

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Wenatchee
Chelan County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008545

Issue Date
November 5, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 5, 2012

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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

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Federal Summary

City of Wenatchee Chelan County January 1, 2011 through December 31, 2011

The results of our audit of the City of Wenatchee are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on 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.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified deficiencies that we consider 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 unqualified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

Schedule of Audit Findings and Responses

**City of Wenatchee
Chelan County
January 1, 2011 through December 31, 2011**

1. The City's internal controls over financial preparation are inadequate to ensure accurate reporting.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. We identified deficiencies in internal controls that could adversely affect the City's ability to produce reliable financial statements.

Description of Condition

Our audit identified the following weaknesses in internal controls, that when taken together represent a significant deficiency:

- The City does not sufficiently monitor the preparation of its year-end financial statements to ensure accurate reporting.
- The City's review of journal entries for complex accounting transactions, such as debt refunding, is not sufficiently detailed to ensure accurate recording and reporting.
- The City's Finance Department did not have a full understanding of all requirements of the new Governmental Accounting Standards Board Statement GASB No. 54. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying governmental fund type definitions. The statement also updates the criteria a fund must meet in order to be reported as a special revenue fund.

Cause of Condition

The City has not prioritized or dedicated the necessary resources to design adequate internal controls to ensure its reporting of financial information is accurate and complete.

Effect of Condition

Our audit identified the following errors in the City's financial reporting:

- The City did not record or report a Bond Anticipation Notes debt refinancing transaction of \$2,400,000 in the debt service fund. By excluding this transaction,

the City did not report the debt service fund separately as required by financial reporting standards.

- The City did not prepare their government fund financial statements in accordance with GASB No. 54. Specifically, the City could not support how it reclassified fund balances into the new categories and determined which funds to report as special revenue funds.

Additionally, the City had not reviewed or evaluated restricted revenues recorded within Special Revenue funds. As a result, the City was unable to verify that the special revenue funds were accurately reported and that reserved fund balances were restricted.

Once the City evaluated the special revenue funds in accordance with GASB reporting standards, it determined it was reporting several special revenue funds that did not meet GASB standards. The City chose to restate its fund financial statements in accordance with reporting standards, which resulted in a material adjustment of \$1,111,350 to the City's General Fund balance.

As a result of these errors, the City's original statements were materially misstated and did not comply with GASB financial statement presentation reporting standards.

Recommendation

We recommend the City dedicate the necessary time and resources to establish the following internal controls:

- Someone independent of the preparation of the financial statements and knowledgeable of accounting requirements should perform a detailed review and reconciliation of the statements.
- A detailed review of all manual journal entries for complex accounting transactions, including debt refinancing transactions, should be done to ensure each transaction is properly recorded and reported by the City.
- The City should obtain sufficient guidance prior to implementing and using complex accounting standards to ensure proper interpretation and reporting of such standards.

City's Response

The City would like to thank the State Auditor's for their assistance during the audit. The City will take the following step to address the Auditor's concerns.

- A vacant accountant position will be filled in 2013 to assist with cost allocation policies and financial statement internal controls.

Auditor's Remarks

We appreciate the steps the City is taking to address these issues. We will review the Condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

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

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Internal Control states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

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

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

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control, which it defines as:

- a. Significant deficiency: a deficiency in internal control or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Budget Accounting and Reporting System (BARS) Manual - Part 1, Accounting,
Chapter 4, Page 4, Ending Cash and Investments:

Amounts of cash and investments that have been not spent at the end of fiscal year. The distinction between reserved and unreserved fund balances is required. The details of reserved amounts must be disclosed in the notes to financial statements.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**City of Wenatchee
Chelan County
January 1, 2011 through December 31, 2011**

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

We have audited 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, Chelan County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 10, 2012. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

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

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 10, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Wenatchee
Chelan County
January 1, 2011 through December 31, 2011**

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

COMPLIANCE

We have audited the compliance of the City of Wenatchee, Chelan County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

August 10, 2012

Independent Auditor's Report on Financial Statements

City of Wenatchee Chelan County January 1, 2011 through December 31, 2011

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

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, Chelan County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed on page 13. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2011, 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 conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 23, pension trust fund information on pages 84 through 85 and information on postemployment benefits other than pensions on page 86 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 the 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.

Our audit was performed 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 10, 2012

Financial Section

City of Wenatchee Chelan County January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

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BASIC FINANCIAL STATEMENTS

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Statement of Activities – 2011
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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – 2011
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2011
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities – 2011
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2011
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Street Fund – 2011
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Arterial Street Fund – 2011
Statement of Net Assets – Proprietary Funds – 2011
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2011
Statement of Cash Flows – Proprietary Funds – 2011
Statement of Net Assets – Fiduciary Funds – 2011
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Notes to the Financial Statements – 2011

REQUIRED SUPPLEMENTARY INFORMATION

Fireman Pension Fund Information – 2011
Other Post Employment Benefits (OPEB) Information – 2011

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards – 2011
Notes to the Schedule of Expenditures of Federal Awards – 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Wenatchee exceeded its liabilities at the close of the most recent fiscal year by \$123,702,559. Of this amount, \$20,826,360 may be used to meet the government's ongoing obligations to citizens and creditors within the guidelines of the funds.
- The government's total net assets increased by \$7,966,891
- This increase is due in large part to the following:
 - Annexations increased street and storm fixed assets \$1,467,000
 - Completed Subdivision increased street, sewer and storm fixed assets \$1,964,000
 - Completion of Orondo turn lane \$358,005
 - Improvements to South Wenatchee sidewalks \$348,031
 - Completion of Olds Station gravity sewer interceptor \$1,606,146
 - WWTP Odor Control & Visual Mitigation – Design \$322,911
 - Western Avenue storm line extension \$206,413.
 - A \$505,878 increase in the City's pension and medical coverage obligation for pre LEOFF and LEOFF 1 retirees.
 - Two Local Improvement Districts were completed and the assessments determined increasing receivables \$2,647,251.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$7,843,499. Approximately 89% of the total amount, or \$6,990,445, is available for spending at the government's discretion within the designated funding sources guidelines.
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$2,999,866, or 12.82% of total general fund expenditures and other financing uses of \$23,392,949.
- The City's total combined bond and state revolving loan related long-term debt increased by \$11,585,459 (37%) during the current fiscal year which was comprised of:
 - \$18,705,000 new debt issued which refunded \$3,525,000 in outstanding debt
 - \$2,647,251 new debt for completed Local Improvement District projects and payoff of the construction debt \$2,738,629.
 - \$3,564,007 principal payments
 - \$60,842 new loans from Washington State Public Works Trust Fund.

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.

Government-wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of City of Wenatchee finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change as it occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, accounts receivable and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety (including police and fire), transportation, culture and recreation and economic environment. The business-type activities of the City include water and sewer services, storm drain, solid waste services and a cemetery.

The government-wide financial statements can be found beginning on page 3-1.

Fund Financial Statements

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. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus on governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

During the fiscal year ended December 31, 2011, the City maintained 32 individual governmental funds. Information for the General Fund, Street Special Revenue Fund, Arterial Street Special Revenue Fund and Riverside Drive LID Debt Service Fund (each of which is considered to be a major fund) is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances, and data from the other 28 governmental funds are combined into a single, aggregated presentation (on pages 4-1 through 4-4 of this report). Individual fund data for each of the 28 non-major governmental funds is provided in the form of combining statements on pages 7-1 through 7-8 of this report.

The City adopts an annual appropriated budget for its governmental funds in accordance with state law on a fund level. Budgetary comparison statements have been provided for the general fund, street special revenue fund and arterial street special revenue fund to demonstrate compliance with this budget and may be located on pages 4-5 through 4-8.

Proprietary funds. The City of Wenatchee maintains two different types of proprietary 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 Water/Sewer, Storm Drain, Regional Water, Solid Waste and Cemetery Funds.
- *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 presented in Part 3 of this document.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water/Sewer, Storm Drain and Regional Water operations (each of which is a major fund), and aggregate all other nonmajor proprietary funds of the City with a separate column for both the enterprise and internal service funds (on pages 4-9 through 4-13 of this report).

Individual fund data for each of the nonmajor enterprise funds may be found on pages 7-9 through 7-11 of this report, and individual fund data for the internal service funds may be found on pages 7-13 through 7-15.

Fiduciary funds. 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 accounting principles used for fiduciary funds are much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 4-14 and 4-15 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 5-1 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Wenatchee's progress in funding its obligation to provide both pension benefits to certain retired firefighters as well as medical care and long-term care benefits to retired LEOFF 1 employees. This required supplementary information can be found in part 6 of this report, and also in footnote numbers 7 and 14, which are located in Part 5 of this document.

The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented in Parts 7 and 8 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets 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 \$123,702,559 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (\$88,213,278, or 71.31%) is comprised of its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Wenatchee's Net Assets

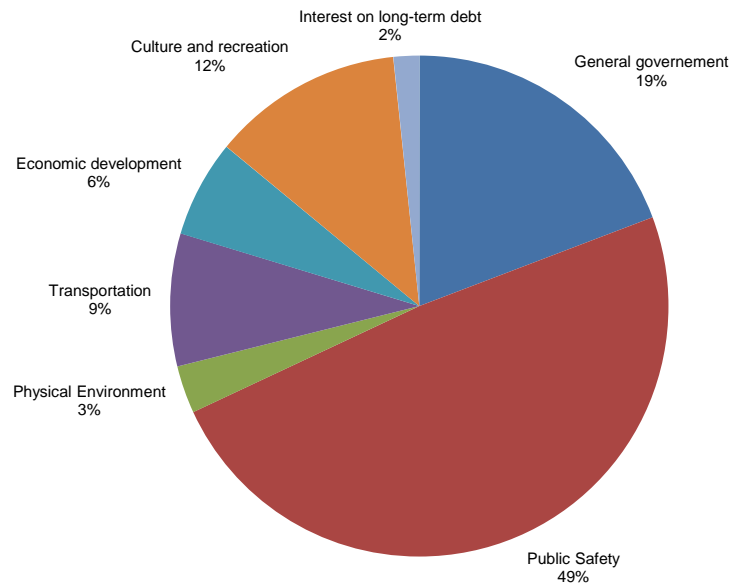
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 17,138,008	\$ 14,966,040	\$ 24,202,528	\$ 9,245,273	\$ 41,340,536	\$ 24,211,313
Capital assets	74,704,076	71,857,418	56,432,909	55,196,457	131,136,985	127,053,875
Total assets	<u>91,842,084</u>	<u>86,823,458</u>	<u>80,635,437</u>	<u>64,441,730</u>	<u>172,477,521</u>	<u>151,265,188</u>
Liabilities						
Long-term debt	14,330,961	15,973,968	28,592,746	15,364,280	42,923,707	31,338,248
Other liabilities	4,381,119	3,203,415	1,470,136	987,857	5,851,255	4,191,272
Total liabilities	<u>18,712,080</u>	<u>19,177,383</u>	<u>30,062,882</u>	<u>16,352,137</u>	<u>48,774,962</u>	<u>35,529,520</u>
Net Assets						
Invested in capital assets, net of related debt	60,373,115	55,883,450	27,840,163	39,832,177	88,213,278	95,715,627
Restricted	0	0	14,662,921	1,489,109	14,662,921	1,489,109
Unrestricted	12,756,889	11,762,625	8,069,471	6,768,307	20,826,360	18,530,932
Total net assets	<u>\$ 73,130,004</u>	<u>\$ 67,646,075</u>	<u>\$ 50,572,555</u>	<u>\$ 48,089,593</u>	<u>\$ 123,702,559</u>	<u>\$ 115,735,668</u>

City of Wenatchee's Changes in Net Assets

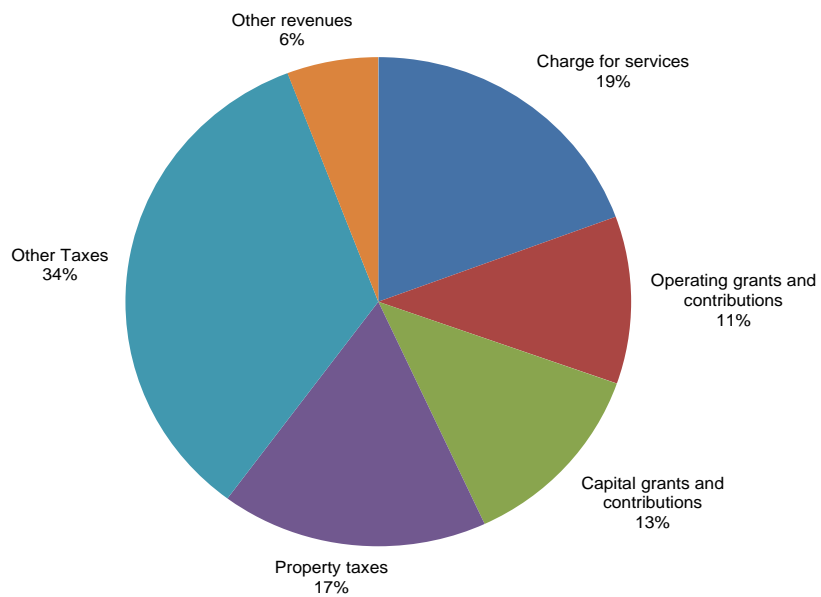
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charge for services	\$ 6,415,857	\$ 3,724,823	\$ 13,174,614	\$ 12,278,109	\$ 19,590,471	\$ 16,002,932
Operating grants and contributions	3,866,101	4,904,700	89,123	60,877	3,955,224	4,965,577
Capital grants and contributions	4,430,050	1,449,660	865,868	145,036	5,295,918	1,594,696
General revenues:						
Property taxes	5,961,641	5,734,557	0	0	5,961,641	5,734,557
Other Taxes	11,886,328	12,235,632	0	0	11,886,328	12,235,632
Other revenues	2,042,376	982,618	46,999	30,380	2,089,375	1,012,998
Total revenues	<u>34,602,353</u>	<u>29,031,990</u>	<u>14,176,604</u>	<u>12,514,402</u>	<u>48,778,957</u>	<u>41,546,392</u>
Expenses:						
General government	5,626,916	4,982,148	0	0	5,626,916	4,982,148
Public Safety	14,282,710	14,230,478	0	0	14,282,710	14,230,478
Physical Environment	895,179	853,430	0	0	895,179	853,430
Transportation	2,504,582	3,336,745	0	0	2,504,582	3,336,745
Economic development	1,836,692	1,600,682	0	0	1,836,692	1,600,682
Culture and recreation	3,621,751	3,620,698	0	0	3,621,751	3,620,698
Interest on long-term debt	487,440	573,754	0	0	487,440	573,754
Water/Sewer	0	0	7,500,204	7,248,767	7,500,204	7,248,767
Storm Drain	0	0	1,064,233	936,251	1,064,233	936,251
Regional Water	0	0	749,966	745,350	749,966	745,350
Solid Waste	0	0	1,987,767	1,937,260	1,987,767	1,937,260
Cemetery	0	0	254,623	271,058	254,623	271,058
Total expenses	<u>29,255,270</u>	<u>29,197,935</u>	<u>11,556,793</u>	<u>11,138,686</u>	<u>40,812,063</u>	<u>40,336,621</u>
Increase in net assets before transfers	5,347,083	(165,945)	2,619,811	1,375,716	7,966,894	1,209,771
Transfers	136,847	151,200	(136,847)	(151,200)	0	0
Increase in net assets	5,483,930	(14,745)	2,482,964	1,224,516	7,966,894	1,209,771
Accounting Change	0	510,000	0	0	0	510,000
Net assets January 1,	67,646,075	67,150,820	48,089,593	46,865,077	115,735,668	114,015,897
Net assets December 31,	<u>\$ 73,130,005</u>	<u>\$ 67,646,075</u>	<u>\$ 50,572,557</u>	<u>\$ 48,089,593</u>	<u>\$ 123,702,562</u>	<u>\$ 115,225,668</u>

Governmental Activities. Governmental activities increased the City of Wenatchee's net assets by \$5,483,930, thereby increasing the City's net assets by 68%.

