,430</u>	<u>227,833</u>	<u>77,533</u>
LIABILITIES						
Current liabilities						
Accounts Payable	289,917	32,312	20,721	16,109	359,059	83,014
Wages and Benefits Payable	5,076	1,221	-	-	6,297	1,732
Deposits Payable	23,200	-	-	-	23,200	-
Claims and Judgements Payable	-	-	-	-	-	100,000
Custodial	22,135	-	20,000	-	42,135	-
Due to Other Funds	-	-	-	-	-	-
Total current liabilities	<u>340,328</u>	<u>33,533</u>	<u>40,721</u>	<u>16,109</u>	<u>430,691</u>	<u>184,746</u>
Current liabilities payable from restricted assets						
Due to Other Governments	526,562	-	-	-	526,562	-
Accrued Interest Payable	73,146	9,301	-	-	82,447	-
Revenue Bonds Payable - Current	<u>1,071,716</u>	<u>208,284</u>	<u>-</u>	<u>-</u>	<u>1,280,000</u>	<u>-</u>
Total current liabilities payable from restricted assets	<u>1,671,424</u>	<u>217,585</u>	<u>-</u>	<u>-</u>	<u>1,889,009</u>	<u>-</u>
Noncurrent liabilities						
Due to other Governments	5,133,590	-	-	-	5,133,590	-
Unamortized Debt Premium	381,700	97,581	-	-	479,281	-
Revenue Bonds Payable	12,057,511	2,357,489	-	-	14,415,000	-
Net Pension Liability	582,150	107,452	52,707	46,496	788,805	268,436
Compensated Absences	200,258	12,675	21,063	45,559	279,555	210,499
Total Non-current Liabilities	<u>18,355,209</u>	<u>2,575,197</u>	<u>73,770</u>	<u>92,055</u>	<u>21,096,231</u>	<u>478,935</u>
Total Liabilities	<u>20,366,961</u>	<u>2,826,315</u>	<u>114,491</u>	<u>108,164</u>	<u>23,415,931</u>	<u>663,681</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows Related to Pensions	205,339	37,901	18,591	16,400	278,231	94,684
Total Deferred Inflow of Resources	<u>205,339</u>	<u>37,901</u>	<u>18,591</u>	<u>16,400</u>	<u>278,231</u>	<u>94,684</u>
NET POSITION						
Net Invested in Capital Assets	30,937,149	5,300,998	8,451,874	2,722,710	47,412,731	4,030,495
Restricted	2,098,867	347,889	250,000	-	2,696,756	73,213
Unrestricted	<u>11,202,140</u>	<u>3,693,994</u>	<u>1,931,259</u>	<u>370,967</u>	<u>17,198,360</u>	<u>4,602,962</u>
Total Net Position	<u>44,238,156</u>	<u>9,342,881</u>	<u>10,633,133</u>	<u>3,093,677</u>	<u>67,307,847</u>	<u>8,706,670</u>

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

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2017

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:						
Residential Utility Sales	5,997,478	933,487	-	-	6,930,965	-
Commercial/Industrial Utility Sales	5,996,829	1,394,769	1,303,887	-	8,695,485	-
Connection Fees	266,262	-	-	-	266,262	-
Charges for Services	101,463	5,544	-	155,986	262,993	4,482,668
Intergovernmental	-	-	-	-	-	61,000
Miscellaneous	47,600	-	10,000	34	57,634	34,425
Total Operating Revenues	<u>12,409,632</u>	<u>2,333,800</u>	<u>1,313,887</u>	<u>156,020</u>	<u>16,213,339</u>	<u>4,578,093</u>
OPERATING EXPENSES:						
Operations and Maintenance	4,842,716	1,300,244	852,047	400,501	7,395,508	2,864,487
Payment of Premiums	-	-	-	-	-	957,754
General Administration	3,864,588	-	-	-	3,864,588	-
Depreciation/Amortization	1,962,435	197,300	399,573	46,564	2,605,872	514,048
Total Operating Expenses	<u>10,669,739</u>	<u>1,497,544</u>	<u>1,251,620</u>	<u>447,065</u>	<u>13,865,968</u>	<u>4,336,289</u>
Operating Gain (Loss)	1,739,893	836,256	62,267	(291,045)	2,347,371	241,804
NON-OPERATING REVENUES (EXPENSES)						
Interest Income	96,462	30,825	16,179	4,954	148,420	34,660
Interest & Related Charges	(661,979)	(117,274)	-	-	(779,253)	-
Grant Revenue	8,772	-	-	-	8,772	-
Amortization of Debt Issues	37,420	9,602	-	-	47,022	-
Insurance Recoveries	1,125	-	-	30,000	31,125	56,315
Gain (Loss) on Capital Assets	-	-	-	-	-	33,337
Non-Operating Revenues Net of Expense	<u>(518,200)</u>	<u>(76,847)</u>	<u>16,179</u>	<u>34,954</u>	<u>(543,914)</u>	<u>124,312</u>
Net Income Before Transfers and Contributions	1,221,693	759,409	78,446	(256,091)	1,803,457	366,116
Transfers In	-	-	-	226,678	226,678	554,448
Transfers Out	(229,600)	(27,800)	-	(24,363)	(281,763)	(6,963)
Capital Contributions	-	-	-	64,349	64,349	13,266
Change in Net Position	992,093	731,609	78,446	10,573	1,812,721	926,867
Prior Period Correction	-	-	(124,637)	-	(124,637)	-
Net Position January 1	<u>43,246,063</u>	<u>8,611,272</u>	<u>10,679,324</u>	<u>3,083,104</u>	<u>65,619,763</u>	<u>7,779,803</u>
Net Position December 31	<u><u>44,238,156</u></u>	<u><u>9,342,881</u></u>	<u><u>10,633,133</u></u>	<u><u>3,093,677</u></u>	<u><u>67,307,847</u></u>	<u><u>8,706,670</u></u>

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

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2017

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:						
Cash received from customers	12,190,665	2,266,557	1,329,784	168,468	15,955,474	4,446,287
Cash payments to vendors	(5,869,670)	(779,692)	(627,486)	(172,265)	(7,449,113)	(2,783,812)
Cash payments to employees	(2,689,726)	(508,812)	(245,260)	(219,527)	(3,663,325)	(1,221,630)
Other operating revenues	47,600	-	-	-	47,600	95,425
Net cash provided by operating activities	<u>3,678,869</u>	<u>978,053</u>	<u>457,038</u>	<u>(223,324)</u>	<u>4,890,636</u>	<u>536,270</u>
Cash Flows From Noncapital Financing Activities:						
Transfers	(229,600)	(27,800)	-	150,836	(106,564)	255,431
Net cash provided by noncapital financing	<u>(229,600)</u>	<u>(27,800)</u>	<u>-</u>	<u>150,836</u>	<u>(106,564)</u>	<u>255,431</u>
Cash Flows From Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(1,557,674)	(201,619)	(25,589)	(60,954)	(1,845,836)	(901,858)
Principal repayment on revenue bonds	(1,037,842)	(202,158)	-	-	(1,240,000)	-
Interest and related costs paid on revenue bonds	(599,897)	(117,274)	-	-	(717,171)	-
Repayment of construction loans	(520,822)	-	-	-	(520,822)	-
Interest and related costs on construction loans	(65,090)	-	-	-	(65,090)	-
Insurance Recoveries	1,125	-	-	-	1,125	56,315
Grant proceeds	8,772	-	-	-	8,772	-
Judgements/Settlements	-	-	-	30,000	30,000	-
Proceeds from sale of equipment	-	-	-	-	-	28,381
Capital contributed by customers	-	-	-	115,828	115,828	305,320
Net cash used for capital and related financing	<u>(3,771,428)</u>	<u>(521,051)</u>	<u>(25,589)</u>	<u>84,874</u>	<u>(4,233,194)</u>	<u>(511,842)</u>
Cash Flows From Investing Activities:						
Purchase of investments	(1,030,548)	(1,226,862)	(735,589)	(208,824)	(3,201,823)	(1,461,833)
Interest on investments	132,086	34,933	17,981	4,954	189,954	40,060
Net cash provided(used) in investing activities	<u>(898,462)</u>	<u>(1,191,929)</u>	<u>(717,608)</u>	<u>(203,870)</u>	<u>(3,011,869)</u>	<u>(1,421,773)</u>
Net increase (decrease) in cash and cash equivalents	(1,220,621)	(762,727)	(286,159)	(191,484)	(2,460,991)	(1,141,914)
Cash and cash equivalents at beginning of year	8,908,137	3,062,361	1,550,450	461,723	13,982,671	4,099,367
Cash and cash equivalents at end of year	<u>7,687,516</u>	<u>2,299,634</u>	<u>1,264,291</u>	<u>270,239</u>	<u>11,521,680</u>	<u>2,957,453</u>
Reconciliation of Operating Income to net cash provided (used) by operating activities	-	-	-	-	-	-
Operating Income (Loss)	1,739,893	836,256	62,267	(291,045)	2,347,371	241,804
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	1,962,435	197,300	399,573	46,564	2,605,872	514,048
Change in assets and liabilities:						
(Increase) Decrease Accounts Receivable	(130,653)	(67,538)	-	12,483	(185,708)	(36,381)
(Increase) Decrease Due From Other Governments	5,282	296	25,897	-	31,475	-
(Increase) Decrease Inventory	-	-	-	-	-	895
Increase (Decrease) Accounts Payable	124,768	9,210	(16,129)	12,062	129,911	(184,407)
Increase (Decrease) Payroll Taxes Payable	3,071	44	-	(18)	3,097	(220)
Increase (Decrease) Retainage Payable	(4,889)	-	3,151	-	(1,738)	-
Increase (Decrease) Customer Deposits Payable	(40,713)	-	(10,000)	-	(50,713)	-
Increase (Decrease) Pension Activities	(10,384)	(2,139)	(4,310)	(6,606)	(23,439)	(16,607)
Increase (Decrease) Accrued Employee Leave	30,059	4,624	(3,411)	3,236	34,508	17,138
Total Adjustments	<u>1,938,976</u>	<u>141,797</u>	<u>394,771</u>	<u>67,721</u>	<u>2,543,265</u>	<u>294,466</u>
Net Cash Provided by Operating Activities	<u>3,678,869</u>	<u>978,053</u>	<u>457,038</u>	<u>(223,324)</u>	<u>4,890,636</u>	<u>536,270</u>

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

CITY OF WENATCHEE, WA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
December 31, 2017

	FIREMEN'S PENSION TRUST FUND
ASSETS	
Cash	803,417
Investments	868,304
TOTAL ASSETS	1,671,721
LIABILITIES	
TOTAL LIABILITIES	-
Net Position	
Assets held in trust for benefits	1,671,721

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

CITY OF WENATCHEE, WA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
For the Fiscal Year Ended December 31, 2017

	FIREMEN'S PENSION TRUST FUND
ADDITIONS	
Fire Insurance Premiums	23,944
Interest Income	24,706
Total additions	<u>48,650</u>
DEDUCTIONS	
Retirement Benefits	108,636
General Administration	-
Transfers Out	40,000
Total deductions	<u>148,636</u>
Change in net position	(99,986)
Net Position January 1	<u>1,771,707</u>
Net Position December 31	<u><u>1,671,721</u></u>

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

CITY OF WENATCHEE, WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Wenatchee have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's significant accounting policies are described in the following notes.