Expenses – Governmental Activities

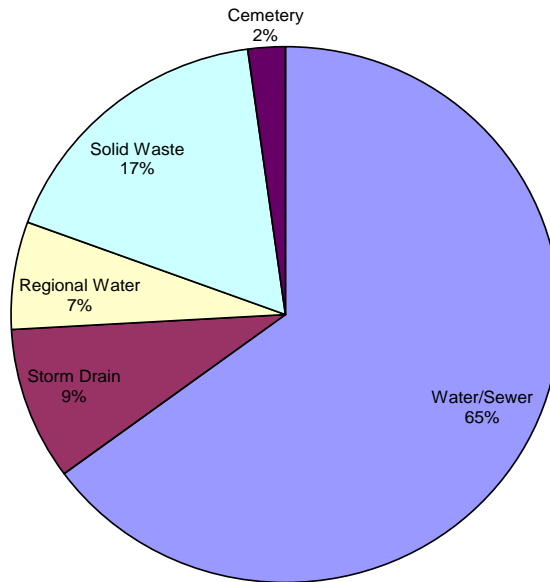


Revenues by Source – Governmental Activities

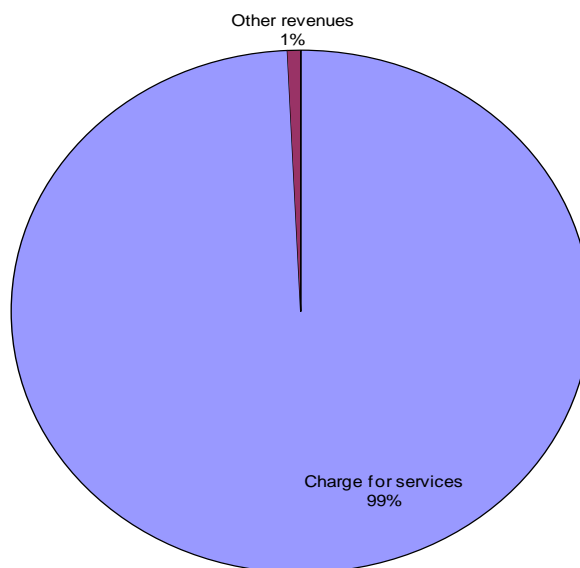


Business-type Activities. Business-type activities increased City of Wenatchee's net assets by \$2,482,964, accounting for 32% of total growth in the government's net assets.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Wenatchee uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The General Fund, Street Fund, Arterial Street Fund, Riverside Drive LID Fund made up the City's major funds during the most recent fiscal year. Together these four funds account for \$8,461,240 (or 64.32%) of total governmental fund assets of \$13,154,262 and \$4,062,734 (or 51.8%) of the total governmental fund's fund balance of \$7,843,499.

The focus of City of Wenatchee's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,843,499. Of this figure, \$6,942,742 (or 88.52%) constitutes unreserved fund balance that is available for spending within the designated funds. The remaining fund balance of \$900,757 is reserved to indicate that it is not available for new spending because it has already been committed for other purposes.

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 \$3,047,569 and the unreserved fund balance was \$2,999,866. As a measure of the general fund's liquidity, it may be useful to compare both the total fund balance and unreserved fund balance to the total of fund expenditures and other financing uses. As of December 31, 2011, the total fund balance represented 13% of total general fund expenditures and the unreserved fund balance represented 12.82% of total general fund expenditures. A recent history of reserve percentages is as follows:

Year	Total Fund Balance	Unreserved Fund Balance	Expenditures and other Financing Uses	Fund Balance as a % of Expenditures	
				Total	Unreserved
2011	3,047,569	2,999,866	23,392,949	13.03%	12.82%
2010	3,180,608	3,137,779	22,601,753	14.07%	13.88%
2009	3,424,573	3,381,044	22,217,904	15.41%	15.22%
2008	3,617,349	3,573,820	23,283,905	15.54%	15.35%
2007	5,109,243	5,065,714	20,593,554	24.81%	24.60%

The fund balance of City's amended General Fund budget was anticipated to increase by \$86,970 in 2011 but actually decreased by \$133,039, a \$220,009 change from the budget.

The Street Fund budget was adopted and amended with the expectation that the fund balance would decrease by \$61,196 from \$462,592 at the end of 2010 to \$401,396 at the end of 2011. The actual fund balance at the end of 2011 was \$443,666 which was \$42,270 more than anticipated.

The Arterial Street Fund budget was adopted and amended with the expectation that the fund balance would increase by \$286,657 from \$658,801 at the end of 2010 to \$945,458 at the end of 2011. The actual fund balance at the end of 2011 was \$571,499 which was \$373,959 less than anticipated. The change in fund balance is a result of intergovernmental revenues being \$804,883 (51%) less than anticipated.

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 \$79,971,952 (99.2%) of total enterprise fund assets of \$80,638,869. These funds also accounted for \$49,952,263 (98.7%) of total enterprise fund net assets of \$50,572,555. The City of Wenatchee's proprietary funds reported on pages 4-11 through 4-15 of this report provide the same type of information found in the government-wide financial statements in Part 3, but in more detail.

Unrestricted net assets of the Water/Sewer Utility Fund at the end 2011 were \$4,811,232 as compared to \$4,462,413 at end of 2010 for a total increase of \$348,819.

Unrestricted net assets of the Storm Drain Utility at the end of 2011 were \$566,173 as compared to \$235,937 at the end of 2010 for a total increase of \$330,236.

Unrestricted net assets of the Regional Water Fund at the end of 2011 were \$2,440,945 as compared to \$1,858,433 at the end of 2010 for a total increase of \$582,512.

GENERAL FUND BUDGETARY HIGHLIGHTS

Appropriations (Expenses)

Through the course of the year General Fund appropriations were amended upward from \$22,162,270 to \$23,541,619 for a total increase of \$1,379,349. The increase was due in part to the increase in expenses related to grant funding \$423,271, the sale of property which was used to pay down a short term note \$666,700, additional transfer to the Cemetery Operations fund \$76,000 and an additional amount needed to meet the Public Facilities District loan request for the December interest payment \$171,625.

Revenue Estimates

General Fund revenues were amended upward from \$22,089,482 to \$23,628,589 for a total increase of \$1,539,107. The amendment was comprised, in part, of following changes:

- A \$135,000 decrease in utility tax revenues representing a change in citizens use of cell phones and internet.
- A \$440,940 increase in intergovernmental revenues that are largely the result of the receipt of grants.
- A \$145,000 increase in miscellaneous revenues for the final reimbursement from Chelan County for the dissolution of the jail management partnership.
- A \$255,000 increase in fines and forfeits due to the addition of the red light camera program.
- A \$721,800 increase due to the exchange and sale of property around George Seller Bridge to accommodate the redesign of the bridge.

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, 2011, amounts to \$131,136,985 (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:

- Annexations increased street and storm fixed assets \$1,467,000
- Completed Subdivision increased street, sewer and storm fixed assets \$1,964,000
- Completion of Orondo turn lane \$358,005
- Improvements to South Wenatchee sidewalks \$348,031
- Completion of Olds Station gravity sewer interceptor \$1,606,146
- WWTP Odor Control & Visual Mitigation – Design \$322,911
- Western Avenue storm line extension \$206,413.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 9,696,679	9,201,679	\$ 1,709,215	1,421,715	\$ 11,405,894	10,623,394
Buildings and system	22,883,739	23,578,157	51,911,560	50,863,622	74,795,299	74,441,779
Improvements other than buildings	2,162,359	2,282,024	14,509	14,509	2,176,868	2,296,533
Machinery and equipment	3,271,178	3,754,321	1,084,871	1,343,826	4,356,049	5,098,147
Infrastructure	36,600,675	32,809,745	0	0	36,600,675	32,809,745
Construction in progress	89,446	231,492	1,712,754	1,552,785	1,802,200	1,784,277
Total	<u>\$ 74,704,076</u>	<u>\$ 71,857,418</u>	<u>\$ 56,432,909</u>	<u>\$ 55,196,457</u>	<u>\$ 131,136,985</u>	<u>\$ 127,053,875</u>

Additional information on the City's capital assets can be found in Footnote #6 located in Part 5 of this report.

Long-term Debt. At the end of the current fiscal year, the City of Wenatchee had bond and state revolving loan related long-term debt of \$42,923,707. Of this amount, \$11,675,000 is comprised of general obligation bonds issued by the City that are backed by the full faith and credit of the government, \$2,655,961 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment, \$22,645,001 represents revenue bonds secured solely by utility revenue sources, \$5,886,903 represents a Washington Department of Ecology State Revolving Fund (SRF) Loan that was used to renovate our wastewater treatment plant and \$60,842 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.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	11,675,000	13,196,629	0	0	11,675,000	13,196,629
Loan Guaranty	0	0	0	0	0	0
Special assessment debt	2,655,961	2,777,340	0	0	2,655,961	2,777,340
Revenue bonds	0	0	22,645,001	9,130,000	22,645,001	9,130,000
State Loans	0	0	5,947,745	6,234,280	5,947,745	6,234,280
Total	<u>14,330,961</u>	<u>15,973,969</u>	<u>28,592,746</u>	<u>15,364,280</u>	<u>42,923,707</u>	<u>31,338,249</u>

The City's total bond related long-term debt decreased by \$11,585,459 (37%) during the current fiscal year. The decrease is the result of:

- \$18,705,000 new debt issued which refunded \$3,525,000 in outstanding debt
- \$2,647,251 new debt for completed Local Improvement District projects and payoff of the construction debt \$2,738,629.
- \$3,564,007 principal payments
- \$60,842 new loans from Washington State Public Works Trust Fund.

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

Bond Type	Moody's	Standard & Poor's
Revenue	A1	AA
Unlimited Tax General Obligation (UTGO)	A3	BBB
Limited Tax General Obligation (LTGO)	Baa2	BBB

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

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 Office of the Finance Director, PO Box 519, Wenatchee, WA 98807-0519.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business Activities	Total	Public Facilities District
ASSETS				
Cash and cash equivalents	\$ 9,334,377	\$ 7,106,367	\$ 16,440,744	\$ 392,275
Cash with Fiscal Agent	5,000	0	5,000	0
Receivables (net)	6,700,234	1,139,367	7,839,601	202,939
Investments	400,000	747,251	1,147,251	0
Internal Balances	3,252	(3,252)	0	0
Inventories	18,555	257,506	276,061	0
Prepaid Expenses	0	0	0	50,342
Unamortized debt issue costs/premiums	35,771	292,368	328,139	0
Restricted assets				
Cash	640,819	14,662,921	15,303,740	0
Capital assets				
Land	9,696,679	1,709,215	11,405,894	1,706,915
Buildings and system (net)	22,883,739	51,911,560	74,795,299	42,789,756
Other improvements (net)	2,162,359	14,509	2,176,868	0
Machinery and equipment (net)	3,271,178	1,084,871	4,356,049	1,075,269
Infrastructure (net)	36,600,675	0	36,600,675	0
Construction in progress	89,446	1,712,754	1,802,200	0
Total assets	91,842,084	80,635,437	172,477,521	46,217,496
LIABILITIES				
Current payables	1,117,084	251,440	1,368,524	230,882
Retainage payable	38,776	17,263	56,039	0
Claims and judgements payable	100,000	0	100,000	0
Custodial	19,107	69,546	88,653	0
Unearned Revenue	0	0	0	130,420
Accrued interest payable	0	110,608	110,608	0
Noncurrent liabilities				
Due within one year	1,034,982	1,075,000	2,109,982	41,844,133
Due in more than one year	13,295,979	21,570,000	34,865,979	3,824,636
Due to other gov't current	0	352,625	352,625	0
Due to other gov't long term	0	5,595,119	5,595,119	0
Net pension obligation	461,352	0	461,352	0
Net OPEB obligation	1,030,348	0	1,030,348	0
Unamortized debt premium/deferred	0	752,492	752,492	0
Compensated absences non-current	1,614,451	268,789	1,883,240	0
Total liabilities	18,712,079	30,062,882	48,774,961	46,030,071
NET ASSETS				
Invested in capital assets, net of related debt	60,373,115	27,840,165	88,213,280	(96,829)
Restricted	0	14,662,921	14,662,921	0
Unrestricted	12,756,890	8,069,469	20,826,359	284,254
Total net assets	\$ 73,130,005	\$ 50,572,555	\$ 123,702,560	\$ 187,425

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental Activities								
General government	\$ 5,626,916	\$ 3,610,040	\$ 591,485	\$ 1,496	\$ (1,423,895)	\$ 0	\$ (1,423,895)	0
Public safety	14,282,710	1,380,168	748,550	93,355	(12,060,637)	0	(12,060,637)	0
Physical Environment	895,179	444,321	0	0	(450,858)	0	(450,858)	0
Transportation	2,504,582	209,913	381,575	3,828,078	1,914,984	0	1,914,984	0
Economic environment	1,836,692	401,337	867,347	0	(568,008)	0	(568,008)	0
Culture and recreation	3,621,751	370,078	1,270,554	507,121	(1,473,998)	0	(1,473,998)	0
Interest on long-term debt	487,440	0	6,590	0	(480,850)	0	(480,850)	0
Total governmental activities	29,255,270	6,415,857	3,866,101	4,430,050	(14,543,262)	0	(14,543,262)	0
Business Activities								
Water/Sewer	7,500,204	8,531,731	0	408,696	0	1,440,223	1,440,223	0
Storm Drain	1,064,233	1,326,292	0	457,172	0	719,231	719,231	0
Regional Water	749,966	1,227,494	0	0	0	477,528	477,528	0
Solid Waste	1,987,767	1,936,160	89,123	0	0	37,516	37,516	0
Cemetery	254,623	152,937	0	0	0	(101,686)	(101,686)	0
Total business type activities	11,556,793	13,174,614	89,123	865,868	0	2,572,812	2,572,812	0
Total Primary Government	\$ 40,812,063	19,590,471	3,955,224	5,295,918	(14,543,262)	\$ 2,572,812	(11,970,450)	0
Component Units								
Public Facilities District	7,954,168	2,983,687	0	588,437	0	0	0	(4,382,044)
Total Component Unit	\$ 7,954,168	2,983,687	\$ 0	\$ 588,437	0	0	0	(4,382,044)
		General Revenues:						
		Property Taxes						
		Sales Taxes						
		City Utility Taxes						
		Other Taxes						
		Licenses						
		Unrestricted investment earnings						
		Miscellaneous general revenues						
		Transfers						
		Total general revenues						
		Change in net assets						
		Net assets beginning balance						
		Net assets ending balance						
		\$ 73,130,005	\$ 50,572,557	\$ 123,702,562	\$			\$ 187,425

	GENERAL	STREET	ARTERIAL STREET	LID 2008-1	LTGO DEBT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS							
Cash and Cash Equivalents	\$ 3,140,734	\$ 428,813	\$ 353,656	\$ 0	\$ 79,705	\$ 1,492,911	\$ 5,495,819
Cash with Fiscal Agent	0	0	0	0	5,000	0	5,000
Investments	0	0	0	0	0	400,000	400,000
Receivables:							
Taxes	170,826	41,486	0	0	0	14,205	226,517
Accounts	505,105	32,412	940	2,550,555	0	684,004	3,773,016
Due from Other Funds	79,832	0	0	0	0	0	79,832
Intergovernmental	1,497,803	59,061	663,666	0	0	477,788	2,698,318
Restricted Assets:							
Cash	47,703	0	0	0	0	0	47,703
Interfund Loans Receivable	0	0	0	0	0	428,057	428,057
TOTAL ASSETS	\$ 5,442,003	\$ 561,772	\$ 1,018,262	\$ 2,550,555	\$ 84,705	\$ 3,496,965	\$ 13,154,262
LIABILITIES							
Accounts Payable	564,831	47,953	22,541	0	604	141,393	777,322
Wages Payable	20,195	1,109	0	0	0	0	21,304
Due To Other Funds	911,790	0	0	0	0	76,580	988,370
Deposits Payable	14,783	432	0	0	0	2,442	17,657
Revenues Received In Advance	1,450	0	0	0	0	0	1,450
Deferred Revenues	254,504	68,612	395,923	2,550,555	0	674,691	3,944,285
Retainage Payable	0	0	28,299	0	0	10,477	38,776
Leasehold Excise Tax Payable	0	0	0	0	0	5,332	5,332
Interfund Loans Payable	428,057	0	0	0	0	0	428,057
TOTAL LIABILITIES	2,195,610	118,106	446,763	2,550,555	604	910,915	6,222,553
FUND BALANCE							
Nonspendable	0	0	0	0	0	853,054	853,054
Restricted	47,703	0	571,499	0	0	1,634,644	2,253,846
Committed	0	0	0	0	0	134,590	134,590
Assigned	1,110,614	443,666	0	0	84,101	0	1,638,381
Unassigned	2,088,076	0	0	0	0	(36,238)	2,051,838
TOTAL FUND BALANCES	3,246,393	443,666	571,499	0	84,101	2,586,050	6,931,709
TOTAL LIABILITIES AND FUND BALANCE:	\$ 5,442,003	\$ 561,772	\$ 1,018,262	\$ 2,550,555	\$ 84,705	\$ 3,496,965	\$ 13,154,262

Total net assets Governmental Funds	\$ 6,931,709
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.	71,964,462
Long term liabilities such as bonded debt is not reported in the governmental funds.	(15,801,659)
Net OPEB Obligation	(1,491,700)
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	3,944,285
The Internal Service Funds' assets and liabilities are reported in the governmental funds.	7,582,908
Net assets of governmental activities	<u>\$ 73,130,005</u>

	GENERAL	STREET	ARTERIAL STREET	LID 2008-1	LTGO DEBT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Taxes	\$ 16,572,178	\$ 1,104,958	\$ 0	\$ 0	\$ 0	\$ 1,904,737	\$ 19,581,873
Licenses and Permits	651,162	0	0	0	0	0	651,162
Intergovernmental	1,160,410	376,788	770,076	0	0	951,118	3,258,392
Charges for services	1,814,681	278,032	0	0	0	15,416	2,108,129
Fines and Forfeits	1,245,481	0	0	0	0	0	1,245,481
Investment earnings	12,204	1,122	1,103	0	532	21,677	36,638
Special Assessment Payments	0	0	0	0	0	194,950	194,950
Miscellaneous	238,177	21,814	11,000	0	0	285,997	556,988
Total Revenues	21,694,293	1,782,714	782,179	0	532	3,373,895	27,633,613
EXPENDITURES							
Current:							
General Government	5,968,442	0	0	0	0	620	5,969,062
Security of Persons & Property	13,291,688	0	0	0	0	0	13,291,688
Physical Environment	869,833	0	0	0	0	0	869,833
Transportation	0	1,795,548	9,218	0	0	260,332	2,065,098
Economic Environment	927,726	0	0	0	0	992,629	1,920,355
Mental & Physical Health	418	0	0	0	0	0	418
Culture & Recreation	1,864,487	0	0	0	0	1,106,913	2,971,400
Capital Outlay							
General	257,195	0	0	0	0	0	257,195
Highway/streets	0	7,847	886,272	0	0	192,306	1,086,425
Debt Service							
Principal Retirement	0	0	0	0	1,296,628	2,993,629	4,290,257
Interest and other charges	16,453	0	0	0	355,988	230,284	602,725
Debt Issue Costs	7,380	0	0	0	0	0	7,380
Total Expenditures	23,203,622	1,803,395	895,490	0	1,652,616	5,776,713	33,331,836
Excess (Deficiency) of Revenue Over (Under) Expenditures	(1,509,329)	(20,681)	(113,311)	0	(1,652,084)	(2,402,818)	(5,698,223)

	GENERAL	STREET	ARTERIAL STREET	LID 2008-1	LTGO DEBT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES)							
Capital Asset Disposition	1,009,300	0	0	0	0	0	1,009,300
Transfers In	558,383	0	26,009	0	1,690,733	506,125	2,781,250
Debt Issuance Proceeds	0	0	0	0	2,400,000	2,550,555	4,950,555
Reissuance of Debt	0	0	0	0	(2,400,000)	0	(2,400,000)
Insurance Recoveries	0	1,755	0	0	0	0	1,755
Transfers Out	(1,088,359)	0	0	0	0	(1,269,124)	(2,357,483)
Total Other Financing Sources (Uses)	479,324	1,755	26,009	0	1,690,733	1,787,556	3,985,377
CHANGE IN FUND BALANCE	(1,030,005)	(18,926)	(87,302)	0	38,649	(615,262)	(1,712,846)
FUND BALANCE JANUARY 1	3,180,608	462,592	658,801	0	45,452	3,201,312	7,548,765
Change in Accounting Method	1,095,790	0	0	0	0	0	1,095,790
FUND BALANCE DECEMBER 31	<u>\$ 3,246,393</u>	<u>\$ 443,666</u>	<u>\$ 571,499</u>	<u>\$ 0</u>	<u>\$ 84,101</u>	<u>\$ 2,586,050</u>	<u>\$ 6,931,709</u>

**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 YEAR ENDED DECEMBER 31, 2011**

Net change in fund balance - total governmental funds	\$ (1,712,846)
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.	
	3,157,922
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,880,719
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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	
	1,718,125
The Internal Service funds are used to support governmental activities.	
The net revenue (expense) of these funds are reported in governmental activities.	35,216
OPEB Cost	(505,878)
Compensated Absences	(89,328)
Change in net assets of governmental activities.	<u><u>\$ 5,483,930</u></u>

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	AMOUNTS	
REVENUES				
Taxes:				
Property	\$ 4,446,160	\$ 4,446,160	\$ 4,500,406	\$ 54,246
Sales	6,575,200	6,640,200	6,320,221	(319,979)
Hotel Motel	48,000	48,000	48,000	0
Business	6,018,000	5,692,200	5,668,538	(23,662)
Other	32,000	32,000	35,012	3,012
Licenses & Permits	665,300	687,300	651,162	(36,138)
Intergovernmental	721,800	1,152,640	1,160,410	7,770
Charges for Services	1,823,200	1,844,900	1,814,681	(30,219)
Fines & Forfeits	996,800	1,251,800	1,245,482	(6,318)
Interest Earnings	15,000	9,000	10,138	1,138
Rentals	38,500	50,700	43,549	(7,151)
Miscellaneous	32,000	187,100	194,628	7,528
Total Revenues	21,411,960	22,042,000	21,692,227	(349,773)
EXPENDITURES				
Current:				
General Government Services:				
Legislative	2,105,007	2,276,778	2,298,701	(21,923)
Judicial	645,500	675,500	671,971	3,529
Financial	1,088,998	1,088,998	1,026,512	62,486
Legal	342,200	342,200	319,295	22,905
Personnel	137,225	147,225	129,731	17,494
Employee Benefits Program	0	12,065	12,065	0
Facility Maintenance	598,400	598,400	598,380	20
Total General Government Services	4,917,330	5,141,166	5,056,655	84,511
Security of Persons & Property:				
Police	8,777,257	8,853,357	8,894,677	(41,320)
Fire	3,617,480	3,711,680	3,755,968	(44,288)
Total Security of Persons & Property	12,394,737	12,565,037	12,650,645	(85,608)
Physical Environment	884,772	884,772	869,833	14,939
Economic Environment	971,323	979,063	927,726	51,337
Mental & Physical Health	0	0	418	(418)
Culture & Recreation	1,889,984	1,906,851	1,864,487	42,364
Capital Outlay	22,500	268,106	257,195	10,911
Debt Service:				
Principal Retirement	55,056	55,056	0	55,056
Interest and Fiscal Charges	16,453	16,453	23,833	(7,380)
Total Expenditures	21,152,155	21,816,504	21,650,792	165,712
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	259,805	225,496	41,435	(184,061)

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET -
				POSITIVE
				(NEGATIVE)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	287,500	1,009,300	1,009,300	0
Insurance Proceeds	0	0	0	0
Transfers In	390,022	577,289	558,383	(18,906)
Transfers Out	(1,010,115)	(1,725,115)	(1,742,160)	(17,045)
Total Other Financing Sources (Uses)	<u>(332,593)</u>	<u>(138,526)</u>	<u>(174,477)</u>	<u>(35,951)</u>
Excess (Deficiency) of Revenues and				
Other Sources over (Under)				
Expenditures and Other Uses	(72,788)	86,970	(133,042)	(220,012)
FUND BALANCE JANUARY 1,	<u>3,137,778</u>	<u>3,180,608</u>	<u>3,180,608</u>	<u>0</u>
FUND BALANCE DECEMBER 31,	<u>\$ 3,064,990</u>	<u>\$ 3,267,578</u>	<u>\$ 3,047,566</u>	<u>\$ (220,012)</u>

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET -
				POSITIVE
				(NEGATIVE)
REVENUES				
Taxes	\$ 1,104,955	\$ 1,104,955	\$ 1,104,958	\$ 3
Intergovernmental Revenues	377,100	377,100	376,788	(312)
Charges for Services	261,269	328,269	278,032	(50,237)
Interest	4,000	1,300	1,122	(178)
Miscellaneous	19,700	19,700	21,814	2,114
Total Revenues	<u>1,767,024</u>	<u>1,831,324</u>	<u>1,782,714</u>	<u>(48,610)</u>
EXPENDITURES				
Current:				
Transportation	1,892,520	1,892,520	1,795,548	96,972
Capital Outlay	0	0	7,847	(7,847)
Debt Service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total Expenditures	<u>1,892,520</u>	<u>1,892,520</u>	<u>1,803,395</u>	<u>89,125</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(125,496)</u>	<u>(61,196)</u>	<u>(20,681)</u>	<u>40,515</u>
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	0	0	1,755	1,755
Transfers In	0	0	0	0
Transfers (Out)	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>1,755</u>	<u>1,755</u>
Excess (Deficiency) of Revenues and				
Other Sources Over (Under)				
Expenditures and Other Uses	<u>(125,496)</u>	<u>(61,196)</u>	<u>(18,926)</u>	<u>42,270</u>
FUND BALANCE JANUARY 1,	<u>462,592</u>	<u>462,592</u>	<u>462,592</u>	<u>0</u>
FUND BALANCE DECEMBER 31,	<u>\$ 337,096</u>	<u>\$ 401,396</u>	<u>\$ 443,666</u>	<u>\$ 42,270</u>