A. REPORTING ENTITY

The City of Wenatchee (City) was incorporated on December 26, 1892, and operates under the laws of the State of Washington applicable to a Non-Charter Code City with a Mayor/Council form of government. Wenatchee is served by a Mayor and seven part-time Councilors; all elected at large to staggered four-year terms. As required by generally accepted accounting principles, the financial statements present the City of Wenatchee as a primary government and its component units, entities for which the government is considered to be financially accountable. The component units discussed below are included in the City of Wenatchee reporting entity because of the significance of their operational or financial relationships with the City. Blended component units, although legally separate entities, are in substance a part of a government's operations and are included in the City's financial statements. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that they are legally separate from the government.

The City's primary government major operations include police protection; street maintenance and construction; parks and recreation; planning and zoning; water, sewer and storm drain systems; and general administrative functions. The City has one discretely presented component unit.

Discretely Presented Component Unit

The Greater Wenatchee Regional Events Center Public Facilities District (PFD) was formed through an interlocal agreement in June 2006 to oversee the construction and operation of an event center facility. Included in the interlocal agreement are the City of Wenatchee, City of Cashmere, City of Chelan, City of East Wenatchee, City of Entiat, The Town of Waterville, City of Rock Island, Chelan County and Douglas County. Construction of the event center commenced late summer 2007 and was completed in the autumn of 2008.

The PFD is included in the City of Wenatchee's reporting entity as a discretely presented component unit because of the financial commitment of the 0.2% additional sales and use tax the City imposed in 2012 to assist the PFD with refinancing the outstanding debt. Additional information on the City's relationship with the PFD is discussed in Note 10 and Note 12.

Complete separate financial statements for the Greater Wenatchee Regional Events Center Public Facilities District may be obtained at GWREC PFD, 1300 Walla Walla, Wenatchee, WA 98801.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government wide financial statements (the statement of net position and statement of activities) report information on all the non-fiduciary activities of the primary government and its component units. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City's policy is to not 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 meet the operation or capital requirements or a particular function or segment. Taxes and other items properly included among program revenues are reported instead as general revenues.

As a general rule the effect of the interfund activity has been eliminated for the government wide financial statements. Exceptions to this rule are services provided to capitalized projects and the business activity funds.

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 and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City of Wenatchee reports the following major governmental funds for 2017:

- The **General Fund** is the City of Wenatchee's primary operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. The primary revenue sources are property, sales and utility taxes. GASB 54 requires that funds supported by general revenues but for management reasons are accounted for in separate funds be consolidated with the general fund for reporting purposes. The City consolidates four funds into the General Fund: the Rainy Day, LEOFF Long Term Care, LEOFF Retiree Health Insurance, and the Abatement Funds. This process eliminates transfers between funds and adds the miscellaneous revenues and expenditures to the General Fund's balances. The General Fund's fund balance was increased by: \$1,016,660 Rainy Day Fund; \$494,406 LEOFF Long Term Care Fund; \$407,399 LEOFF Retiree Health Insurance Fund; and \$72,398 Abatement Fund.
- The **Street Fund** accounts for all activities pertaining to street maintenance including: street cleaning, sidewalks, street lighting systems, traffic signal systems and snow plowing. The primary revenue sources are property and motor vehicle fuel taxes. The street fund is accounted for as a special revenue fund.
- The **Arterial Street Fund** accounts for the revenues and expenditures related to the construction and rehabilitation of major streets throughout the City. The primary revenue sources are motor vehicle fuel taxes and grants. The arterial street fund is accounted for as a special revenue fund.

The City of Wenatchee reports the following major proprietary funds for 2017:

- The **Water/Sewer Utility Fund** accounts for the operation of the water distribution system, and sanitary sewer collection and treatment systems.
- The **Storm Drain Utility Fund** accounts for the expansion and maintenance of the City's storm sewer system.
- The **Regional Water Fund** accounts for the activities surrounding the delivery of water to the City of Wenatchee, Chelan County Public Utility District No. 1 and the East Wenatchee Water District. Activities include: monitoring and maintaining pumps, wells, transmission lines and chlorination systems.

Additionally, the City reports the following fund types:

- Internal service funds account for fleet operation and maintenance, fleet replacement, facility maintenance, data processing and self-insurance services provided to other departments of the City, on a cost reimbursement basis.
- Permanent funds include the *Cemetery Endowment Fund* that accounts for the perpetual care endowment of the City cemetery.
- The *Firemen's Pension Trust Fund* accounts for the accumulation of resources and payments of pension benefit payments to qualified retired firemen.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

1. Government wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to 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 revenue in the year in 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, the City of Wenatchee considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City 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 when cash is received by the City of Wenatchee.

2. Proprietary Funds

The proprietary fund statements are reported using the economic resources measurement focus and full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the city are charges for services to manage, maintain and develop water, sewer and storm drain systems. Operating expenses for enterprise funds and 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 INFORMATION

1. Scope of Budget

Annual appropriated budgets are adopted at the fund level for the governmental funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. Proprietary funds are also budgeted at a fund level but on a working capital basis. Other budgets are adopted at the level of the fund, except in the general fund where expenditures may not exceed appropriations at the departmental level and the budget constitutes the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at year end (except for appropriations for capital projects, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrance accounting is employed in all governmental and proprietary funds. Encumbrances (e.g., purchase orders) outstanding at year end lapse and are not reported as reservations of fund balances. Encumbrances that lapse at yearend must be re-appropriated during the subsequent fiscal year.

2. 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. The City consolidates four funds into the General Fund: the Rainy Day, LEOFF Long Term Care, LEOFF Retiree Health Insurance, and the Abatement Funds. They are budgeted individually for managerial purposes.

	General	Adjustments				General Fund GAAP Basis
	Fund			LEOFF		
	Budgetary		LEOFF LT	Retiree		
	Basis	Rainy Day	Care	Health	Abatement	
Revenues	26,179,022	10,285	4,075	4,845	17,962	26,216,189
Expenditures	21,052,582	0	87,490	285,099	28,503	21,453,674
Other Fin. Sources (Uses)	(4,486,669)	500,000	120,000	333,570	0	(3,533,099)
Change in Fund Balance	639,771	510,285	36,585	53,316	(10,541)	1,229,416

3. Amending the Budget

With the approval of the Mayor, department directors have limited ability to transfer budgeted amounts between object classes within departments; however, any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority (5 of 7 councilmembers) after holding a public hearing. During 2017 the budget was amended once and the budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

4. Excess of Expenditures Over Appropriations

No major fund exceeded its budget authority.

5. Deficit Net Position

The Police Station Bond debt service fund has a deficit fund balance of \$9,283 at December 31, 2017. The deficit resulted from delinquencies on property tax collections that support debt service payments on the underlying unlimited tax general obligation bonds. The fund balance is expected to become positive through future collections of delinquent property tax payments by the Chelan County Treasurer.

E. ASSETS, LIABILITIES, FUND BLANCES, NET POSITION

1. Cash, Cash Equivalents

It is the city's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding \$28,481,255 in short term residual investment of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents. Cash and cash equivalents includes amounts in demand deposit accounts and the State Treasurer's Investment Pool account. State statutes authorize the City to invest in obligations of the U.S. Treasury, State Treasurer's Investment Pool, banker's acceptances, or deposits with Washington State banks and savings and loan institutions. Interest earned on these investments are prorated to the various funds based on the funds' monthly balance.

2. Investments

See Note 4, Deposits and Investments

3. Receivables

The City of Wenatchee recognizes receivables in its various funds using the appropriate measurement focus and basis of accounting for each fund. The primary types of receivables are as follow:

- Taxes receivable consist of property taxes (see Note 5).
- Accounts Receivable consist of amounts owned by private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.
- Special Assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. Special assessments are recorded when levied. As of December 31, 2017 special assessments receivable totaled \$458,667, of which \$1,422 was delinquent at yearend.
- Unrecorded and Uncollected Receivable. The City entered into a Contingent Loan Agreement (CLA), November 2008, with the Greater Wenatchee Regional Events Center Public Facilities District (PFD) to help the PFD issue three year Revenue Notes to purchase the Event Center. The PFD drew on the CLA beginning 2009 and continued through 2011. As part of the 2012 Revenue Note refinancing package the PFD issued a Subordinate Note (the Note) to the City to reimburse the City the amounts loaned and other costs the City incurred as part of the PFD's refinancing. The total amount of the Note was \$5,584,762, which does not accrue interest and will be repaid annually from excess 0.1% and 0.2% sales taxes after payment of the annual debt service. The City has not recorded a receivable for the Note due to the uncertainty of the collection. However, the PFD has paid \$3,058,838 from excess taxes through 2017. See Note 12 for further discussion.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". A separate schedule of interfund loans receivable and payable is furnished in Note 13.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

These receivables and payables reflect measurable and available intergovernmental charges for services rendered by, or to, the City for, or by, another governmental unit. Amounts due from other governments are primarily related to tax collections that are remitted after year-end and grant reimbursements related to capital projects.

5. Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased.

Inventories in proprietary funds are valued using the weighted average method.

6. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service in enterprise funds. The current portion of related liabilities is shown as Payable from Current Restricted Assets. Specific debt service reserve requirements are described in Note 10.

Restricted assets of the enterprise funds are composed of the following:

Cash and Investments – Debt Service	\$2,446,756
Cash and Investments – Construction	\$ 250,000

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of five years and an initial, individual cost of more than \$20,000 for equipment and \$100,000 for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost as of 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 is not capitalized.