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ARTERIAL STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET -
				POSITIVE
				(NEGATIVE)
REVENUES				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental Revenues	4,376,176	1,574,959	770,076	(804,883)
Charges for Services	0	0	0	0
Interest	500	500	1,103	603
Miscellaneous	22,435	22,435	11,000	(11,435)
Total Revenues	<u>4,399,111</u>	<u>1,597,894</u>	<u>782,179</u>	<u>(815,715)</u>
EXPENDITURES				
Current:				
Transportation	2,000	2,000	9,218	(7,218)
Capital Outlay	4,945,975	1,309,237	886,272	422,965
Debt Service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total Expenditures	<u>4,947,975</u>	<u>1,311,237</u>	<u>895,490</u>	<u>415,747</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(548,864)</u>	<u>286,657</u>	<u>(113,311)</u>	<u>(399,968)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	0	0	26,009	26,009
Sale of Assets	0	0	0	0
Transfers (Out)	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>26,009</u>	<u>26,009</u>
Excess (Deficiency) of Revenues and				
Other Sources Over (Under)				
Expenditures and Other Uses	<u>(548,864)</u>	<u>286,657</u>	<u>(87,302)</u>	<u>(373,959)</u>
FUND BALANCE JANUARY 1,	0	0	0	0
Prior Period Adjustment	658,801	658,801	658,801	0
FUND BALANCE DECEMBER 31,	<u>\$ 109,937</u>	<u>\$ 945,458</u>	<u>\$ 571,499</u>	<u>\$ (373,959)</u>

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
ASSETS						
Current Assets						
Cash & Cash Equivalents	\$ 3,990,981	\$ 599,680	\$ 2,443,017	\$ 72,689	\$ 7,106,367	\$ 3,838,558
Receivables (net of allowance for uncollectibles):						
Accounts	685,975	102,486	0	187,586	976,047	2,383
Intergovernmental	60,842	18,685	46,502	37,291	163,320	0
Restricted Cash	10,712,003	1,533,087	0	0	12,245,090	593,116
Inventory of Material and Supplies	257,506	0	0	0	257,506	18,555
Total current assets	15,707,307	2,253,938	2,489,519	297,566	20,748,330	4,452,612
Noncurrent assets						
Unamortized debt issue costs	260,244	32,124	0	0	292,368	0
Investments	747,251	0	0	0	747,251	0
Restricted Assets:						
Cash-Revenue Bond Debt Service	2,035,393	382,438	0	0	2,417,831	0
Due from other funds	0	0	0	0	0	911,790
Capital Assets (Net)	43,909,878	6,656,268	5,497,592	369,171	56,432,909	2,739,614
Total noncurrent assets	46,952,766	7,070,830	5,497,592	369,171	59,890,359	3,651,404
Total Assets	62,660,073	9,324,768	7,987,111	666,737	80,638,689	8,104,016

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES						
Current liabilities						
Accounts Payable	218,320	3,099	24,883	4,857	251,159	313,126
Wages and Benefits Payable	193	0	87	0	280	0
Deposits Payable	48,300	0	0	0	48,300	0
Retainage Payable	8,475	8,788	0	0	17,263	0
Claims and Judgements Payable	0	0	0	0	0	100,000
Custodial	21,246	0	0	0	21,246	0
Due to Other Funds	0	0	0	3,252	3,252	0
Total current liabilities	296,534	11,887	24,970	8,109	341,500	413,126
Current liabilities payable from restricted assets						
Due to Other Governments	352,625	0	0	0	352,625	0
Accrued Interest Payable	99,309	11,298	0	0	110,607	0
Revenue Bonds Payable - Current	906,307	168,693	0	0	1,075,000	0
Total current liabilities payable from restricted assets	1,358,241	179,991	0	0	1,538,232	0
Noncurrent liabilities						
Due to other Governments	5,595,120	0	0	0	5,595,120	0
Unamortized Debt Premium	568,040	136,101	0	0	704,141	0
Deferred amount on debt refunding	20,835	27,516	0	0	48,351	0
Revenue Bonds Payable	18,218,439	3,351,562	0	0	21,570,001	0
Compensated Absences	206,849	0	23,604	38,336	268,789	107,982
Total Non-current Liabilities	24,609,283	3,515,179	23,604	38,336	28,186,402	107,982
Total Liabilities	26,264,058	3,707,057	48,574	46,445	30,066,134	521,108
NET ASSETS						
Invested in Capital Assets						
Net of Related Debt	18,837,387	3,136,013	5,497,592	369,171	27,840,163	2,739,614
Restricted	12,747,396	1,915,525	0	0	14,662,921	0
Unrestricted	4,811,232	566,173	2,440,945	251,121	8,069,471	4,843,294
Total Net Assets	\$ 36,396,015	\$ 5,617,711	\$ 7,938,537	\$ 620,292	\$ 50,572,555	\$ 7,582,908

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:						
Residential Utility Sales	\$ 4,325,673	\$ 584,516	\$ 0	\$ 1,936,160	\$ 6,846,349	\$ 0
Commercial/Industrial Utility Sales	3,903,685	740,747	1,235,761	0	5,880,193	0
Connection Fees	93,138	0	0	0	93,138	0
Charges for Services	158,088	806	0	152,502	311,396	3,395,578
Intergovernmental	0	221,172	0	89,123	310,295	0
Miscellaneous	37,685	223	177	435	38,520	2,988
Total Operating Revenues	<u>8,518,269</u>	<u>1,547,464</u>	<u>1,235,938</u>	<u>2,178,220</u>	<u>13,479,891</u>	<u>3,398,566</u>
OPERATING EXPENSES:						
Operations and Maintenance	3,273,912	730,007	497,453	1,851,361	6,352,733	1,967,595
Contracted Operations	0	0	0	41,500	41,500	0
Payment of Premiums	0	0	0	0	0	925,101
General Administration	1,782,028	0	0	343,557	2,125,585	125
Depreciation/Amortization	1,714,912	150,373	234,952	5,972	2,106,209	467,541
Total Operating Expenses	<u>6,770,852</u>	<u>880,380</u>	<u>732,405</u>	<u>2,242,390</u>	<u>10,626,027</u>	<u>3,360,362</u>
OPERATING INCOME (LOSS)	<u>1,747,417</u>	<u>667,084</u>	<u>503,533</u>	<u>(64,170)</u>	<u>2,853,864</u>	<u>38,204</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest Income	37,648	3,633	4,620	1,098	46,999	8,843
Interest Expense & Related Charges	(673,694)	(121,400)	(12,087)	0	(807,181)	0
Capital Contributions	419,184	236,000	0	0	655,184	12,085
Amortization of Debt Discount/ Premium,						
Issue Costs and Deferred Refunding	(55,659)	(62,453)	(5,474)	0	(123,586)	0
Insurance Recoveries	2,473	0	0	0	2,473	72,803
Gain (Loss) on sale of Capital Assets	501	0	(8,444)	0	(7,943)	(6,674)
Non-Operating Revenues Net of Expense	<u>(269,547)</u>	<u>55,780</u>	<u>(21,385)</u>	<u>1,098</u>	<u>(234,054)</u>	<u>87,057</u>
Net Income Before Transfers	<u>1,477,870</u>	<u>722,864</u>	<u>482,148</u>	<u>(63,072)</u>	<u>2,619,810</u>	<u>125,261</u>
Transfers In (Out)	<u>(206,861)</u>	<u>(21,684)</u>	<u>0</u>	<u>91,697</u>	<u>(136,848)</u>	<u>30,115</u>
CHANGE IN NET ASSETS	<u>1,271,009</u>	<u>701,180</u>	<u>482,148</u>	<u>28,625</u>	<u>2,482,962</u>	<u>155,376</u>
NET ASSETS JANUARY 1	<u>35,125,006</u>	<u>4,916,531</u>	<u>7,456,389</u>	<u>591,667</u>	<u>48,089,593</u>	<u>7,427,532</u>
NET ASSETS DECEMBER 31	<u>\$ 36,396,015</u>	<u>\$ 5,617,711</u>	<u>\$ 7,938,537</u>	<u>\$ 620,292</u>	<u>\$ 50,572,555</u>	<u>\$ 7,582,908</u>

Cash Flows from Operating Activities:

Cash received from customers
Cash payments to vendors
Cash payments to employees
Other operating revenues
Net cash provided by operating activities

Cash Flows From Noncapital Financing Activities:

Loans (to) from other funds
Repayment of loans (to) from other funds
Interest payments (to) from other funds
Transfers
Net cash provided by noncapital financing activities

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets
Proceeds from issuance of interfund debt
Proceeds from issuance of revenue bonds
Principal repayment on revenue bonds
Interest and related costs paid on revenue bonds
Repayment of construction loans
Interest and related costs on construction loans
Principal repayment of interfund debt
Interest received (paid) on interfund debt
Deferred Amount on Refunding
Insurance Recoveries
Proceeds from sale of equipment
Capital contributed by customers
Net cash used for capital and related financing activities

Cash Flows From Investing Activities:

Purchase of Investment Securities
Proceeds from maturities of investment securities
Interest on investments
Net cash provided(used) in investing activities

Net increase (decrease) in cash and cash equivalents**Cash and cash equivalents at beginning of year****Cash and cash equivalents at end of year**

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
\$	8,442,741 \$ (3,402,151) (1,864,400) 37,685 3,213,875	1,527,012 \$ (598,532) (203,565) 223 725,138	1,286,851 \$ (345,253) (142,672) 177 799,103	2,199,739 (2,110,230) (167,530) 435 (77,586)	13,456,343 \$ (6,456,166) (2,378,167) 38,520 4,660,530	3,407,617 (2,636,492) (926,632) 2,988 (152,519)
	0 0 0 (206,861) (206,861)	0 0 0 (21,684) (21,684)	0 0 0 0 0	0 0 0 91,697 91,697	0 0 0 (136,848) (136,848)	0 0 0 30,115 30,115
	(2,227,089) 0 15,658,869 (3,066,615) (717,192) (347,378) (92,505) 0 0 2,473 501 10,488 9,221,552	(527,228) 0 3,766,598 (1,746,645) (158,041) 0 0 0 0 0 0 0 1,334,684	(48,788) 0 0 (376,740) (13,186) 0 0 0 0 0 0 0 (438,714)	0 0 0 0 0 0 0 0 0 0 0 0	(2,803,105) 0 19,425,467 (5,190,000) (888,419) (347,378) (92,505) 0 0 2,473 501 10,488 10,117,522	(163,632) 0 0 0 0 0 0 0 0 72,802 1,225 12,085 (77,520)
	(650,555) 0 37,648 (612,907) 11,615,659 5,122,718 16,738,377	0 0 3,633 3,633 2,041,771 473,434 2,515,205	0 0 4,620 4,620 365,009 2,078,008 2,443,017	0 0 1,098 1,098 15,209 57,480 72,689	(650,555) 0 46,999 (603,556) 14,037,648 7,731,640 21,769,288	0 0 8,843 8,843 (191,081) 4,622,755 4,431,674
\$						

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
Operating Income (Loss)	\$ 1,747,417 \$	667,084 \$	503,533 \$	(64,170) \$	2,853,864 \$	38,204
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	1,714,912	150,373	234,952	5,972	2,106,209	467,541
Change in assets and liabilities:						
(Increase) Decrease Accounts Receivable	(39,593)	(22,564)	51,090	(6,352)	(17,419)	12,039
(Increase) Decrease Deferred Revenue	0	0	0	0	0	0
(Increase) Decrease Due From Other Funds	0	2,335	0	0	2,335	0
(Increase) Decrease Due From Other Governments	0	0	0	28,305	28,305	0
(Increase) Decrease Inventory	(5,193)	0	0	0	(5,193)	(1,234)
(Increase) Decrease Prepaid Items	0	0	0	0	0	0
Increase (Decrease) Accounts Payable	(183,476)	(80,878)	8,975	(43,251)	(298,630)	232,650
Increase (Decrease) Payroll Taxes Payable	(1,243)	0	2	0	(1,241)	(130)
Increase (Decrease) Retainage Payable	(23,533)	8,788	0	0	(14,745)	0
Increase (Decrease) Deposits Payable	0	0	0	0	0	0
Increase (Decrease) Customer Deposits Payable	1,750	0	0	0	1,750	0
Increase (Decrease) Due to Other Funds	0	0	0	474	474	0
Increase (Decrease) Due to Other Govn't	8,662	0	0	0	8,662	0
Increase (Decrease) Accrued Employee Leave	(5,828)	0	551	1,436	(3,841)	10,201
Total Adjustments	1,466,458	58,054	295,570	(13,416)	1,806,666	721,067
Net Cash Provided by Operating Activities	\$ 3,213,875 \$	725,138 \$	799,103 \$	(77,586)	4,660,530 \$	759,271

CITY OF WENATCHEE, WA
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	FIREMEN'S PENSION TRUST FUND
ASSETS	
Cash	\$ 627,427
Investments	1,500,000
Receivables:	
Taxes	0
Accounts	0
Interest on Investments	0
Intergovernmental	0
TOTAL ASSETS	<u>2,127,427</u>
LIABILITIES	
Accounts Payable	0
Deferred Revenues	0
TOTAL LIABILITIES	<u>0</u>
NET ASSETS	
Assets held in trust	<u><u>\$ 2,127,427</u></u>

CITY OF WENATCHEE, WA
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	FIREMEN'S PENSION TRUST FUND
ADDITIONS	
Property Taxes	\$ 0
Fire Insurance Premiums	26,554
Interest Income	4,011
Total additions	<u>30,565</u>
DEDUCTIONS	
Retirement Benefits	163,534
General Administration	0
Transfers Out	312,200
Total deductions	<u>475,734</u>
Change in net assets	(445,169)
NET ASSETS January 1,	<u>2,572,596</u>
NET ASSETS December 31,	<u><u>\$ 2,127,427</u></u>

**CITY OF WENATCHEE, WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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. 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 and fire protection; street maintenance and construction; parks and recreation; planning and zoning; water, sewer and storm drain systems; and general administrative functions. The City has no blended component units and just one discretely presented component unit.

Discretely Presented Component Unit

The Greater Wenatchee Regional Events Center Public Facilities District (GWRECPFD) 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 GWRECPFD also entered into an interlocal agreement with the City of Wenatchee to act as its administrator.

The District is included in the City of Wenatchee's reporting entity as a discretely presented component unit because of the financial accountability relationship. The City also appoints four of the seven-member board and has the ability to impose its will on the Public Facilities District.

Complete separate financial statements for the Greater Wenatchee Regional Events Center Public Facilities District may be obtained at Wenatchee City Hall, P.O. Box 519, Wenatchee, WA.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Government-wide Financial Statements

The *Statement of Net Assets and Statement of Activities* report information about the City as a whole. These statements report the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been eliminated to avoid “doubling up” revenues and expenses. 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. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the 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. The comparison of direct expenses with program revenues identifies the extent to which each function is self-financing, or draws from the general revenues of the City.

The *Statement of Net Assets* presents the financial condition of the City's governmental and business-type activities at year-end. It reports all financial and capital assets including infrastructure and all liabilities including current and long-term.

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.

2. Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level and include statements for governmental, proprietary, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide statements. In the basic financial statements, the governmental and enterprise fund financial statements focus on major funds. Major individual government and enterprise funds are reported as separate columns in the fund financial statements. Funds are deemed to be “major” if their revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds *and* at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. The City may at its option report any other funds as “major” if officials believe that fund is particularly important to financial statement users, and in the case of the Street Fund we have done so.

The City of Wenatchee reports the following major governmental funds for 2011:

- 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 to be accounted for in another fund.

- The **street fund** accounts for all activities pertaining to street maintenance including street cleaning, maintenance of sidewalks, maintenance of street lighting systems and traffic signal systems and snow plowing. 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 arterial street fund is accounted for as a special revenue fund.
- The **riverside drive lid fund** accounts for the annual repayment by the property owners that benefited from the street improvement as well as the payment to the bonds holders that provided long term financing of this project.
- The **LTGO debt fund** accounts for the annual debt service payments and refinancing of non-voted debt issues authorized by the Council.

The City of Wenatchee reports the following major proprietary funds for 2011:

- The **water/sewer fund** accounts for the operation of the water distribution system, and sanitary sewer collection and treatment systems.
- The **storm drain 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's water/sewer fund, 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.

3. Fund Accounting

The City's accounting system is organized on the basis of funds, each of which is considered a separate accounting entity. Each fund presents a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The City's resources are allocated to, and accounted for, in individual funds according to the purpose for which they are spent and how they are controlled. There are three categories of funds: governmental, proprietary and fiduciary.

a. Governmental Funds

All governmental funds are accounted for on a "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements focus on measuring changes in financial position, rather than net income. They

present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. In addition to the General Fund, the City reports the following fund types:

- *Special Revenue Funds* account for the proceeds of specific revenue sources to finance specific activities as required by law or administrative regulation. Their revenues are earmarked to finance certain activities or functions.
- *Debt Service Funds* account for resources accumulated and payment made for principal and interest on general government debt including local improvement district (LID) bonds, unlimited tax general obligation (UTGO) bonds that are approved by a vote of the citizens and limited tax general obligation (LTGO) bonds (otherwise known as councilmanic bonds) that are approved by the City Council alone.
- *Capital Project Funds* account for the acquisition or development of capital facilities for governmental activities. The major sources of revenue are proceeds from general obligation bonds, grants, dedicated taxes, and contributions from other funds.
- *Permanent Funds* account for resources that are legally restricted to the extent that only earnings and not the principal may be used for specific purposes that support the City's programs and benefit the City and its citizens.

b. Proprietary Funds

Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets and liabilities, both current and non-current, associated with their activity are included on their balance sheets. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. Proprietary funds measurement focus is based upon determination of net income, financial position, and cash flows. The City applies all applicable rules prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

c. Fiduciary Funds

Fiduciary funds are used to report assets held in trust or agency capacity for others and therefore cannot be used to support the government's own programs.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, 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.

Private-sector standards of accounting and financial reporting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Wenatchee has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are charges between the City's water/sewer and regional water functions and various functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water/sewer fund, storm drain fund and regional water fund are charges to customers for sales and services. Operating expenses for enterprise 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

D. BUDGETARY INFORMATION

1. Scope of Budget

Annual appropriated budgets are adopted for the governmental funds on the modified accrual basis of accounting. Proprietary funds are also budgeted at a fund level but on a working capital basis. 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. 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 constitute the legal authority for expenditures at that level.

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 reappropriated during the subsequent fiscal year.

2. 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 councilors) after holding a public hearing. During 2011 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.

3. Excess of Expenditures Over Appropriations

- Legislative Department (a general fund department) exceeded its legal appropriations \$21,923. The overage occurred due to election costs that were billed after the budget amendment cut off. The overage reduced general fund reserves.
- Fire Department (a general fund department) exceeded its legal appropriations \$44,288. The overage reduced general fund reserves.
- Police Department (a general fund department) exceeded its legal appropriations \$47,625. The overage reduced general fund reserves.
- The Tourism Promotion Fund (a special revenue fund) exceeded its legal appropriation by \$18,124 or 5.57%. The overage occurred as a result of receiving more tax revenue than was anticipated and then paying this out to the Convention and Visitors Bureau who is contractually entitled to these tax proceeds.
- The Homeless Housing Fund (a special revenue fund) exceeded its legal appropriation by \$313 or .4%. The overage was covered with current year revenues and existing fund reserves.
- The UTGO Bond Fund (a debt service fund) exceeded its legal appropriation by \$301 or .08%.

4. Deficit Fund Equity

- The CDBG Entitlement Fund (a special revenue fund) has a deficit fund balance of \$4,790 at December 31, 2011. The deficit was the result of the City expending money on grant financed projects that were not reimbursed until after yearend. The City has subsequently recovered the monies expended through a reimbursement request.
- The Police Station Bond debt service fund has a deficit fund balance of \$31,488 at December 31, 2011. This is a \$2,632 decrease over the December 31, 2010 deficit of

\$34,080. The deficit is a result of 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 AND EQUITIES

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposit accounts as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the government 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. It is the City's policy to invest all temporary cash surpluses and the interest on these investments is prorated to the various funds.

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

2. Receivables and Payables

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:

- **Property Taxes**

The City's annual property tax levy (see Note #5 - Property Taxes) is billed and collected by Chelan County. Taxes collected by the County, but not remitted to the City by year-end, are reported as receivables. Taxes are levied and become a lien on the first day of the calendar year. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property.

- **Accounts Receivable**

Customer account 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 account from private individuals or organizations for goods and services rendered.

- **Special Assessments**

Special assessments are recorded when levied. 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. As of December 31, 2011, special assessments receivable totaled \$2,655,907, none of which was delinquent at yearend.

- **Unrecorded and Uncollectable Receivable**

The City entered into a Contingent Loan Agreement (CLA), November 2008, with the Greater Wenatchee Regional Events Center Public Facilities District (District) to help the District issue Revenue Notes to finance the purchase of the Event Center (see Note 12 for further discussion). The District began drawing on the CLA December 2009 and as of December 31, 2011 the City loaned the District \$3,584,987.52 to pay interest on the Revenue Notes. Outstanding balances on the CLA are due six months after the Revenue Notes mature; December 1, 2011. At this time the District does not have the

ability to repay the loans and it is unlikely the District will have the ability to repay the loans after the Revenue Notes are refinanced, therefore; the City has determined that the District's receivable should not be recorded in the City's financial statements.

3. Amounts Due to and from Other Funds, Interfund Loans and Advances/Receivables

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 – Interfund Balances and Transfers.

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 that they are not available for appropriation and are not expendable financial resources.

4. Amounts Due to and from Other Governments

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

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The restricted assets for debt service are resources set aside to subsidize potential deficiencies from the enterprise fund's operation that could adversely affect debt service payments and assets set aside according to the bond covenants for the next debt service payment.

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 government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the fund financial statements, these assets are accounted for and reported based on the measurement focus of the fund. In other words, in the governmental funds, acquired capital assets are accounted for as expenditures when the asset is purchased. In the proprietary funds, the expense is capitalized and the current year's depreciation is reported as the expense.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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. 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 to the City after at least five-years of service.

9. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Deferred Revenues

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

11. Fund Equity

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No 54. Statement No 54 addresses the usefulness of fund balance information by providing a clearer fund balance classifications based on constraints imposed by the government itself or by external legislation or agreements providing the funding sources. Statement 54 classifies fund balances 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 purposes stipulated by external resource providers, constitutionally or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the 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.

Following is a description of the restrictions placed on the various fund balances in 2011:

	General	Street	Arterial Streets	LTGO Debt	Non-Major Funds
Unspendable					
Cemetery Endowment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 853,054
Restricted					
Fine/forfeitures/donations	47,703				
Public art					75,527
Street, sidewalk, path capital					
motor vehicle fuel tax & grants			571,499		3,262
Hotel/motel & convention					527,422
Low income assistance programs					623,742
Community Center					205,708
Local improvement debt service					4,328
REET					194,655
	<u>\$ 47,703</u>	<u>0</u>	<u>571,499</u>	<u>0</u>	<u>1,634,644</u>
Committed					
Local revitalization funding					1,537
LID Guarantee					133,053
	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>134,590</u>
Assigned					
LEOFF retiree health	1,110,614				
Street maintenance		443,666			
LTGO debt				84,101	
	<u>\$ 1,110,614</u>	<u>443,666</u>	<u>0</u>	<u>84,101</u>	<u>0</u>
Unassigned	2,088,076				(36,238)
Total fund balance	<u>\$ 3,246,393</u>	<u>\$ 443,666</u>	<u>\$ 571,499</u>	<u>\$ 84,101</u>	<u>\$ 2,586,050</u>

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 assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government - wide statement of net assets. The governmental funds report current assets and liabilities while the net assets - governmental reflect long term assets and liabilities. Below is a detailed explanation of the 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	\$ 84,253,916
Less accumulated depreciation	<u>(12,289,454)</u>
Adjustment for governmental fixed assets	<u>\$ 71,964,462</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	\$ (8,810,000)
UTGO Bonds Payable	(2,865,000)
LID Bonds Payable	(2,655,961)
Unamortized Debt issue items	35,771
Employee Leave Benefits	<u>(1,506,469)</u>
Adjustment for long term liabilities	<u>\$ (15,801,659)</u>

B. Explanation of certain differences between the 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 a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government - wide statement of activities. The governmental funds report revenue and expenditures on the modified accrual bases while the statement of activities reports on the full accrual bases. The following reconciling items adjust to the full accrual basis:

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

Capital outlay	\$ 1,343,620
Less depreciation expense	(1,345,630)
Cost of assets sold/retired	(5,000)
Capitalized Interest Riverside Dr LID	39,127
Donated capital assets	<u>3,125,805</u>
Adjustment for capital outlay	<u>\$ 3,157,922</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 assets:

Debt Proceeds (net of expenses)	\$(2,550,555)
Amortization of debt issue costs	(21,577)
Debt Retired	<u>4,290,257</u>
Adjustment for debt transactions	<u>\$ 1,718,125</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	\$ 61,495
Rehab Loans Receivable	11,175
Special Assessments Receivable	2,647,251
Miscellaneous Account Receivable	<u>160,798</u>
Adjustment for revenues	<u>\$ 2,880,719</u>

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Other than as set forth in this paragraph, there have been no material violations of finance-related legal or contractual provisions. The City signed a contingent loan agreement with the Greater Wenatchee Regional Events Center Public Facilities District (the District) to help support the District's revenue and special tax notes which matured December 1, 2011. The District was not able to call the notes on the maturity date and as of June 1, 2012 the notes were still outstanding. On April 30, 2012, the District requested to draw on the contingent loan agreement with the City for the June 1, 2012 interest payment on notes. On May 10, 2012, the City Council unanimously determined not to loan the District money to pay interest on the notes. Further discussion of the situation between the City and the District can be found in Note 12. Note 15 discusses the steps the City and the District have taken to resolve the District's defaulted notes subsequent to the date of this financial report.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits:

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). As of December 31, 2011 the carrying amount of the City's cash balances was \$1,608,778 which consisted of bank deposits and petty cash.

Investments:

As of December 31, 2011 the City had \$30,763,133 invested in the Washington State Investment Pool and investments in City managed Special Assessment Districts: \$2,550,555 Riverside Drive LID bonds and \$96,696 Poplar Sewer LID bonds. Credit ratings are not unavailable for these investments.

Custodial risk is the risk that in 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 \$20,052,270 in the Washington State Investment Pool, nothing is exposed to custodial credit risk.

The investments in the Special Assessment bonds are bonds issued by City managed Special Assessment's or Local Improvement Districts (LID). The property owners benefited by the improvement are billed equal annual installments, with interest, for the term of the LID. 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.

A description of the LID bonds and the funds invested as of December 31, 2011, is below:

LID Name	Term	Interest Rate	Water/Sewer Fund	Cemetery Endowment Fund	Fireman's Pension Fund	Total Investment
Riverside Dr LID	20 Years	5.56%	\$ 650,555	400,000	1,500,000	\$ 2,550,555
Poplar Sewer LID	10 Years	4.38%	96,696	0	0	96,696
Total by fund			<u>\$ 747,251</u>	<u>400,000</u>	<u>1,500,000</u>	<u>\$ 2,647,251</u>

The City did not record a decrease or increase in fair value for the LID investments in 2011.

NOTE 5. PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property Tax 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.