Property, plant and equipment of the City are depreciated using the straight-line method and reported in the government-wide statements and proprietary funds using the following estimated useful lives:

Buildings	40-50 years
Building Improvements	40-50 years
Public domain infrastructure	50-100 years
System infrastructure	25-50 years
Equipment	4-45 years

8. Deferred Outflows/Inflows of Resources/Deferred Revenues

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate element represents a consumption of net position applied to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate element represents an acquisition of net position that applies to future periods and will not be recognized as an in inflow of resources (revenue) until that time.

9. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

It is the City’s policy to permit employees to accumulate earned but unused vacation leave up to a maximum of 400 hours, but at the point of termination will allow a cash-out of no more than 240 hours. Sick leave accumulation is unlimited and is payable at

the point of termination at a rate of 25% up to a maximum of 240 hours. The cash-out of sick leave is offered to only those employees that voluntarily terminate service with the City after more than five years of service.

10. 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.

11. Long-term Debt See Note 10

12. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria has not been met.

13. Fund Balance Classification

The fund balance amounts for governmental funds have been classified in the following categories:

- *Non-spendable* fund balance includes amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted* fund balance includes amounts that can be spent only for the specific purpose stipulated by external resource providers, constitutionally or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint.
- *Assigned* fund balance comprises amounts intended to be used by the government for specific purposes.
- *Unassigned* fund balance is the residual classification or the general fund and includes all amounts not contained in the other classifications.

When expenditures are incurred that could be paid from either restricted, committed, assigned, or unassigned resources the City uses restricted resources first, committed resources second, assigned resources third, and unassigned resources last.

The fund balance is committed when the City Council commits a revenue source to a specific purpose by formal resolution or ordinance. The fund balance is assigned when the City reports a revenue source in a separate fund that is not restricted or committed.

Following is a description of restrictions placed on the various fund balances in 2017:

	General	Street	Arterial Streets	Non-Major Funds
Nonspendable				
Cemetery Endowment	-	-	-	1,115,101
Restricted				
Fine/forfeitures/donations	272,748	-	-	-
Public art	-	-	-	72,853
Streets, sidewalks, transportation	-	-	1,634,251	4,029,626
Hotel/motel & convention	-	-	-	1,036,906
Low income assistance programs	-	-	-	637,237
Local revitalization district	-	-	-	4,531,917
Community Center	-	-	-	95,007
Local improvement debt service	-	-	-	34,029
Impact fees	-	-	-	32,881
	<u>272,748</u>	<u>-</u>	<u>1,634,251</u>	<u>10,470,456</u>
Committed				
LID Guarantee	-	-	-	133,856
	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,856</u>
Assigned				
LEOFF retiree health	1,315,375	-	-	-
Economic/facility development	-	-	-	496,479
Street maintenance	-	1,706,218	-	-
LTGO debt	-	-	-	6,482
Park development/construction	-	-	-	245,184
	<u>1,315,375</u>	<u>1,706,218</u>	<u>-</u>	<u>748,145</u>
Unassigned	10,471,865	-	-	(9,283)
Total fund balance	<u>12,059,988</u>	<u>1,706,218</u>	<u>1,634,251</u>	<u>12,458,275</u>

The City's Financial Management Policy establishes fund balance goals for City funds as indicated below:

General Fund operating reserve – 15% of recurring expenditures

General Fund rainy day reserve - \$1 million

The Convention Center, Street, Community Center, and Cemetery funds – 15% of recurring expenditures

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government wide statement of net position. The governmental funds report current assets and liabilities while the net position - governmental reflect long term assets and liabilities. Below is a detailed explanation of long term reconciling items:

1. Capital assets are not reported in governmental funds. The adjustment for capital assets is added to the governmental fund balances:

Value of governmental assets	\$ 114,324,773
Less accumulated depreciation	<u>(19,381,723)</u>
Adjustment for governmental fixed assets	<u>\$ 94,943,050</u>

2. Long term liabilities are not reported in governmental funds. The adjustment for long term liabilities is deducted from governmental fund balance:

Councilmanic Bonds Payable	\$ (12,039,000)
UTGO Bonds Payable	(1,207,538)
LID Bonds Payable	(441,775)
Employee Leave Benefits	(1,164,533)
Unamortized Loss/Premium	<u>(600,148)</u>
Adjustment for long term liabilities	<u><u>\$ (15,452,994)</u></u>

3. Pension and other post-employment benefits (OPEB) are not reported in the governmental funds. GASB 68 requires the City to report participation in the Washington State Department of Retirement Systems (DRS) retirement programs in addition to the City's sponsored retirement and OPEB obligations. The net adjustment for pension and OPEB obligations by program is:

PERS 1	\$(2,648,038)
PERS 2/3	(1,648,818)
LEOFF 1	1,042,044
LEOFF 2	1,801,305
Firemen's Pension	445,932
Pre LEOFF OPEB	<u>(2,984,170)</u>
Adjustment for pension & OPEB obligations	<u><u>\$(3,991,745)</u></u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND THE GOVERNMENT - WIDE STATEMENT OF ACTIVITIES.

The governmental fund statement of revenues, expenditures and changes in fund balance includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government wide statement of activities. The governmental funds report revenue and expenditures on a modified accrual basis while the statement of activities reports on the full accrual basis. The following reconciling items adjust to the full accrual basis:

1. Governmental funds expense capital outlay, do not recognize depreciation and do recognize the gross receipts for the sale of property as revenue. The adjustment for this is added to governmental fund balances:

Capital outlay	\$ 9,708,153
Less depreciation expense	(1,518,745)
Disposal of assets	(2,355,974)
Donated capital assets	<u>198,118</u>
Adjustment for capital outlay	<u><u>\$ 6,031,552</u></u>

2. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Principal payments	\$ 1,183,461
Amortization of 2015 loss	(31,735)
Amortization of refinancing	(66,874)
Amortization of 2016 premium	<u>43,009</u>
Adjustment for debt related activities	<u><u>\$ 1,127,861</u></u>

3. Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.

Property Taxes	\$ (27,453)
Special Assessments Receivable	(46,467)
Miscellaneous Receivables	(91,745)
Increase in Joint Venture Equity Interest	<u>283,294</u>
Adjustment for revenues	<u><u>\$ 117,629</u></u>

4. The changes in pension and OPEB obligations do not use current resources and are not reflected in the governmental funds. The adjustment to net position by program:

PERS 1	\$ 342,261
PERS 2/3	200,287
LEOFF 1	165,757
LEOFF 2	137,348
Firemen's Pension	(23,314)
Pre LEOFF OPEB	<u>(346,329)</u>
Adjustment for pension & OPEB activities	<u>476,010</u>

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4. DEPOSITS AND INVESTMENTS

A. DEPOSITS:

As of December 31, 2017 the carrying amount of the City's cash balances was \$1,206,957 which consisted of bank deposits and petty cash.

The City'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:

The City measures and report investment 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, 2017, the City had the following investments measured at fair value:

Investment	Total	Level 1	Level 2	Level 3
Poplar LID	30,567	-	-	30,567
Riverside Dr LID	411,207	-	-	411,207
Federal Agency Securities	22,947,639	22,947,639	-	-
Total	<u>\$ 23,389,413</u>	<u>22,947,639</u>	<u>-</u>	<u>441,774</u>

As of December 31, 2017 the City had the following investments measured at amortized cost:

Investment	Total	Level 1	Level 2	Level 3
State Pool	\$ 28,481,255	28,481,255	-	-
Total	<u>\$ 28,481,255</u>	<u>28,481,255</u>	<u>-</u>	<u>-</u>

The Local Government Investment Pool (State Pool) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the State Pool 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 State Pool is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

The investments in the Special Assessment bonds are bonds issued by City managed Special Assessment's or Local Improvement Districts (LID). Property owners who benefited from the improvement are billed equal annual installments, with interest, for the term of the LID. The property owners can prepay the assessments at any time with no penalty. If an assessment is not paid for two consecutive years as of January 1 the City will begin foreclosure proceedings on the property. In the event of nonpayment of

assessments the City of Wenatchee is obligated to make interest payments of the Special Assessment Bonds and would do so to the extent funds are available in the LID Guaranty Fund. Delinquent principal payments would be made from the receipt of proceeds from the foreclosure and sale of property upon which the delinquency occurred.

The City limits investment risk by limiting the investment type, investment maturity and percentage invested by agency and amount. The City can only invest in US bonds, US Agency securities, certificates of deposit, Washington Investment Pool, savings accounts, bonds of other cities within Washington State, and City managed local improvement districts. With the exception of the non-spendable funds and bond reserve funds, investment maturities cannot be more than five years. With the exception of US Treasury and Washington State Investment Pool no more than 30 percent of the city's total investment portfolio will be invested in a single security type or single financial institution.

The City also limits the interest rate risk of declining fair value by selecting investments that will mature within five years. The City's investment policy allows the sale of investments prior to maturity, but it is the City's intent to hold the investments to maturity.

The City's investment policy can be changed by approval of the City Council after recommendation of the Finance Director and is approved by the City's Finance Committee.

Custodial risk is the risk that in the event of failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's assets held in the Washington State Investment Pool, nothing is exposed to custodial credit risk.

NOTE 5. PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections in one month are distributed the following month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installments is due.
May 31	Assessed value of property established for next year's levy at 100% of market value.
October 31	Second installment is due.

Outstanding property taxes at year end are recorded as a receivable and a deferred inflow with a 60 day accrual.

The City may levy up to \$3.825 per \$1,000 of assessed valuation for general governmental services, however, that amount is reduced to \$1.825 as a result of a \$.50 and \$1.50 per \$1,000 levy assessed by the North Central Regional Library and Chelan County Fire District #1, respectively.

The City's regular levy for 2017 was \$1.11315 per \$1,000 on an assessed valuation of \$2,892,690,819 for a total levy of \$3,220,000.

In addition to the regular levy, the City has a bond levy that was approved by voters in September 2001 for the construction of a police station. The 2017 levy was \$.12685 per \$1,000 on an assessed valuation of \$2,570,318,354 for a total levy of \$326,040.

A six year history of levy rates, amounts levied and assessed valuations within the City of Wenatchee follows:

Tax Collection Year	Regular Levy Rate	UTGO Bond Rate	Amount of Regular Taxes Levied	Amount of Taxes Levied for UTGO Bonds	Assessed Value Regular Levy Purposed	Assessed Value Bond Levy Purposes
2017	\$ 1.11315	\$ 0.12685	\$ 3,220,000	\$ 326,040	\$ 2,892,690,819	\$ 2,570,318,354
2016	1.15333	0.13710	2,779,431	326,040	2,409,916,482	2,378,002,208
2015	2.64845	0.14564	6,042,144	326,036	2,281,382,751	2,238,494,190
2014	2.77490	0.15500	5,880,872	326,040	2,142,462,856	2,103,304,915
2013	2.62305	0.17115	5,795,434	371,277	2,209,418,665	2,169,288,976
2012	2.46480	0.16964	5,705,089	385,719	2,314,624,543	2,273,682,565

NOTE 6. CAPITAL ASSETS

Government wide capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 14,324,067	\$ 5,514,164	\$ (2,304,913)	\$ 17,533,318
Construction in progress	780,940	688,004	(415,032)	1,053,912
Total capital assets not being depreciated	15,105,007	6,202,168	(2,719,945)	18,587,230
Capital assets being depreciated:				
Buildings	33,912,558	198,118	-	34,110,676
Improvements other than buildings	3,415,286	2,351,844	-	5,767,130
Machinery and equipment	9,610,542	1,049,379	(1,406,016)	9,253,905
Infrastructure	53,926,170	1,524,130	-	55,450,300
Total capital assets being depreciated	100,864,556	5,123,471	(1,406,016)	104,582,011
Less accumulated depreciation for:				
Buildings	10,113,812	829,203	-	10,943,015
Improvements other than buildings	1,402,397	141,148	-	1,543,545
Machinery and equipment	5,999,946	521,399	(1,258,459)	5,262,886
Infrastructure	5,905,447	540,804	-	6,446,251
Total accumulated depreciation	23,421,602	2,032,554	(1,258,459)	24,195,697
Total capital assets being depreciated, net	77,442,954	3,090,917	(147,557)	80,386,314
Governmental activities capital assets, net	\$ 92,547,961	\$ 9,293,085	\$ (2,867,502)	\$ 98,973,544

Depreciation expense was charged to function/programs of the City of Wenatchee as follows:

General government	270,527
Public Safety	157,598
Culture and recreation	539,621
Infrastructure	550,999
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	513,809
Total depreciation expense	<u>2,032,554</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 2,528,206	\$ -	\$ -	\$ 2,528,206
Construction in progress	1,738,060	646,290	(1,522,766)	861,584
Intangible Assets	2,704,831	-	-	2,704,831
Total capital assets not being depreciated	6,971,097	646,290	(1,522,766)	6,094,621
Capital assets being depreciated:				
Buildings	102,874,317	1,690,156	-	104,564,473
Improvements other than buildings	893,282	476,102	-	1,369,384
Machinery and equipment	2,466,210	432,013	-	2,898,223
Total capital assets being depreciated	106,233,809	2,598,271	-	108,832,080
Less accumulated depreciation for:				
Buildings	40,597,899	2,364,378	-	42,962,277
Improvements other than buildings	883,486	22,471	-	905,957
Machinery and equipment	2,071,561	219,023	-	2,290,584
Total accumulated depreciation	43,552,946	2,605,872	-	46,158,818
Total capital assets being depreciated, net	62,680,863	(7,601)	-	62,673,262
Business-type activities capital assets, net	\$ 69,651,960	\$ 638,689	\$ (1,522,766)	\$ 68,767,883

Depreciation was charged against business-type activities as follows:

Water/Sewer	1,962,436
Storm Darin	197,300
Regional Water	399,573
Regional Decant Facility	39,985
Cemetery	6,578
Total depreciation expense business activities	2,605,872

NOTE 7. 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 2017:

Aggregate Pension Amount - All Plans	
Pension liabilities	\$ 5,405,780
Pension assets	\$ 3,032,914
Deferred outflows of resources	\$ 1,774,693
Deferred inflows of resources	\$ 1,534,192
Pension expense/expenditures	\$ 446,359

A. PLAN DESCRIPTIONS

STATE SPONSORED PLANS

Substantially all City of Wenatchee 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.

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.

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 2017 were as follows:

PERS Plan 1					
Actual Contribution Rates:	Employer	Employee	Actual Contribution Rates:	Employer	Employee
January - June 2017			July - December 2017		
PERS Plan 1	6.23%	6.00%	PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAL	4.77%		PERS Plan 1 UAL	5.03%	
Administrative Fee	0.18%		Administrative Fee	0.18%	
Total	11.18%	6.00%	Total	12.70%	6.00%

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.

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 2017 were as follows:

PERS Plan 2/3					
Actual Contribution Rates:	Employer 2/3	Employee 2	Actual Contribution Rates:	Employer 2/3	Employee 2
January - June 2017			July - December 2017		
PERS Plan 2/3	6.23%	6.12%	PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAL	4.77%		PERS Plan 1 UAL	5.03%	
Administrative Fee	0.18%		Administrative Fee	0.18%	
Employee PERS Plan 3		varies	Employee PERS Plan 3		varies
Total	11.18%	6.12%	Total	12.70%	7.38%

The city's actual PERS plan contributions were \$421,781 to PERS Plan 1 and \$589,745 to PERS Plan 2/3 for the year ended December 31, 2017.

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.

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 2015. 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.

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 2017 were as follows:

LEOFF Plan 2					
Actual Contribution Rates:	Employer	Employee	Actual Contribution Rates:	Employer	Employee
January - June 2017			July - December 2017		
State and local government	5.05%	8.41%	State and local governments	5.25%	8.75%
Administrative Fee	0.18%		Administrative Fee	0.18%	
Total	5.23%	8.41%	Total	5.43%	8.75%

The city's actual contributions to the plan were \$188,432 for the year ended December 31, 2017.

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, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$108,785.

EMPLOYER SPONSORED PLAN

Firemen's Pension Fund

The City administers a single employer defined benefit pension plan called the Firemen's Pension Fund. This fund was established by the City in compliance with requirements of the Revised Code of Washington 41.18 and 41.20. The plan is limited to firefighters and their beneficiaries for individuals employed before March 1, 1970, the effective date of LEOFF. The LEOFF laws were subsequently amended by the Pension Reform Act, which took effect October 1, 1977. Through the LEOFF Act, the State undertook to provide the bulk of fire pensions; however the municipalities continue to be responsible for all or part of pension benefits for employees hired prior to March 1, 1970, as discussed later. The plan is a closed plan that provides pension benefits, some of which can be in excess of LEOFF benefits.

The LEOFF Disability and Pension Board is an uncompensated board consisting of one retired police officer, one retired fire fighter, two council members and one member appointed by the Mayor.

As of December 31, 2017, there were a total of 18 retirees or beneficiaries eligible for retirement benefits. Of these 18 the State of Washington pays 4, the City pays 3, and the City and State share the cost of the remaining 11.

Benefit Provisions

The LEOFF Act requires a varying obligation of the City for benefits paid to firefighters and police officers including:

- Pension expenses for firefighters, and medical expenses for firefighters and police officers hired prior to March 1, 1970, continue to be paid entirely by the City under the old pension laws.
- Firefighters hired before, but not retired on March 1, 1970 received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the reasonable cost of necessary medical expenses of the retiree for life.
- For firefighters and police officers hired on or after March 1, 1970 and prior to October 1, 1977, the City is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.
- Firefighters and police officers hired on or after October 1, 1977 are covered entirely by the LEOFF system with no obligation for either retirement allowance or medical expenses incurred after retirement.

There were no changes in benefit provisions in the current year.

The Firemen's Pension system is reported as a trust fund in the financial statements of the City. The financial statements are prepared using the accrual basis of accounting where revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Funding for the Firemen's Pension Fund has historically come from property taxes diverted from the General Fund and distributions from the State from fire insurance premium collections. Milliman, Inc. has completed actuarial studies of the fund biennial beginning in January 1, 2008; the most recent of which was performed as of January 1, 2018 with a measurement date of December 31, 2017. The

General Fund is responsible for the costs of administering the plan. Obligations for medical expenses are funded primarily through group insurance - the premiums for which are not paid from the Firemen's Pension Fund. There have been no required employee contributions to the plans since March 1, 1970. As of December 31, 2017, the Firemen's Pension Fund reported net position reserved for payment of future benefits of \$1,671,721.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Additional trend information is presented as required supplementary information in Part 6 of the Annual Financial Report.

B. ACTUARIAL ASSUMPTIONS

STATE SPONSORED PLANS

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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 changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

EMPLOYER SPONSORED PLAN

The Firemen's Pension's actuarial assumptions used in the January 1, 2016 pension actuarial valuation includes techniques that are designed to estimate the future experience of the members, reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Valuation date: January 1, 2018. Measurement date: December 31, 2017. Actuarial cost method: entry age normal. Asset valuation method: fair market value. Inflation rate: 2.25%. Projected salary increases: 3.25%. Mortality rates were based on the RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members). The Firemen's Pension Fund benefit adjustments are based on the change in salary for the rank the members held at retirement based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

C. DISCOUNT RATE

STATE SPONSORED PLANS

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.

EMPLOYER SPONSORED PLAN

The discount rate of 3.5 percent used to measure the Firemen's Pension Fund's Total Pension Liability, is a blended rate made up of a long-term expected rate of return on the plan investments and a municipal bond rate. The long-term expected rate of return may be used to discount liabilities to the extent that the Plan's Fiduciary Net Position is projected to cover benefit payments and administrative expenses. The Bond Buyer General Obligation 20-bond municipal bond index for bond that mature in 20 years is 3.44 percent as of December 21, 2017. Rounding to the nearest ¼ percent results in a discount rate of 3.50 percent. Using 3.50 percent for both the long-term expected rate of return and the bond index will mean that 3.50% could be used as the single discount rate.

D. LONG-TERM EXPECTED RATE OF RETURN

STATE SPONSORED PLANS

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.

EMPLOYER SPONSORED PLAN

The Firemen's Pension Fund's best-estimate range for the long-term expected rate of return is determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practices as of December 31, 2017.