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

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, however, that amount is reduced to \$3.10 as a result of a \$.50 per \$1,000 levy assessed by the North Central Regional Library.

The City's regular levy for 2011 was \$2.34562 per \$1,000 on an assessed valuation of \$2,368,109,827 for a total levy of \$5,554,701.

In addition to the regular levy, the City has a bond levy that was approved by the voters in September 2001 for the construction of a police station. The 2011 levy was \$.15716 per \$1,000 on an assessed valuation of \$2,332,323,230 for a total levy of \$366,543.

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 Purposes	Assessed Value Bond Levy Purposes
2011	\$ 2.34562	\$ 0.15716	\$ 5,554,701	\$ 366,543	\$ 2,368,109,827	\$ 2,332,323,230
2010	2.45870	0.16823	5,422,852	365,653	2,205,578,539	2,173,576,037
2009	2.71722	0.18736	5,380,695	365,653	1,980,222,931	1,951,591,560
2008	2.70205	0.19453	5,119,836	363,160	1,894,796,901	1,866,856,148
2007	2.67510	0.20016	4,945,003	365,464	1,848,530,303	1,825,861,330
2006	2.99107	0.23410	4,753,633	367,115	1,589,277,760	1,568,211,873

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 9,201,679	\$ 500,000	\$ (5,000)	\$ 9,696,679
Construction in progress	231,492	66,112	(208,158)	89,446
Total capital assets not being depreciated	9,433,170	566,112	(213,158)	9,786,124
Capital assets being depreciated:				
Buildings	29,716,218	0	0	29,716,218
Improvements other than buildings	3,104,227	0	0	3,104,227
Machinery and equipment	9,289,901	164,175	(260,823)	9,193,253
Infrastructure	36,100,098	4,150,598	0	40,250,696
Total capital assets being depreciated	78,210,444	4,314,773	(260,823)	82,264,394
Less accumulated depreciation for:				
Buildings	6,196,248	636,231	0	6,832,479
Improvements other than buildings	822,203	119,665	0	941,868
Machinery and equipment	5,477,393	697,606	(252,924)	5,922,075
Infrastructure	3,290,353	359,668	0	3,650,021
Total accumulated depreciation	15,786,197	1,813,170	(252,924)	17,346,443
Total capital assets being depreciated, net	62,424,247	2,501,603	(7,899)	64,917,951
Governmental activities capital assets, net	\$ 71,857,418	\$ 3,067,715	\$ (221,057)	\$ 74,704,076

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

General government	257,738
Public Safety	166,999
Culture and recreation	556,279
Infrastructure	364,614
Total depreciation expense	<u>1,345,630</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 1,421,715	\$ 287,500	\$ 0	\$ 1,709,215
Construction in progress	1,552,786	453,933	(293,965)	1,712,754
Total capital assets not being depreciated	2,974,501	741,433	(293,965)	3,421,969
Capital assets being depreciated:				
Buildings	80,613,806	2,903,638	(20,000)	83,497,444
Improvements other than buildings	22,572	0	0	22,572
Machinery and equipment	2,323,737	0	0	2,323,737
Infrastructure	0	0	0	0
Total capital assets being depreciated	82,960,115	2,903,638	(20,000)	85,843,753
Less accumulated depreciation for:				
Buildings	29,750,185	1,847,254	(11,556)	31,585,883
Improvements other than buildings	8,063	0	0	8,063
Machinery and equipment	979,911	258,955	0	1,238,866
Infrastructure	0	0	0	0
Total accumulated depreciation	30,738,159	2,106,210	(11,556)	32,832,813
Total capital assets being depreciated, net	52,221,956	797,428	(8,444)	53,010,941
Business-type activities capital assets, net	\$ 55,196,457	\$ 1,538,861	\$ (302,409)	\$ 56,432,909

NOTE 7. PENSION PLANS

Substantially all City 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 retirement plans. 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 98504-8380

or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement #27, *Accounting for Pensions by State and Local Government Employers* and #50, *Pension Disclosures, an Amendment of GASB Statements #25 and #27*.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The legislature established PERS in 1947. Membership includes various State and Local Government elected officials and employees. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by August 31, 2002 for local government employees are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is the monthly average of the 24 consecutive highest-paid service credit months). The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped a 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Nonvested	51,005
Total	<u>262,285</u>

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan PERS 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%	7.25%	7.25%
Employee	6.00%****	4.64%	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plans 2 and 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$16,070	\$362,942	\$41,205
2010	\$17,801	\$317,707	\$34,845
2009	\$28,858	\$420,798	\$45,461

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

The Legislature established LEORFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003 being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary (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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF 1 Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50 the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of

53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. 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. A cost-of living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit is equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, a member of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Nonvested	3,656
Total	27,505

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated 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 requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	n/a	3.38%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for ports and universities is 8.62%.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2011	\$127	\$289,680
2010	\$65	\$296,243
2009	\$418	\$299,697

Firemen's Pension

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.

As of December 31, 2011, there were a total of 25 retirees or beneficiaries eligible for retirement benefits. Of these 25, the State of Washington pays 6, the City pays 4, and the City and State share the cost of the remaining 15.

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.

Summary of Significant Accounting Policies

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. The City follows GASB Statement No. 25 *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures"* and GASB Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers."*

As of December 31, 2011, the Firemen's Pension Fund had an investment portfolio with a fair value of \$2,127,427 that was composed of \$38,602 in bank deposits, \$588,824 held in the Washington State Treasurer Local Government Investment Pool (the State Investment Pool) and \$1,500,000 held in investments. 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. Investments are reported at fair value.

Contributions and Reserves

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. completed an actuarial study of the fund as of January 1, 2008, January 1, 2010 and January 1, 2012. The General Fund is responsible for the costs of administering the plan. Obligations for medical expenses are funded primarily through group insurance. There have been no required employee contributions to the plans since March 1, 1970. As of December 31, 2011, the Firemen's Pension Fund reported net assets reserved for payment of future claims of \$2,127,427.

Annual Pension Cost and Net Pension Obligation

1	Amortization of Unfunded Actuarial Accrued Liability (UAAL)	\$	(73,721)
2	Interest to December 31, 2009		(2,949)
3	Annual Required Contribution (ARC) at December 31, 2010		(76,670)
4	Interest on Net Pension Obligation (NPO)		10,166
5	Adjustment to Annual Required Contribution (ARC)		20,087
6	Annual Pension Cost (APC)		(86,591)
7	Employer Contributions		(293,796)
8	Change in Net Pension Obligation (NPO)		207,205
9	Net Pension Obligation (NPO) at January 1, 2010		254,147
10	Net Pension Obligation (NPO) at December 31, 2010	\$	461,352

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Employer Contributions	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2009	\$ (124,590)	\$ (331,006)	N/A	\$ 56,820
December 31, 2010	(78,713)	(276,040)	N/A	254,147
December 31, 2011	(86,591)	(293,796)	N/A	461,352

As an actuarial evaluation establishing the NPO was first established 1/1/2008, three year trend information is not yet available. The City will present the necessary information in subsequent years as trend data is collected.

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 this Annual Financial Report.

Actuarial Assumptions

The actuarial assumptions used in the January 1, 2011 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.

Assumptions were as follow:

Actuarial Assumptions

Valuation Date	January 1, 2012
Actuarial cost method	Entry Age Normal
Amortization method	20-year, closed as of January 1, 2008
Remaining amortization period as of 12/31/2010	16 year
Asset valuation method	Fair market value
Actuarial assumptions	
Investment rate of return	4.0%
Projected salary increases	3.75%
Inflation	2.75%
Cost-of-living adjustments	Varies*

* Under the Firemen's Pension funds requirement of State law, most adjustments are based on the change in salary for the rank of 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.

Separate financial statements are not issued for the firemen's pension fund. The statement of net assets and the statement of changes in fiduciary net assets for the firemen's pension fund are disclosed below:

ASSETS	
Cash	\$ 627,427
Investments	1,500,000
Receivables:	
Taxes	0
Accounts	0
Interest on Investments	0
Intergovernmental	0
TOTAL ASSETS	<u>2,127,427</u>
LIABILITIES	
Accounts Payable	0
Deferred Revenues	0
TOTAL LIABILITIES	<u>0</u>
NET ASSETS	
Assets held in trust	<u>\$ 2,127,427</u>

ADDITIONS

Property Taxes	\$ 0
Fire Insurance Premiums	26,554
Interest Income	4,011
Total additions	<u>30,565</u>

DEDUCTIONS

Retirement Benefits	155,384
General Administration	8,150
Transfers out	312,200
Total deductions	<u>475,734</u>

Change in net assets (445,169)

NET ASSETS January 1, 2,572,596

NET ASSETS December 31, \$ 2,127,427

NOTE 8. RISK MANAGEMENT**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 the Association of Washington Cities Risk Management Service Agency (AWC RMSA). 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 together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2011, 86 municipalities/entities participate in the RMSA Pool. The City of Wenatchee joined the AWC RMSA May 1, 1993.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages 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, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members 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. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Lexington with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA is a cooperative program; the members of the AWC RMSA are jointly liable.

Members contract to remain in the RMSA Pool a minimum of three years 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.

Members contract to remain in the RMSA Pool 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 Interlocal Governmental Agreement was revised in 2009 and approved by membership in 2010. In accordance with WAC 82.60.02023, the Pool elected its first Board of Directors, comprised of elected officials that are members of AWC RMSA, elected at large.

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. The City has also established a liability for outstanding property/casualty claims as of December 31, 2010. The specific financial of the AWC RMSA can be seen in the Annual Report on file in the Finance Department of the City of Wenatchee.

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, 2011, the City had accrued the following amounts for outstanding claims:

	Incurred/ Reported	Incurred but not Reported	Total Claims Payable
Total	\$ 252,242	\$ 100,000	\$ 352,242

The following schedule presents changes in claims liabilities for 2011:

	Property & Casualty	
	2011	2010
Claims liabilities, January 1	\$ 117,737	\$ 105,811
Claims and operating expenses:		
Incurred during current year	925,226	782,419
Changes in estimate of claims from prior periods	0	0
Paid	(690,721)	(770,493)
Claims liabilities, December 31	<u>\$ 352,242</u>	<u>\$ 117,737</u>

NOTE 9. SHORT-TERM DEBT

The City had no short-term debt as of December 31, 2011.

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. The City's long-term debt is accounted for in four areas:

1) General Obligations Bonds

- **Limited Tax General Obligation (LTGO) Bonds** – Consist of five 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 1998 for the purpose of completing overlays over roughly 40 miles of City streets.
 - Bonds issued in 2007 for the purpose of financing a portion of the construction cost of a public works building, renovating a portion of the city hall building, and renovating a portion of the convention center facility.
 - Bonds issued in 2007 to refund bonds initially issued in 1997 for the purpose of renovating the convention center. The refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the remaining fourteen years (2008 through 2021) of \$276,466 for a net present value savings of \$214,274.
 - Bond anticipation notes (BAN) issued in 2008 to complete a public service building. This three year Note matured December 2011. The City partially paid this note down, \$666,629, and rolled the remaining \$2,400,000 over for another three year term maturing August 1, 2014.
- **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.

2) 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 whose proceeds were used for an upgrade of a 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 the two sewer improvement projects. The City has 60 months to complete the construction and the repayment period ended June 1, 2032.
- 3) Special Assessment or Local Improvement District (LID) Bonds have been issued to finance construction projects for sewers, sidewalks, etc. that have been requested by citizens and benefit specific locations within our community. These bonds are repaid with the proceeds of annual billings assessed against the property owners that benefited from the improvements. In the event of nonpayment of assessments 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, 2011 the LID Guaranty Fund had an unreserved fund balance of \$133,053. The City completed two LID projects Poplar Sewer Improvements \$96,696 and Riverside Drive Street Improvements \$2,550,555. The City's Water Sewer, Cemetery Endowment and Firemen's Pension Funds purchased these bonds.
- 4) Employee leave benefits (otherwise known as compensated absences) that account for the underlying liability related to the accumulation of accrued vacation and sick leave.
- 5) 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 to be known as Rivercom. Rivercom is a multi-jurisdictional public safety answering point that was formed through an Interlocal Cooperative Agreement that includes 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 to 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 was reduced each year as Chelan County makes annual debt service payments. As this agreement does not represent actual debt of the City and there has never been a need for the City to contribute funds toward this obligation, it has been determined that this should not be reported as part of the City's long-term debt.

As a part of the bond issuance process, for each bond issued since 1997 the City has met with representatives of Moody's and Standard and Poor's in order to make rating presentations and ultimately receive a rating. These ratings are periodically reviewed and updated by each rating agency. On December 2, 2011, S&P downgraded the long-term rating and underlying rating of the City's general obligation debt from A- to BBB (stable outlook).

A summary of the ratings the City currently carries on each of the bond issue types (UTGO, LTGO and Revenue) at December 31, 2011 follows:

<u>Bond Type</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
Revenue Bonds	A1	AA
UTGO Bonds	A3	BBB
LTGO Bonds	Baa2	BBB

The following table depicts debt outstanding as of December 31, 2011:

<u>Item</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Authorized</u>	<u>Outstanding 1/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/2011</u>
<u>General Obligation Bonds:</u>							
1993 L.T.G.O.	3.25-5.75%	12/1/2008	800,000	5,000	0	0	5,000
1998 L.T.G.O.	3.85-5.05%	12/1/2014	4,085,000	1,315,000	0	305,000	1,010,000
2007 L.T.G.O.	4.00-4.30%	12/1/2027	4,045,000	3,590,000	0	170,000	3,420,000
2007 L.T.G.O.	4.15%	12/1/2021	2,560,000	2,130,000	0	155,000	1,975,000
2008 L.T.G.O.	75% of prime	12/9/2011	3,100,000	3,066,629	0	3,066,629	0
2011 L.T.G.O.	92% of prime	8/1/2014	2,400,000	0	2,400,000	0	2,400,000
2001 U.T.G.O.	2.10-4.90%	12/1/2021	4,800,000	3,090,000	0	225,000	2,865,000
Total General Obligation Bonds			\$ 21,790,000	\$ 13,196,629	\$ 2,400,000	\$ 3,921,629	\$ 11,675,000
<u>Revenue Bonds and Loans:</u>							
1998 Water/Sewer	3.90-5.05%	12/1/2013	2,720,000	1,885,000	0	1,885,000	0
1998 Storm Drain	3.90-5.05%	12/1/2013	3,190,000	1,640,000	0	1,640,000	0
2004 Water/Sewer	2.50-3.50%	12/1/2011	8,205,000	920,000	0	920,000	0
2007 SRF Loan	1.50%	7/30/2026	7,391,665	6,234,280	0	347,378	5,886,902
2007 Water/Sewer	4.00-4.30%	12/1/2027	5,225,000	4,685,000	0	195,000	4,490,000
2011 Water/Sewer	3.72%	12/1/2030	15,078,100	0	15,078,100	443,355	14,634,745
2011 Storm Drain	3.72%	12/1/2030	3,626,900	0	3,626,900	106,645	3,520,255
2011 PW Trust Func	0.50%	6/1/2032	765,000	0	21,806	0	21,806
2011 PW Trust Func	0.50%	6/1/2032	1,870,000	0	39,036	0	39,036
Total Revenue Bonds			\$ 48,071,665	\$ 15,364,280	\$ 18,765,842	\$ 5,537,378	\$ 28,592,744
<u>LID Bonds</u>							
314/316	6.30-7.50%	9/15/2008	1,122,294	25,000	0	25,000	0
324	4.22%	6/1/2016	103,711	13,711	0	5,055	8,656
Riverside Drive	5.56%	10/1/2031	3,000,000	2,738,629	0	188,074	2,550,555
2010 Poplar LID	4.38%	6/1/2021	96,696	0	96,696	0	96,696
Total LID Bonds			\$ 4,322,701	\$ 2,777,340	\$ 96,696	\$ 218,129	\$ 2,655,906
<u>Employee Leave Benefit Obligations (Compensated Absences):</u>							
Governmental Funds (governmental activities)				\$ 1,417,140	\$ 89,329	\$ 0	\$ 1,506,469
Internal Service Funds (governmental activities)				97,781	13,827	3,626	107,982
Enterprise Funds (business-type activities)				272,631	1,986	5,827	268,789
Total Employee Leave Benefits				\$ 1,787,552	\$ 105,141	\$ 9,453	\$ 1,883,240

Annual debt service requirements to maturity for governmental activity bonds are as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2012	895,000	461,747	142,197	146,421
2013	930,000	422,781	137,197	138,907
2014	3,375,000	381,617	145,853	131,393
2015-2019	3,530,000	1,110,147	685,986	542,379
2020-2024	2,290,000	356,591	656,978	355,798
2025-2029	650,000	56,545	637,639	177,264
	<u>\$ 11,670,000</u>	<u>\$ 2,789,428</u>	<u>\$ 2,405,850</u>	<u>\$ 1,492,161</u>

Annual debt service requirements to maturity for business-type activity bonds are as follows:

Year Ending December 31	Revenue Bonds		State Revolving Fund Loan		Public Works Trust Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	1,075,000	884,322	352,625	87,258	0.00	304.21
2013	1,115,000	850,022	357,950	81,933	0.00	0.00
2014	1,140,000	814,422	363,357	76,526	0.00	0.00
2015-2019	6,015,000	3,566,234	1,900,781	298,634	0.00	0.00
2020-2024	6,145,000	2,438,645	2,048,725	150,690	0.00	0.00
2025-2029	6,025,000	1,077,389	863,464	16,302	0.00	0.00
	<u>\$ 21,515,000</u>	<u>\$ 9,631,033</u>	<u>\$ 5,886,902</u>	<u>\$ 711,343</u>	<u>\$ 0</u>	<u>\$ 304</u>

Changes in Long-Term Liabilities

During the year ended December 31, 2011, the following changes in long-term liabilities occurred:

	Outstanding 1/1/2011	Additions	Reductions	Outstanding 12/31/2011	Due Within One Year
Governmental Activities					
Bonds Payable					
U.T.G.O. bonds	3,090,000	0	225,000	2,865,000	235,000
L.T.G.O. bonds	10,106,629	0	1,296,629	8,810,000	660,000
Special assessment debt	2,777,340	96,696	218,075	2,655,961	142,197
Total bonds payable	15,973,969	96,696	1,739,704	14,330,961	1,037,197
Net OPEB obligation	731,675	298,673	0	1,030,348	0
Compensated absences	1,514,921	103,156	3,626	1,614,451	0
Government activity long-term debt	18,220,565	498,525	1,743,330	16,975,760	1,037,197
Business-Type Activities					
Bonds and Loans Payable					
Revenue bonds	9,130,000	18,705,000	5,190,000	22,645,000	1,075,000
SRF Loan	6,234,280	0	347,378	5,886,902	352,625
PWTF Loans	0	60,842	0	60,842	0
Total bonds and loans payable	15,364,280	18,765,842	5,537,378	28,592,744	1,427,625
Compensated absences	272,631	1,986	5,828	268,789	0
Business-type activity long-term debt	15,636,911	18,767,828	5,543,206	28,861,533	1,427,625
Total Governmental and Business-Type					
	33,857,476	19,266,353	7,286,536	45,837,293	2,464,822

Statement of Net Assets	Gov	Bus	Total
Noncurrent Liabilities			
Due within one year	1,034,982	1,075,000	2,109,982
Due in more than one year	13,295,979	21,570,000	34,865,979
Due to other govts-current	0	352,625	352,625
Due to other govts-noncurrent	0	5,595,119	5,595,119
Net OPEB obligation	1,030,348	0	1,030,348
Compensated absences	1,614,451	268,789	1,883,240
	16,975,760	28,861,533	45,837,293

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$107,982 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.

Revenue Bonds Issue

The City issued \$18,705,000 to provide funding for capital construction and to refund the 1998 revenue bond issue. The 1998 bond issue is considered to be defeased and the liability has been removed. Also, the final payment on the 2004 revenue bonds was made eliminating the liability for this issue.

Public Works Trust Fund Loans

The city entered into two construction loans with the Department of Commerce Public Works Board:

- Squilchuck Lift Station Replacement: maximum loan amount \$765,000, \$135,000 matching requirement, construction must be completed within 60 months of the agreement signing which was October 31, 2011.
- WWTP Headworks Improvements: maximum loan amount \$1,870,000, \$330,000 matching requirement, construction must be completed within 60 months of the agreement signing which was October 31, 2011.

Special Assessment Debt

The City completed the financing of two Local Improvement Districts:

- Poplar Sewer Improvements \$96,696, 10 year 4.38% interest
- Riverside Drive Street Improvements \$2,550,555, 20 year 5.56% interest

Debt Limit Capacities for General Obligation Bonds

State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the City:

- A total of 2.5% for General Purpose allocated between
 - Up to 1.5% without a public vote (councilmanic bonds).
 - Up to 1.0% with a public vote.
- A total of 2.5% for utility purposes with a public vote.
- A total of 2.5% for open space, park and capital facilities with a public vote.

At December 31, 2011, the debt limits for the City were as follows:

	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*	34,719,368	23,146,245	57,865,614	57,865,614	173,596,841
Outstanding Indebtedness	(8,805,000)	(2,865,000)	0	0	(11,670,000)
Margin Available	<u>25,914,368</u>	<u>20,281,245</u>	<u>57,865,614</u>	<u>57,865,614</u>	<u>161,926,841</u>
* Based upon the Chelan County Assessors 2011 assessment of property values for 2012 property taxes					\$2,314,624,543

NOTE 11. LEASES**Operating Leases**

The City leases equipment and property under noncancelable operating leases. The total cost for such leases was \$81,419 for the year ended December 31, 2011 including \$46,956 for equipment and \$34,463 for property. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Equipment	Property	Total
2012	37,528	35,200	72,728
2013	22,330	35,794	58,125
2014	7,671	2,800	10,471
2015	7,060	0	7,060
2016	0	0	0
2017-2021	0	0	0

Capital Leases

The City has no capital leases as of December 31, 2011.

NOTE 12. CONTINGENCIES AND LITIGATIONS

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 November 2008 the Greater Wenatchee Regional Events Center Public Facilities District (the "District") referenced in Note 1.A. of this report issued three bond anticipation notes (the "BANs") to purchase an event center facility in the latter part of 2008. Each of the BANs is a general obligation of the District within the meaning of RCW 35.57.030. The BANs consisted of the following:

- Limited sales tax BANs in the amount of \$5,135,000 (nontaxable).
- Revenue and special tax BANs in the amount of \$31,160,000 (nontaxable).
- Revenue and special tax BANs in the amount of \$5,475,000 (taxable).

As a part of the issuance of the BANs the District met with representatives of Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., ("S&P") and ultimately received a rating of "SP-1+" on the Sales Tax Notes and Revenue and Special Tax Notes. April 12, 2011, S&P downgraded these BANs to "SP-2."

Each of the three series of BANs matures on December 1, 2011. Through the life of the BANs, the District will make interest only payments on June 1 and December 1, each year through December 1, 2011.

On November 13, 2008, prior to the issuance of the BANs, the City entered into a contingent loan agreement (the “CLA”) with the District that commits the City to lend the District money for the purpose of ensuring the payment of interest on Revenue and Special Tax BANs that were issued in November 2008. The CLA however expressly states that loans made to the District shall not be used to pay the principal of such BANs. The District and the City did not enter into a contingent loan agreement or any other agreement securing the Limited Sales Tax BANs.

Preceding the CLA however is a September 2006 interlocal agreement between the City and District (the “2006 CLA”) for the purpose of financing, developing and operating a Regional Events Center which states in part:

The City agrees to execute a Contingent Loan Agreement, in a form approved by the PFD, to provide security for all or a portion of the bonds to be issued by the PFD to finance the Regional Events Center. The PFD, in consultation with underwriters of the bonds and the rating agency rating the bonds and any bond insurer, shall determine whether all or a portion of the bonds to be issued should be secured by the Contingent Loan Agreement. The Contingent Loan Agreement shall provide that to the extent that sales taxes and operating income received by the PFD is insufficient to cover operating and maintenance expenses of the Regional Events Center and pay principal of and interest on the bonds issued for the Regional Events Center, the City shall pay the portion of the principal of and interest on such bonds not covered by such taxes or income. The City shall pledge its full faith and credit to the repayment of such bonds. The City agrees to execute such other financing documents that may be required to enable the PFD to issue bonds for the Regional Events Center.

The District anticipated issuing bonds in 2011 to raise revenue to redeem the BANs on December 1, 2011, their date of maturity.

On July 11, 2011, the City commenced a bond validation proceeding to confirm the validity of the 2006 CLA and a proposed 2011 Contingent Loan Agreement (the “2011 CLA”). The matter was heard by Judge Bridges in the Chelan County Superior Court. On September 8, 2011, Judge Bridges ruled, in part, that the City was without the power and authority to enter into the 2006 CLA and the 2011 CLA, and that such agreements exceeded the constitutional and statutory debt capacity of the City. Judge Bridges’ decision was appealed to the Washington State Supreme Court on October 11, 2011, which heard oral argument on January 10, 2012. The State Supreme Court has yet to render a decision.

Based on such Court actions, the City was legally unable to comply with the 2006 CLA or enter into the 2011 CLA. As a result, the District was unable to issue bonds to redeem the BANs at maturity. The BANs are currently in default.

As a result of operating revenues not being sufficient to cover both operating expenses and debt service on the BANs, the City paid \$230,000 of the interest expense in 2009, \$1,591,682 of the interest expense in 2010, and \$1,763,306 of the \$1,934,931 interest expense in 2011.

On September 24, 2009, the City entered into an additional contingent loan agreement with the District that commits the City to make loans to the District if and when the District does not have sufficient money to make lease payments on kitchen equipment acquired in September 2009. As of December 31, 2011, no loans have been made by the City to the District to make lease payments on the kitchen equipment.

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 included 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, 2011 are as follows:

Due To/From Other Funds		
Receivable Fund	Payable Fund	Amount
General Fund	CDBG Entitlement	18,288
General Fund	Homeless	14,359
General Fund	UTGO Bonds	32,629
General Fund	Capital Improvements	5,896
General Fund	Pybus Market	5,408
General Fund	Cemetery	3,252
Insurance Fund	General Fund	911,790
Total		\$ 991,622

Interfund receivables and payables represent loans between funds that have been approved by a City Council resolution and are supported with a specific repayment plan. At December 31, 2011 the loans outstanding are as follows:

Interfund Receivable/Payable			
Receivable Fund	Payable Fund	Total	To be Repaid in 2011
Cemetery Endowment	General Fund	428,057	57,066
Total		\$ 428,057	\$ 57,066

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 2011 the following transfers in/out occurred:

	Transfer To:										
	Major Funds						Other Funds				Total
	Governmental			Business Type			Nonmajor Governmental	Nonmajor Business	Debt Service	Internal Service	
	General	Street	Arterial Street	Water/ Sewer	Storm Drain	Regional Water					
General	Street	Arterial Street	Water/ Sewer	Storm Drain	Regional Water						
Transfer From:											
<u>Major Funds</u>											
<u>Governmental</u>											
General	0	0	0	0	0	0	670,159	93,400	977,844	757	1,742,159
Street	0	0	0	0	0	0	0	0	0	0	0
Arterial street	0	0	0	0	0	0	0	0	0	0	0
<u>Business Type</u>											
Water/Sewer	190,800	0	0	0	0	0	0	0	0	16,061	206,861
Storm drain	0	0	0	0	0	0	0	0	0	21,684	21,684
Regional water	0	0	0	0	0	0	0	0	0	0	0
Nonmajor governmental	45,294	0	26,009	0	0	0	439,931	0	757,889	0	1,269,124
Nonmajor business type	0	0	0	0	0	0	0	0	0	1,703	1,703
Internal service	10,089	0	0	0	0	0	0	0	0	12,176	22,265
Permanent	0	0	0	0	0	0	0	0	0	0	0
Pension trust fund	312,200	0	0	0	0	0	0	0	0	0	312,200
Total	558,383	0	26,009	0	0	0	1,110,091	93,400	1,735,733	52,380	3,575,996

Significant transfers that occurred during 2011 include:

- An ongoing transfer from the General Fund to the LEOFF 1 Long-Term Care Fund (a nonmajor governmental fund) totaling \$73,795 that is intended to pay for long-term care costs for eligible retirees.
- An ongoing transfer from the General Fund to the LEOFF 1 Health Care Fund (a nonmajor governmental fund) totaling \$580,002 that is intended to pay for health care costs for eligible retirees.
- A transfer of \$312,200 from the Firemen's Pension Fund to the General Fund that offsets health care and long-term care costs for retired LEOFF 1 firefighters. This transfer is possible because according to a 1/1/2008 and 1/1/2010 actuarial study the Firemen's Pension Fund was overfunded by \$1.6 million and \$554,000, respectively (see the Schedule of Funding Progress in the RSI portion of this report as well as footnote #7 for additional information on this topic).
- An ongoing transfer from the General Fund to the Councilmanic Bond Fund (a debt service fund) that will in-part help to make debt service payments on limited tax general obligation bonds. The transfer in 2011 amounted to \$977,844.
- An ongoing transfer from the Convention Center Fund (a nonmajor governmental fund) to the Councilmanic Bond Fund (a debt service fund) that will in-part help to make debt service payments on limited tax general obligation bonds. The transfer in 2011 amounted to \$307,590.
- An ongoing transfer from the Real Estate Excise Tax Fund (a nonmajor governmental fund) to the Councilmanic Bond Fund (a debt service fund) that will in-part help to make debt service payments on limited tax general obligation bonds. The transfer in 2011 amounted to \$405,299.
- An ongoing transfer from the Hotel/Motel Tax-Capital Fund (a nonmajor governmental fund) to the Convention Center Fund (a nonmajor governmental fund) intended to partially offset the cost of annual bond payments. In 2011 this transfer amounted to \$196,700.

- An ongoing transfer from the Water/Sewer Fund (a major business type fund) to the General Fund in the amount of \$190,800 that is a payment-in-lieu of tax (PILOT).
- An transfer from the General Fund to the Cemetery Operations Fund (a non-major business type fund) in the amount of \$93,400 to cover operating costs.

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 postretirement healthcare and long-term care in accordance with State statute to retired police and fire employees who are 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 nonmajor governmental special revenue funds. 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, 2011, the number of individuals eligible for this benefit is as follows:

	Active	Retired	Total	Medicare Eligible
Fire	1	18	19	13
Police	0	18	18	9
	1	36	37	22

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:

1. The City pays the Part B premium for those 22 individuals that are Medicare eligible, which results in Medicare being the primary payer for related medical claims.
2. The City pays for medical insurance coverage for all 37 individuals through the Association of Washington Cities Employee Benefits Trust (AWC), which is a fully insured indemnity plan that offers specific coverages for particular maladies. If the individual is Medicare eligible, the AWC coverage is considered the secondary payer, if they are not Medicare eligible, AWC is considered primary.
3. Finally, the City reimburses the retiree for those medical claims that are not covered by either Medicare or AWC.

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 2011 were \$640,043.

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 funded status of the plan as of that date as well as the employer's annual required contribution (ARC). The second actuarial valuation was performed for the plans as of January 1, 2012. The resulting OPEB calculation is depicted in the table below:

Amortization of Unfunded Actuarial Accrued Liability (UAAL)	\$ 905,323
Interest to December 31, 2010	36,213
Annual Required Contribution (ARC) at December 31, 2011	941,536
Interest on Net OPEB Obligation	29,267
Adjustment to Annual Required Contribution (ARC)	43,083
Annual OPEB Cost	927,720
Employer Contributions	629,047
Change in Net OPEB Obligation	298,673
Net OPEB Obligation at January 1, 2011	731,675
Net OPEB Obligation at December 31, 2011	<u>\$ 1,030,348</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

Funding Status and Funding Progress

The funded status of the plan as of December 31, 2011, was as follows:

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	\$ 0	\$ 12,146	\$ 12,146	0%	\$ n/a	n/a%
1/1/2010	\$ 0	\$ 15,689	\$ 15,689	0%	\$ n/a	n/a%
1/1/2012	\$ 0	\$ 16,719	\$ 16,719	0%	\$ n/a	n/a%

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, 2012 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, 2012 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, 2012	
Actuarial cost method	Entry Age Normal	
Amortization method	30-year, closed as of January 1, 2008	
Remaining amortization period as of 12/31/2009	26 years	
Actuarial assumptions		
Investment rate of return	4.0%	
Long-term care inflation rate	4.5%	
Medical trend	<u>Year</u>	<u>Rate</u>
	2012	7.0%
	2013	7.5%
	2014	6.2%
	2015	5.8%
	2016-2023	5.7%
	2024-2034	5.6%

NOTE 15, CHANGE IN ACCOUNTING PRINCIPAL

As stated in Note 1.E. Fund Balances, GASB Statement No 54 required reclassification of fund balances and the consolidation of special revenue funds without a restricted funding source with the General Fund. The City combined two special revenue funds used to accumulate reserves and track expenses for Pre-LEOFF and LEOFF 1 mandated health expenses increasing the beginning fund balance in the General Fund. The effect of this consolidation, an increase of \$1,095,790, is reported on the Statement of Revenues, Expenditures and Changes in Fund Balance as a change in accounting method to the General Fund.

NOTE 16. SUBSEQUENT EVENTS

Contingent Loan Agreement – Greater Wenatchee Regional Events Center Public Facilities District

- A. As discussed in Note 12 the City could not enter into another Contingent Loan Agreement (CLA) to refinance the District's outstanding Revenue Notes; therefore, the District defaulted on the Notes December 1, 2011. The City and the District have taken the following steps to refinance the Notes:
 1. February 2012 the nine jurisdictions creating the District entered into an Amendment to the Interlocal Agreement forming the District that changed the composition of the District's Board and allowed a .1% sale and use tax increase be proposed to the voters.
 2. The Washington State Legislature amended state law allowing the City of Wenatchee to impose a .2% sales and use tax within the city limits without a vote of the people for

distressed public facilities districts. This tax increase was imposed by an Ordinance passed by the City on March 1, 2012. It is our understanding from the Department of Revenue that this tax increase will start to be collected at the point of sale on July 1, 2012, with the first payment to the City the end of September, 2012. This tax can only be used for PFD related issues.

3. The District proposed a .1% sales and use tax (district wide) to the qualified voters on March 2, 2012 for the April 17, 2012 special election. The proposition was approved and certified April 27, 2012. The District Board approved a resolution to impose the tax May 3, 2012. It is our understanding from the Department of Revenue that this tax increase will start to be collected at the point of sale on October 1, 2012, with the first payment to the District the end of December, 2012.
 4. The Amendment to the Interlocal Agreement changed the composition of the District Board with the new board appointed 30 days after the .1% tax increase is imposed by the District. The first meeting of the new District Board will be held June 2012. The City and the District will begin work on a refinancing plan.
- B. In May of 2012 the District submitted a deficiency notice to the City requesting funds to pay their June 1, 2012 interest payment on the defaulted Revenue and Special Tax Notes. On May 10, 2012, the City Council unanimously determined not to loan the District money sufficient to pay interest on the Notes.
- C. On **September 6, 2012** the City approved a Third amendment to the Interlocal Agreement with the District. The amendment provides for the application of the new sales taxes the District and the City authorized and structures a flow of funds meant to enable the District to issue bonds to retire the defaulted Notes. The District's current plan is to issue those bonds by the end of **October 15, 2012** or by the end of the year. **If bonds are issued and the .1% sales tax and the .2% sales are not enough to cover debt service and the PFD has to use some of the .033% sales tax rebate money then the City has committed to loan the PFD up to \$200,000 per year, until 2031. This loan is a zero interest loan and may be paid back towards the end of the 30 year bond term. The City has committed to reserve \$4 million in debt capacity for this PFD obligation. The City does not have any obligation to bonds holders for the new PFD bond issue.**
- D. On **September 9** 2012, the City also approved a proposed settlement agreement with the District, Piper Jaffray & Co., K&L Gates LLP, Foster Pepper PLLC and Nancy Neraas, parties to the issuance of the 2008 Notes. The proposed settlement agreement provides that the City and the District would release all claims against the other parties if, and only if, bonds to retire the Notes are issued. The City has reserved the right to approve the issuance of the District's bonds in the City's sole and absolute discretion. All parties have approved the agreement.

Bond Rating Downgrade

On May 14, 2012, Moody's Investors Service downgraded the underlying rating of the City's limited tax general obligation debt from Baa2 to B2, and its unlimited tax general obligation debt from A3 to Ba2.

Required Supplementary Information
Firemen's Pension Fund
GASB Statement No. 25 and 27
Schedule of Funding Progress (in thousands)
Six year trend

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	3,460	1,854	(1,606)	187%	0	n/a
1/1/2010	2,990	2,019	(971)	148%	0	n/a
1/1/2012	2,127	1,877	(250)	113%	0	n/a

* For each two-year period reported the actual actuarial valuation date was 6/30/1993 and the AAL was established that same date. The actuarial value of assets are reported at fair value at that time.

Required Supplementary Information
Firemen's Pension Fund
GASB Statement No. 25
Schedule of Employer Contributions
Six year trend

Fiscal Year Ending	Actual * Employer Contribution	Fire Insurance Premiums	Total Employer Contributions	Annual Required Contributions (ARC) **	Percentage of ARC Contributed
12/31/2008	(7,675)	28,371	20,696	(128,899)	NA
12/31/2009	(358,060)	27,054	(331,006)	(128,899)	NA
12/31/2010	(304,000)	27,960	(276,040)	(76,670)	NA
12/31/2011	(320,350)	26,554	(293,796)	(76,669)	NA

* Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical, long-term care and administrative expenses.

** The ARC reported for the years 2008-2011 is based upon an actuarial study prepared 1/1/2012. In the future actuarial studies will be performed on a biennial schedule. The next actuarial valuation is scheduled for January 1, 2014.

Firemen's Pension Fund Actuarial Assumptions

Valuation Date	January 1, 2012
Actuarial cost method	Entry Age Normal
Amortization method	20-year, closed as of January 1, 2008
Remaining amortization period as of 12/31/2010	16 year
Asset valuation method	Fair market value
Actuarial assumptions	
Investment rate of return	4.0%
Projected salary increases	3.75%
Inflation	2.75%
Cost-of-living adjustments	Varies*

* Under the Firemen's Pension funds requirement of State law, most adjustments are based on the change in salary for the rank of 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.

Required Supplementary Information
Other Post Employment Benefits (OPEB)
GASB Statement No. 43 & 45
Schedule of Funding Progress (in thousands)
Three year trend *

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	\$ 0	\$ 12,146	\$ 12,146	0%	\$ n/a	n/a%
1/1/2010	\$ 0	\$ 15,689	\$ 15,689	0%	\$ n/a	n/a%
1/1/2012	\$ 0	\$ 16,719	\$ 16,719	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 next scheduled to be as of 1/1/2014. In future years, annual funding progress will be reported.

OPEB Actuarial Assumptions

Valuation Date	January 1, 2012	
Actuarial cost method	Entry Age Normal	
Amortization method	30-year, closed as of January 1, 2008	
Remaining amortization period as of 12/31/2009	26 years	
Actuarial assumptions		
Investment rate of return	4.0%	
Long-term care inflation rate	4.5%	
Medical trend	<u>Year</u>	<u>Rate</u>
	2012	7.0%
	2013	7.5%
	2014	6.2%
	2015	5.8%
	2016-2023	5.7%
	2024-2034	5.6%
Long-Term Care Inflation Rate	4.8%	

CITY OF WENATCHEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

Federal Assistance Received Directly From A Federal Agency Or Indirectly
Through A State Agency Or Other Local Government

Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures			Foot Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
US Dept of Justice (DOJ)	Bullet Proof Vest	16.592			3,608		2
	JAG	16.738	2010-DJ-BX-0212		12,236		2
	JAG	16.738	2011-DJ-BX-2803		4,929		2
	SCAAP	16.606	2009-AP-BX-0253		11,946	32,719	
US DOT / Wa St DOT	Federal Transportation Planning & Construction	20.205	STPH-000S(212)	1,981			
		20.205	STPUS-5825(005)	13,350			
		20.205	STPUS-5863(001)	58,253			
		20.205	HLP-SR09(013)	186,500			
		20.205	STPUS-9904(008)	92,165			
		20.205	HSIP-0285(017)	277,004		629,253	2
US DOT / Wa State Traffic Safety Commission	Occupant Protection Incentives	20.602		3,381			2
	State & Highway Safety	20.600		46,122			2
	X52- DUI	20.601		3,764		53,267	2
US DOT / Wa Assoc of Sheriffs & Police Chiefs	State & Community Highway Safety	20.600		4,418		4,418	2
Homeland Security / FEMA	Assistance to Firefighters	97-044			72,582	72,582	
Dept of Housing & Urban Development	ARRA - Community Development Block Grant	14.255			8,830	8,830	2,5
	CPD, EDI, Special Projects	14.251	B-10SP-WA-0157		12,320		2,4
	Community Development Block Grant	14.218			335,474	347,794	2,3,4 ,6
Total Federal Awards Expended				686,938	461,925	1,148,863	

CITY OF WENATCHEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 \$ 15,475 and is presented in this schedule. The amount of principal received in loan repayments for the year was \$ 5,913.

Note 4 – Indirect Cost Rate

The amount expended includes \$ 66,932 claimed as an indirect cost recovery using an approved indirect cost rate of 1.69 percent.

Note 5 – American Recovery and Reinvestment Act (ARRA) of 2009

Expenditures for this program were funded by ARRA.

Note 6 – Amounts awarded to subrecipients

Included in the total amount expended for this program is \$ 38,036 that was passed through to a subrecipient that administered its own program.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Larisa Benson
James E. Brittain, CPA, CFE
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