Asset Class	index	Long-Term Expected Real Rate of Return
Cash	BAML 90 Day T-Bills	0.18%
Short-Term Bonds	Barclays 1-3 Year Gov/Cred	1.34%
Long-Term Bonds	Barclays Long Gov/Cred	2.78%
Assumed Inflation - Mean		2.25%
Long-Term Expected Rate of Return		3.50%

E. ESTIMATED RATES OF RETURN BY ASSET CLASS

STATE SPONSORED PLANS

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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

F. PENSION PLAN INVESTMENTS

EMPLOYER SPONSORED PLAN

As of December 31, 2017, the Firemen's Pension Fund had an investment portfolio of \$1,671,721 that was comprised of \$803,417 in bank deposits and deposits held in the Washington State Treasurer Local Government Investment Pool (the State Investment Pool), \$241,834 held in investments, and \$626,470 in US Agencies securities. The State Investment Pool is a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. Therefore, this portion of the Firemen's Pension fund is valued at cost. The investment policy for the pension fund is the same as the City's policy as discussed in Note 4.

The Pension Fund's holds the following investments:

	Amount	% of Net Position
City of Wenatchee LID Bonds	241,834	14.47%
US Agencies Securities	626,470	37.47%

For the year ended December 31, 2017, the annual money-weighted rate of return on the Firemen's Pension plan investments, net of pension plan investment expense, was 1.57 percent. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the portion of time they are available to earn a return during the period.

G. SENSITIVITY OF NPL

STATE SPONSORED PLANS

The table to the right presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the city'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	\$ 3,409,403	\$ 2,798,742	\$ 2,269,779
PERS 2/3	7,023,634	2,607,038	(1,011,707)
LEOFF 1	(852,135)	(1,148,793)	(1,403,555)
LEOFF 2	318,783	(1,473,129)	(2,933,104)

EMPLOYER SPONSORED PLAN

The following table presents the net pension liability for the City, calculated using the discount rate of 3.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate.

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total pension liability	\$ 1,368,155	\$ 1,262,832	\$ 1,170,643
Fiduciary net position	1,671,721	1,671,721	1,671,721
Net pension liability	(303,566)	(408,889)	(501,078)

H. PENSION PLAN FIDUCIARY NET POSITION

STATE SPONSORED PLANS

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

EMPLOYER SPONSORED PLAN

The Firemen's Pension Fund's total pension liability was calculated based on the discount rate and actuarial assumptions and was then projected forward to the measurement date. Any significant changes during the period have been reflected as prescribed by GASB 67. The net pension liability of the City at December 31, 2017, was:

Total pension liability	\$ 1,262,832
Fiduciary net position	1,671,721
Net pension liability	(408,889)
Fiduciary net position as a % of total pension liability	132.38%
Covered payroll	0
Net pension liability as a % of covered payroll	N/A

Change in Net Pension Liability	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balances as of December 31, 2016	\$ 1,315,226	\$ 1,771,707	\$ (456,481)
Changes for the year:			
Service cost	0		0
Interest on total pension liability	44,148		44,148
Effect of plan changes	0		0
Effect of economic/demographic gains or losses	12,094		12,094
Effect of assumptions changes or inputs	0		0
Benefit payments	(108,636)	(108,636)	0
Medcial payments from fund		(40,000)	40,000
Employer contributions		0	0
Contributions from state fire insurance premium tax		23,944	(23,944)
Net investment income		24,706	(24,706)
Adminstrative expenses		0	0
Balances as of December 31, 2017	1,262,832	1,671,721	(408,889)

I. PENSION LIABILITIES (ASSETS), EXPENSE, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Liability (Asset)

At June 30, 2017, the city reported a total pension asset of \$2,621,923 and a total pension liability of \$5,405,780 for its proportionate share of the net pension liabilities for the State Sponsored plans as follows:

	Liability (or Asset)
PERS 1	\$ 2,798,742
PERS 2/3	2,607,038
LEOFF 1	(1,148,793)
LEOFF 2	(1,473,129)

At December 31, 2017 the city reported a total pension asset of \$408,889 for the Employer Sponsored Firemen's Pension Plan.

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (1,148,793)	\$ (1,473,129)
State's proportionate share of the net pension asset associated with the employer	(7,770,410)	(955,591)
TOTAL	\$ (8,919,203)	\$ (2,428,720)

At June 30, the City proportionate share of the State Sponsored plans collective net pension liabilities was as follows:

	Proportionate Share 6/30/2016	Proportionate Share 6/30/2017	Change in Proportion
PERS 1	0.060722 %	0.058982 %	-0.001740 %
PERS 2/3	0.074763	0.075033	0.00027
LEOFF 1	0.077205	0.075717	-0.001488
LEOFF 2	0.125999	0.106158	-0.019841

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, 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 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 79,519
PERS 2/3	349,413
LEOFF 1	(165,757)
LEOFF 2	159,869
Firemen's Pension Fund	23,315

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pers 1	Deferred Outflows	Deferred Inflows
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (104,441)
Contributions subsequent to the measurement date	\$ 255,145	\$ 0
Total	\$ 255,145	\$ (104,441)

PERS 2/3	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 264,154	\$ (85,741)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (694,974)
Change of assumptions	\$ 27,692	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 88,571	\$ (138,854)
Contributions subsequent to the measurement date	\$ 372,582	\$ 0
Total	\$ 752,999	\$ (919,569)

LEOFF 1	Deferred Outflows	Deferred Inflows
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (106,750)
Total	\$ 0	\$ (106,750)

LEOFF 2	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 64,747	\$ (55,864)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (330,728)
Change of assumptions	\$ 1,774	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 551,268	\$ (16,841)
Contributions subsequent to the measurement date	\$ 113,820	\$ 0
Total	\$ 731,609	\$ (403,433)

Firemen's Pension Fund	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 34,941	\$ 0
Total	\$ 34,941	\$ 0

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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	PERS 2/3	LEOFF 1	LEOFF 2	Firemen's Pension Fund
2018	\$ (70,596)	(282,282)	(66,994)	(43,065)	10,863
2019	\$ 22,288	34,887	18,068	143,281	10,864
2020	\$ (5,175)	(71,463)	(7,215)	86,172	6,608
2021	\$ (50,959)	(277,943)	(50,608)	(30,900)	6,606
2022	\$ 0	25,065	0	10,512	0
Thereafter	\$ 0	32,585	0	48,357	0

NOTE 8. RISK MANAGEMENT

Medical:

The City of Wenatchee is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Property & Casualty Coverage:

The City of Wenatchee is exposed to risks of loss related to a number of sources including tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City protects itself against potential loss by employing

a two-tier risk management approach. First, the City shares risk of losses through membership in an insurance risk pool and second, the City reserves the right to utilize the provisions of RCW 35A.31.060-070 to fund catastrophic or uninsured losses. This State statute allows cities to levy a non-voted property tax increase to pay for uninsured claims.

The City of Wenatchee is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization 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 AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2017, 99 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) and pollution liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2017, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

Claims Payable and Settlements:

The Self-Insurance Fund is used for collecting interfund premiums from insured funds and departments, and for paying claims settlements. Interfund premiums are assessed on the basis of claims history, number of employees, and value of assets. Claims settlements and loss expenses are accrued in the estimated settlement value of both reported and unreported claims. No settlements have exceeded insurance coverage in any of the past three years.

As of December 31, 2017, the City had accrued the following amounts for outstanding claims:

	Incurred/ Reported	Incurred but not Reported	Total Claims Payable
Total	\$ 6,773	\$ 100,000	\$ 106,773

The following schedule presents changes in claims liabilities for 2017:

	Property & Casualty	
	2017	2016
Claims liabilities, January 1	\$ 134,451	\$ 142,344
Claims and operating expenses:		
Incurred during current year	98,776	149,830
Changes in estimate of claims from prior periods	0	0
Paid	(126,454)	(157,723)
Claims liabilities, December 31	<u>\$ 106,773</u>	<u>\$ 134,451</u>

NOTE 9. SHORT-TERM DEBT

The City had no short-term debt as of December 31, 2017.

NOTE 10. LONG-TERM DEBT

The City's long-term debt consists primarily of general obligation bonds, revenue bonds and loans, local improvement district bonds and accrued employee leave benefits related to vacation and sick leave.

A. General Obligations Bonds and Loans

- **Limited Tax General Obligation (LTGO) Bonds** – Consist of three outstanding issues of non-voted general obligation bonds. Each of these issues represents a direct obligation of the City and the full faith and credit of the City has been irrevocably pledged to satisfy related debt service requirements. The LTGO issues currently outstanding are:
 - Bonds issued in 2007 for the purpose of financing a portion of the construction cost of the public services center, renovating a portion of the city hall building, and renovating a portion of the convention center facility. All but \$165,000 of this issue was refinanced in 2015 and 2016. The refinanced liability is considered to be defeased and has been removed from the City's governmental column of the statement of net position. The remaining \$165,000 was paid off in 2017 and none of this issue is outstanding.
 - Taxable LTGO private placement issued in 2015 to refinance \$430,000 convention center portion of the 2007 bond issue, refinance the 2007 private placement, and issued \$2.1 million of new debt to provide convention center upgrades. The refunding's were undertaken to transition the Center's management contract from a services contract to a commission based contract. The 2007 private placement has been paid in full and the liability has been removed from the City's governmental column of the financial statements.
 - Bonds issued in 2016 refinanced \$1.97 million of the 2007 issue and issued \$7.085 million in new Local Revitalization Financing (LRF) debt to refinance LRF commitments and loans of \$1.445 and issue new debt of \$6.2 to finance improvements (parking, pedestrian accessibility, and Pybus land purchase) in the LRF area. The bonds were issued at a premium of \$770,103 (146,392 refinancing and \$623,711 LRF). The refinancing debt was \$1.92, million a saving of \$50,000 and all proceeds purchased US Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The entire \$1.97 million was paid in 2017.
- **Unlimited Tax General Obligation (UTGO) Bonds** – Consist of one issue of voter approved general obligation bonds that were issued in 2001 for the construction of a new police station. The bonds are a direct obligation of the City and the full faith and credit of the government has been irrevocably pledged to satisfy related debt service requirements. For as long as the bonds are outstanding, the City irrevocably pledges to levy taxes annually without limitation as to rate or amount on all taxable property within the City in an amount sufficient, together with other money legally available and to be used therefore, to pay the principal of and interest on the Bonds when due. These bonds were refinanced May 2013, for a net present value savings of \$313,800. The original 2001 bonds have been paid in full and the liability has been removed from the City's governmental column of the financial statements.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Average Installment
Convention Center Improvements and Refunding Bonds	2015 - 2029	4.5% - 5.5%	\$ 4,277,000	\$ 374,000
Public Services Center Construction / Local Revitalization Area Improvements	2016 - 2037	2% - 4%	\$ 9,005,000	\$ 609,895
Police Station Construction	2013 - 2021	1.4% - 3.6%	\$ 2,649,850	\$ 139,500

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2018	1,074,847	475,860
2019	1,092,214	454,870
2020	1,067,770	451,715
2021	1,111,706	409,512
2022	665,000	367,758
2023-2027	3,638,000	1,433,205
2028-2032	2,382,000	706,692
2033-2037	2,215,000	272,800
	<u>\$ 13,246,537</u>	<u>\$ 4,572,412</u>

As of December 31, 2017, the city has \$6,482 available in debt service funds to service the general bonded debt.

B. Revenue Bonds and Loans

- Revenue Bonds – Two separate series of revenue bonds are currently outstanding and were issued to finance water, sewer, storm drain and regional water system construction projects. The bonds are being repaid by operating revenues of the individual proprietary funds that benefited from the related capital assets.
- Washington Department of Ecology – State Revolving Fund (SRF) Loan – The City was the recipient of a low interest loan (1.5% over 20 years) from the State Department of Ecology in 2007 and the proceeds were used to upgrade the wastewater treatment plant that is part of the City's Water/Sewer enterprise fund. The loan will be repaid by future operating revenues of the fund.
- Washington Department of Commerce - Public Works Trust Fund Loan (PWTF) – The City entered into two loan agreements with the Public Works Board for a low interest loan (.5% over 20 years) to finance two sewer improvement projects. The City completed construction of both projects in 2013 and the repayment period ends June 1, 2031.

The revenue debt currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Average Installment
Water / Sewer Improvements & Refunding Bonds	2011 - 2030	3% - 5%	\$ 18,705,000	\$ 1,320,000
Water / Sewer Improvements	2008 - 2027	4% - 4.3%	\$ 5,225,000	\$ 390,000
State Revolving Loan, Sewer Improvements	2007 - 2026	1.50%	\$ 7,391,665	\$ 440,000
Public Works Trust Fund Loan, Sewer Improvements	2012 - 2031	0.50%	\$ 1,870,000	\$ 102,000
Public Works Trust Fund Loan, Sewer Improvements	2012 - 2031	0.50%	\$ 765,000	\$ 44,000

Revenue debt service requirements to maturity are as follows:

Year Ending December 31	Revenue Bonds		State Revolving Fund Loan		Public Works Trust Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	1,280,000	677,297	385,811	54,072	140,751	4,926
2019	1,115,000	636,297	391,638	48,245	140,751	4,574
2020	1,155,000	593,397	397,553	42,330	140,751	4,223
2021	1,210,000	542,822	403,558	36,325	140,751	3,871
2022	1,265,000	489,459	409,653	30,230	140,751	3,519
2023-2027	6,430,000	1,631,481	1,701,425	58,107	703,754	12,316
2028-2032	3,240,000	312,550	-	-	563,003	3,519
	<u>\$ 15,695,000</u>	<u>\$ 4,883,302</u>	<u>\$ 3,689,638</u>	<u>\$ 269,309</u>	<u>\$ 1,970,512</u>	<u>\$ 36,947</u>

As of December 31, 2017, restricted assets in the proprietary funds contain \$2,446,756 in sinking funds and reserves as required by bond indentures.

- C. Special Assessment or Local Improvement District (LID) Bonds have been issued to finance construction projects for sewers, sidewalks, etc. requested by citizens and benefit specific locations within our community. These bonds are repaid with the proceeds of annual billings assessed against property owners who benefited from the improvements. In the event of nonpayment the City of Wenatchee is obligated to make the payment of principal and interest of the Special Assessment Bonds and would do so to the extent funds are available in the LID Guaranty Fund and through the receipt of proceeds from the foreclosure and sale of property upon which the delinquency occurred. At December 31, 2017 the LID Guaranty Fund had a fund balance of \$133,856.

Year Ending December 31	Special Assessment Bonds	
	Principal	Interest
2018	34,466	24,049
2019	34,466	22,346
2020	34,466	20,490
2021	34,467	18,633
2022	34,467	16,777
2023-2027	151,955	57,381
2028-2032	117,488	16,331
	<u>\$ 441,775</u>	<u>\$ 176,007</u>

In 2011 the City completed the following two LID projects: Poplar Sewer Improvements of \$96,696 and Riverside Drive Street Improvements of \$2,550,555. The City's Water Sewer, Cemetery Endowment and Firemen's Pension Funds purchased these bonds.

- D. Employee leave benefits (otherwise known as compensated absences) account for the underlying liability related to the accumulation of accrued vacation and sick leave.
- E. Loan Guarantee In 2002, Chelan County issued \$2,560,000 in LTGO Bonds, to be used for the design, construction and equipping of a 911 call center known as Rivercom. Rivercom is a multi-jurisdictional public safety answering point that was formed through an Interlocal Cooperative Agreement including participation of four partners: Chelan County, Douglas County, the City of Wenatchee, and the City of East Wenatchee. Prior to the issuance of the bonds, each of the partners signed a Financing Agreement that commits each party be a guarantor of up to twenty-five percent (25%) of the principal amount of the bonds. The City's initial share of the guaranty was \$640,000, which is reduced each year as Chelan County makes annual debt service payments. There has never been a need for the City to contribute funds toward this obligation, and City's obligation as of December 31, 2017 is \$217,500. These bonds mature in 2022.
- F. Reservation of Debt Capacity In 2012 the City agreed to reserve four million in debt capacity as part of the debt issuance for the Greater Wenatchee Regional Events Center Public Facilities District (District). See Note 12(A). for further discussion of the City's relationship with the District. The City may have to loan the District funds up to \$200,000 per year until 2031. The \$4,000,000 debt capacity reservation is the value of the \$200,000 for twenty years. As of the date of this financial report the City has not needed to loan funds to the District under this agreement. The outstanding obligation under this agreement is \$2.8 million.

As a part of the bond issuance process, for each bond issued since 1997 the City has met with representatives of Moody's or Standard and Poor's to make rating presentations and ultimately receive a rating. These ratings are periodically reviewed and updated by each rating agency. A summary of the ratings the City currently carries on each of the bond issue types at December 31, 2017 follows:

Bond Type	Moody's	Standard & Poor's
Revenue Bonds	A3	AA-
UTGO/LTGO Bonds	A3	AA-

Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes in long-term liabilities occurred:

	Outstanding 1/1/2017	Additions	Reductions	Outstanding 12/31/2017	Due Within One Year
Governmental Activities					
Bonds Payable					
U.T.G.O. bonds	1,496,169	-	288,631	1,207,538	295,847
L.T.G.O. bonds	12,788,000	-	749,000	12,039,000	779,000
Special assessment debt	587,604	-	145,830	441,774	34,466
Total bonds payable	14,871,773	-	1,183,461	13,688,312	1,109,313
Pension obligation	5,947,919	-	1,330,944	4,616,975	-
OPEB obligation	2,637,841	346,329	-	2,984,170	-
Compensated absences	1,515,953	-	140,924	1,375,029	-
Government activity long-term debt	24,973,486	346,329	2,655,329	22,664,486	1,109,313
Business-Type Activities					
Bonds and Loans Payable					
Revenue bonds	16,935,000	-	1,240,000	15,695,000	1,280,000
SRF Loan	4,069,709	-	380,071	3,689,638	385,811
PWTF Loans	2,111,266	-	140,751	1,970,516	140,751
Total bonds and loans payable	23,115,975	-	1,760,822	21,355,154	1,806,562
Pension obligations	1,077,396	-	288,591	788,805	-
Compensated absences	244,958	34,597	-	279,555	-
Business-type activity long-term debt	24,438,329	34,597	2,049,413	22,423,514	1,806,562
Total Governmental and Business-Type	49,411,815	380,926	4,704,742	45,088,000	2,915,875
Statement of Net Position					
	Gov	Bus	Total		
Noncurrent Liabilities					
Due within one year	1,109,313	1,280,000	2,389,313		
Due in more than one year	12,578,999	14,415,000	26,993,999		
Due to other govts-current	-	526,562	526,562		
Due to other govts-noncurrent	-	5,133,592	5,133,592		
Pension obligation	4,616,975	788,805	5,405,780		
OPEB obligation	2,984,170	-	2,984,170		
Compensated absences	1,375,029	279,555	1,654,584		
	<u>22,664,486</u>	<u>22,423,514</u>	<u>45,088,000</u>		

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included in the above totals for governmental activities. At year end \$210,499 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 11. LEASES

Operating Leases

The City leases equipment and property under non-cancelable operating leases. The total cost for such leases was \$48,356 for the year ended December 31, 2017 including \$41,437 for equipment and \$6,919 for property. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Equipment	Property	Total
2018	31,813	2,240	34,053
2019	9,801	2,240	12,041
2020	5,062	2,240	7,302
2021	683	2,240	2,923
2022	0	2,240	2,240

NOTE 12. CONTINGENCIES

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies and self-insurance reserves, except as provided below, are adequate to pay all known or pending claims.

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

In connection with the issuance of the 2012 Bonds, the District and the City entered into an Amended and Restated Third Amendment to Interlocal Agreement for the Greater Wenatchee Regional Events Center Public Facilities District, which, provided that if the 0.1% District Tax and the City Tax are not enough to cover debt service on the 2012 Bonds, and the District has to use Sales Tax Credit revenue to pay debt service, then the City has committed to loan the District up to \$200,000 per year, until 2031. These loans are zero interest loans. The City agreed to reserve debt capacity for this potential obligation for 20 years after debt issuance at \$200,000 per year. The obligation outstanding at December 31, 2017 is \$2.8 million. Sales tax revenues have been sufficient to pay debt service; therefore, the District has not drawn on the loan. The City does not have any obligation to holders of the 2012 Bonds or to pay costs of the maintenance and operation of the District's regional events center.

NOTE 13. INTERFUND BALANCES AND TRANSFERS

During the course of normal operations the City has numerous transactions between funds. Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City. Other types of interfund activity includes loans and transfers.

Interfund Balances

Due to/from other funds represent receivables and payables between funds for goods issued, work performed or services rendered for the benefit of another fund within the City. This category also includes City Council approved temporary lending of cash from the General Fund to other funds in order to correct negative cash balances that are typically a result of the funds incurring grant related expenditures that are subsequently recovered through reimbursement requests. Due to/from balances at December 31, 2017, are as follows:

Due To/From Other Funds		
Receivable Fund	Payable Fund	Amount
General Fund	UTGO Bonds	11,897
Total		\$ 11,897

Interfund loans receivable and payable represent loans between funds that have been approved by a City Council resolution and are supported with a specific repayment plan. At December 31, 2017 the loans outstanding are as follows:

Interfund Receivable/Payable			
Receivable Fund	Payable Fund	Total	To be Repaid in 2018
Cemetery Endowment	General Fund	52,838	52,838
Total		\$ 52,838	\$ 52,838

Interfund Transfers

Transfers represent the outright movement of assets from one fund to another without a requirement for repayment. Transfers are used to:

- Move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due.
- Move unrestricted fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorization, including amounts provided as subsidies or matching funds for various grant programs.
- Move unrestricted fund revenues to support the operations of other funds.

During 2017 the following transfers in/out occurred:

Transfers From:	Transfers To:						
	General	Street	Nonmajor Governmental	Debt Service	Nonmajor Enterprise	Internal Service	Total
General	-	2,525,252	661,000	23,039	226,678	394,781	3,830,750
Street	-	-	-	-	-	128,341	128,341
Nonmajor governmental	250	-	566,985	1,198,120	-	-	1,765,355
Water/Sewer	229,600	-	-	-	-	-	229,600
Storm Drain	27,800	-	-	-	-	-	27,800
Regional Water	-	-	-	-	-	24,363	24,363
Internal Service	-	-	-	-	-	6,963	6,963
Pension Trust	40,000	-	-	-	-	-	40,000
Total transfers	297,650	2,525,252	1,227,985	1,221,159	226,678	554,448	6,053,172

Significant transfers that occurred during 2017 include:

- A transfer from the General Fund to the Street Maintenance Fund (a major fund) of \$2,470,107 to support street maintenance.
- A transfer from the General Fund to the Parks & Recreation Capital Projects Fund of \$631,000 to support various park redevelopment projects.
- A transfer from the General Fund to the Non-major Internal Service Funds: of \$145,012 for various facility repairs; \$141,389 for additional equipment; and \$108,380 for web page and software upgrades/packages.
- A transfer of \$217,871 from the Hotel/Motel Tourism Fund (a non-major fund) to the Convention Center Operations Fund (a non-major fund) to assist with debt service and provide additional funds to upgrade the Center as approved by the Lodging Tax Advisory Board and City Council.
- A transfer of \$128,341 to the Internal Service Funds to purchase additional equipment for street maintenance.

NOTE 14. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

In addition to pension benefits discussed in note 7, the City of Wenatchee administers a single employer defined benefit plan covering post-retirement healthcare and long-term care in accordance with State statute for retired police and fire employees eligible under the Firemen's Pension Fund and Law Enforcement Officers and Firefighters Plan 1 (LEOFF 1). The activity of the plan is reported in the General Fund. LEOFF retirement benefit provisions are established in State statute and may be amended only by the State Legislature.

Membership

LEOFF 1 employees (those police officers and firefighters hired prior to October 1, 1977) become eligible for these benefits at the point they retire from City employment. As of December 31, 2017, the number of individuals eligible for this benefit is as follows:

	Active	Retired	Total	Medicare Eligible
Fire	0	15	15	13
Police	0	14	14	13
	0	29	29	26

Funding Policy

The City reimburses 100% of the amount of validated claims for medical and hospitalization costs incurred by eligible retirees. We satisfy retiree medical claims through a three tier approach:

- The City pays the Part B premium for those 26 individuals that are Medicare eligible, which results in Medicare being the primary payer for related medical claims.
- The City pays for medical insurance coverage for all members. If the individual is Medicare eligible, Medicare is the primary payer, if not the insurance provider is considered primary.
- Finally, the City reimburses the retiree for those medical claims that are not covered by either Medicare or insurance.

Under the Revised Code of Washington, costs related to medical, hospital and nursing care are also covered for all LEOFF 1 retirees as long as a disability exists.

Employer contributions are financed on a pay-as-you-go basis and expenditures for postretirement health and long-term care in 2017 were \$372,593.

Annual OPEB Costs and Net OPEB Obligation

The City first had an actuarial valuation performed for the plans as of January 1, 2008 to determine the funding status of the plan as of that date as well as the employer's annual required contribution (ARC). The most recent valuation was performed as of January 1, 2018. The resulting OPEB calculation is depicted in the table below:

<u>Annual OPEB Costs and Net OPEB Obligation</u>		<u>12/31/2017</u>
1	Amortization of Unfunded Actuarial Accrued Liability (UAAL)	\$ 769,427
2	Interest	26,930
3	Annual Required Contribution (ARC)	<u>796,357</u>
4	Interest on Net OPEB Obligation	92,324
5	Adjustment to Annual Required Contribution (ARC)	<u>173,401</u>
6	Annual OPEB Cost	<u>715,280</u>
7	Employer Contributions	<u>368,951</u>
8	Change in Net OPEB Obligation	<u>346,329</u>
9	Net OPEB Obligation at Beginning of Year	<u>2,637,841</u>
10	Net OPEB Obligation at End of Year	<u><u>\$ 2,984,170</u></u>

Trend Information

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 787,141	\$ 589,397	74.88%	\$ 429,212
December 31, 2010	933,936	631,473	67.61%	731,675
December 31, 2011	927,720	629,047	67.81%	1,030,348
December 31, 2012	1,025,279	637,373	62.17%	1,418,254
December 31, 2013	1,015,489	540,568	53.23%	1,893,175
December 31, 2014	661,778	520,774	78.69%	2,034,179
December 31, 2015	654,978	417,680	63.77%	2,271,477
December 31, 2016	731,160	364,796	49.89%	2,637,841
December 31, 2017	715,280	368,951	51.58%	2,984,170

Funding Status and Funding Progress

The funded status of the plan as of December 31, 2017, was as follows:

Actuarial accrued liability (AAL)	10,734,000
Actuarial value of plan assets	0
Unfunded actuarial accrued liability	10,734,000
Funded ratio (actuarial value of plan assets / AAL)	0%

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, service retirement disability, mortality and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in Part 6 of this annual report document presents the results of OPEB valuations as of January 1, 2018 and looking forward, the schedule of funding progress will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Assumptions

The actuarial assumptions used in the January 1, 2018 OPEB actuarial valuations include techniques that are designed to estimate the future experience of the members, reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Assumptions were as follow:

Valuation date: January 1, 2018. Actuarial cost method: entry age normal. Amortization method: 30 year, closed as of January 1, 2008. Remaining amortization period: 21 years. Discount rate: 3.5%. Long-term care trend rate: 4.5%. Medical trend varies between 3.7% and 5.9% from 2016 through 2027, grading down to an ultimate of 4%. Mortality calculations used the RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members).

NOTE 15. JOINT VENTURES

The City of Wenatchee 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: Chelan County, Douglas County, and the City of East 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, the City of Wenatchee has a 25% equity interest in Rivercom. During 2017, Rivercom received total revenues of \$7,123,120 and incurred total expenses of \$5,989,943 resulting in an increase in fund balance of \$1,133,177, and ending fund balance of \$10,137,897. 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. See note 16 for further information regarding a prior period adjustment related to reporting this joint venture.

NOTE 16 – TAX ABATEMENTS

The State of Washington entered into tax abatement agreements with individuals or entities that reduce the City's tax revenues. During 2017 the State granted sales and use tax deferrals for investment projects in rural counties as allowed by RCW 82.60. The sales and use tax deferrals abated revenue that the City would have otherwise collected. There were less than three City of Wenatchee taxpayers who were eligible for this tax abatement. The Department of Revenue cannot disclose tax information for less than three taxpayers so the amount of taxes abated is not available.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

In 2016, services performed in the Regional Water fund for exploratory well drilling was capitalized as construction work in progress. Since this work did not result in a capital asset, the project should have been expensed. The correction of the prior period capitalization is decreased the beginning net position by \$124,637 on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position and on the government-wide Statement of Activities.

NOTE 18 – CHANGE IN ACCOUNTING POLICY

The City Council approved a purchasing policy that increased the asset capitalization threshold. Starting in 2017, equipment, land, and buildings will only be capitalized if the value is \$20,000 or more. Infrastructure assets will only be capitalized if the value is \$100,000 or more. The prior capitalization limit was \$5,000 for all classes of assets. This change in accounting policy is being applied prospectively. The increased capitalization threshold allows the City to simplify its asset capitalization and will not materially affect the financial statements. Assets capitalized in prior years, with values less than the new capitalization policy, will continue to be depreciated and reported in the financial statements.

NOTE 19 – SUBSEQUENT EVENTS

A. ADDITIONAL GENERAL OBLIGATION BONDS

In October 2017, the City Council approved Limited Tax General Obligation Bonds, not to exceed \$5,000,000, in the form of a line-of-credit from North Cascades Bank. This borrowing is to be used to finance the purchase and redevelopment of properties in North Wenatchee. As of December 31, 2017 no draws on the line-of-credit had occurred. In April 2018, a North Wenatchee property purchase was transacted and a \$1,600,000 draw on the line-of-credit was made. More property purchases are expected during 2018. The general obligation debt is expected to be repaid with proceeds from property sales after the area is redeveloped.

B. WATER/SEWER REVENUE BONDS

On May 10, 2018 the City Council authorized the sale of up to \$17,500,000 in water/sewer revenue bonds. \$14,000,000 is expected to be used for sewer projects and \$3,100,000 is expected to be used to refund the outstanding 2007 revenue bonds. The Water/Sewer fund is expected to pay for the debt issuance from sewer rate increases that were adopted by the Council in 2017. The bonds are expected to be issued by the end of June 2018.

C. PURCHASE OF NEW CITY FACILITY

On April 26, 2018 the City Council authorized the Mayor to sign a real estate purchase and sale agreement for the LocalTel Federal Building. The City plans to purchase a portion of the building to remodel into a new City Hall. The purchase price is \$3.6 million and the total budget for purchase and remodel is \$14,500,000. Closing on the real estate purchase is expected by the end of May or June 2018. Long term general obligation debt is expected to be issued at the end of 2018 to finance the new City Hall.

CITY OF WENATCHEE, WA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS (OPEB)
December 31, 2017
(amounts in thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	-	12,146	12,146	0%	n/a	n/a %
1/1/2010	-	15,689	15,689	0%	n/a	n/a
1/1/2012	-	16,719	16,719	0%	n/a	n/a
1/1/2014	-	11,067	11,067	0%	n/a	n/a
1/1/2016	-	12,079	12,079	0%	n/a	n/a
1/1/2018	-	10,734	10,734	0%	n/a	n/a

* January 1, 2008 was the first year of OPEB implementation and corresponded with the first actuarial valuation of OPEB. Actuarial studies will be conducted biennially with the most recent study completed January 1, 2018.

CITY OF WENATCHEE, WA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE SPONSORED PENSION PLANS
As of June 30, 2017

PERS 1	2017	2016	2015
City's proportion of the net pension liability (asset)	0.058982%	0.060722%	0.065437%
City's proportionate share of the net pension liability	2,798,742	3,261,057	3,422,964
Covered payroll	8,134,877	7,054,126	7,336,424
City's proportionate share of the net pension liability as a percentage of covered employee payroll	34.40%	46.23%	46.66%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%
PERS 2/3	2017	2016	2015
City's proportion of the net pension liability (asset)	0.075033%	0.074763%	0.081164%
City's proportionate share of the net pension liability	2,607,038	3,764,258	2,900,036
Covered payroll	8,098,743	6,927,802	7,202,866
City's proportionate share of the net pension liability as a percentage of covered employee payroll	32.19%	54.34%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	85.82%
LEOFF 1	2017	2016	2015
City's proportion of the net pension liability (asset)	0.075717%	0.077205%	0.077203%
City's proportionate share of the net pension liability	(1,148,793)	(795,432)	(930,467)
State's proportionate share of the net pension liability (asset) associated with	(7,770,410)	(5,380,284)	-
TOTAL	(8,919,203)	(6,175,716)	(930,467)
Covered payroll	-	-	74,253
City's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	0.00%	-1253.10%
Plan fiduciary net position as a percentage of the total pension liability	135.96%	123.74%	127.36%
LEOFF 2	2017	2016	2015
City's proportion of the net pension liability (asset)	0.106158%	0.125999%	0.199133%
City's proportionate share of the net pension liability	(1,473,129)	(732,848)	(2,046,689)
State's proportionate share of the net pension liability (asset) associated with	(955,591)	(477,764)	(3,399,963)
TOTAL	(2,428,720)	(1,210,612)	(5,446,652)
Covered payroll	3,495,595	3,817,016	2,791,617
City's proportionate share of the net pension liability as a percentage of covered employee payroll	-69.48%	-31.72%	-195.11%
Plan fiduciary net position as a percentage of the total pension liability	113.36%	106.04%	111.67%

The City is not presenting the full ten year history because the data is not available.

CITY OF WENATCHEE, WA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
STATE SPONSORED PENSION PLANS
As of December 31, 2017

PERS 1	2017	2016	2015
Statutorily or contractually required contributions	421,781	368,462	12,485
Contributions in relation to the statutorily or contractually required contributions	(421,781)	(368,462)	(12,485)
Contribution deficiency (excess)	0	0	0
Covered payroll	8,600,020	7,594,451	6,796,546
Contributions as a percentage of covered employee payroll	4.90%	4.85%	0.18%
PERS 2/3	2017	2016	2015
Statutorily or contractually required contributions	589,745	467,422	667,593
Contributions in relation to the statutorily or contractually required contributions	(589,745)	(467,422)	(667,593)
Contribution deficiency (excess)	0	0	0
Covered payroll	8,592,040	7,498,317	6,671,879
Contributions as a percentage of covered employee payroll	6.86%	6.23%	10.01%
LEOFF 2	2017	2016	2015
Statutorily or contractually required contributions	188,432	179,281	240,031
Contributions in relation to the statutorily or contractually required contributions	(188,432)	(179,281)	(240,031)
Contribution deficiency (excess)	0	0	0
Covered payroll	3,528,864	3,548,399	4,753,084
Contributions as a percentage of covered employee payroll	5.34%	5.05%	5.05%

The City is not presenting the full ten year history because the data is not available.

CITY OF WENATCHEE, WA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FIREMEN'S PENSION FUND
Last 10 Fiscal Years
(amounts in thousands)

	Fiscal Year Ending December 31			
	2017	2016	2015	2014
Interest on total pension liability	44	-	47	49
Effect of economic/demographic gains or losses	-	-	(36)	0
Effect of assumptions changes or inputs	12	-	137	35
Benefit payments	(109)	(109)	(119)	-119
Net change in total pension liability	(53)	(109)	29	-35
Total pension liability, beginning	1,315	1,424	1,395	1430
Total pension liability, ending (a)	1,263	1,315	1,424	1395
Fiduciary Net Position				
Employer Contributions	-	-	-	-
Contributions from state fire insurance premium tax	24	23	26	29
Investment income net of investment expenses	27	46	46	45
Benefit payments	(109)	(109)	(119)	-119
Medical payments from fund	(40)	(70)	(70)	0
Administrative expenses	-	(12)	(3)	15
Net change in plan fiduciary net position	(98)	(122)	(120)	60
Fiduciary net position, beginning	1,771	1,889	2,003	2063
Fiduciary net position, ending (b)	1,671	1,771	1,889	2003
Net pension liability, ending = (a) - (b)	(408)	(456)	(465)	-608
Fiduciary net position as a % of total pension liability	132.30%	134.71%	132.70%	143.63%
Covered payroll	-	-	-	-
Net pension liability as a % of covered payroll	N/A	N/A	N/A	N/A

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

CITY OF WENATCHEE, WA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FIREMEN'S PENSION FUND
Last 10 Fiscal Years

<u>Fiscal Year Ending December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>
2008	(\$202,000)	\$20,697	(\$222,697)	\$0	NA
2009	(202,000)	(331,006)	129,006	0	NA
2010	(130,000)	(276,040)	146,040	0	NA
2011	(130,000)	(293,796)	163,796	0	NA
2012	(53,000)	11,599	(64,599)	0	NA
2013	(53,000)	26,147	(79,147)	0	NA
2014	(89,000)	28,955	(117,955)	0	NA
2015	(89,000)	(43,757)	(45,243)	0	NA
2016	NA	(35,616)	NA	0	NA
2017	NA	(16,056)	NA	0	NA

* Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150. It includes revenues from fire insurance premium taxes. Prior to 2014, administrative expenses were also subtracted from employer contributions.

* No Actuarially determined contribution is required due to assets being greater than the Total Pension Liability

Money-Weighted Rate of Return
Firemen's Pension Fund

<u>Fiscal Year Ending December 31</u>	<u>Net Money-Weighted Rate of Return</u>
2014	2.21%
2015	2.40%
2016	N/A
2017	1.57%

The City is not presenting the full ten year history because the data is not available.

Firemen's Pension Fund
Actuarial Assumptions

Valuation date: January 1, 2018. Measurement date: December 31, 2017. Actuarial cost method: entry age normal. Asset valuation method: fair market value. Inflation rate: 2.25%. Projected salary increases: 3.25%. Mortality rates were based on the RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members). The Firemen's Pension Fund benefit adjustments are based on the change in salary for the rank the members held at retirement based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

CITY OF WENATCHEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

Federal Agency Name / Pass-Through Agency Name	Federal Program	CFDA Number	Other Identification Number	Expenditures		Passed through to Subrecipients	Note
				From Pass-Through Awards	From Direct Awards		
CDBG - Entitlement Grants Cluster							
Office of Community Planning and Development, Department of Housing and Urban Development	Community Development Block Grant	14.218	B-15-MC-53-0021		223,121	14,389	2.3, 4a, 4b
Total CDBG - Entitlement Grants Cluster					223,121	14,389	
Office of Community Planning and Development, Department of Housing and Urban Development (via Washington State Department of Commerce)	Emergency Solutions Grant (ESG)	14.231	14-46107-014	58,567		56,990	2, 4c
Department of Interior National Park Service (via WA State Dept of Archaeology and Historic Preservation)	Historic Preservation Fund Grant	15.904	17-61017-009	3,086		0	2
Bureau of Justice Assistance, Department of Justice	Bulletproof Vest Partnership Program	16.607			4,017	0	2
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department of Transportation (via WA State Department of Transportation)	Highway Planning & Construction	20.205	STPUS-5825(005)	73,426	-	0	
		20.205	HSIP-0285(018)	4,266	-	0	
		20.205	STPUS-5801(004)	602,070	-	0	
		20.205	HSIP-000S(428)	54,702	-	0	
		20.205	SRTS-5807(001)	109,421	-	0	
		20.205	HLP-PB15(012)	5,101	-	0	
		20.205	TAP-0285(020)	47,119	-	0	
		20.205	STUPUS-0285	33	-	0	
		20.205	SRTS-9904(014)	10,011	-	0	
		20.205	STPUS-9904(012)	25,994	-	0	
Total Highway Planning and Construction Cluster				932,143	-	932,143	2, 4d
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department of Transportation (via WA State Traffic Safety Commission)	State & Community Highway Safety	20.600	Distracted Driving	2,163	-	0	
		20.600	Impaired Driving	443	-	0	
		20.600	Seat Belt Patrol	602	-	0	
		20.600	Region 12 Speed Project	3,480	-	0	
		20.600	Child Passenger Safety Technician Course	7,735	-	0	
Total Highway Safety Cluster				14,423	-	14,423	2
Center for Disease Control And Prevention, Department of Health and Human Services (via Grant Co Health)	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	1U58DP005531-01	12,536		0	2, 4e
Total Federal Awards Expended				1,020,755	227,138	1,247,893	71,379

CITY OF WENATCHEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2017

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the modified accrual basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the grant portion of the program costs. Entire program costs, including the city's portion, may be more than shown.

Note 3 – Revolving Loan – Program Income

The City has a revolving loan program for low income housing renovation. Under this federal program, repayments to the city are considered program revenue (income) and loans of such funds to eligible recipients are considered expenditures. The amount of the loan funds disbursed to program participants for the year was \$ 0.00 and is presented in this schedule. The amount of principal received in loan repayments for the year was \$62,930.

Note 4 – Indirect Cost Rate

- a. The amount expended includes \$6,884 claimed as an indirect cost recovery using an approved indirect cost rate of 1.15 percent.
- b. The amount expended includes \$21,408 claimed as an indirect cost recovery using an approved indirect cost rate of 1.40 percent.
- c. The amount expended includes \$843 claimed as an indirect cost recovery using an approved indirect cost rate of 1.15 percent.
- d. The amount expended includes \$20,253 claimed as an indirect cost recovery using an approved indirect cost rate of .20 percent.
- e. The amount expended includes \$2,105 claimed as an indirect cost recovery using an approved indirect cost rate of .22 percent

The City has elected not to use the 10% indirect cost rate.

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.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov