



Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

Chelan County

For the period January 1, 2013 through December 31, 2013

Published September 22, 2014

Report No. 1012652





Washington State Auditor Troy Kelley

September 22, 2014

Board of Commissioners
Chelan County
Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

Table of Contents

Chelan County January 1, 2013 through December 31, 2013

| | |
|--|----|
| Federal Summary | 4 |
| Schedule Of Federal Audit Findings And Questioned Costs..... | 6 |
| Schedule Of Prior Federal Audit Findings..... | 10 |
| Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards | 11 |
| Independent Auditor's Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133..... | 13 |
| Independent Auditor's Report On Financial Statements | 16 |
| Financial Section..... | 19 |
| Corrective Action Plan for Findings Reported Under OMB Circular A-133 | 71 |
| About The State Auditor's Office..... | 72 |

Federal Summary

Chelan County January 1, 2013 through December 31, 2013

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

| <u>CFDA No.</u> | <u>Program Title</u> |
|-----------------|---|
| 10.923 | Emergency Watershed Protection Program |
| 15.517 | Fish and Wildlife Coordination Act |
| 20.205 | Highway Planning and Construction Cluster - Highway Planning and Construction |
| 81.61917 | BPA – Division of Fish and Wildlife/LWP Lower Connection |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |

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

The County did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

Chelan County January 1, 2013 through December 31, 2013

1. The County did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

| | |
|--|---|
| CFDA Number and Title: | 10.923 Emergency Watershed Protection Program |
| Federal Grantor Name: | U.S. Department of Agriculture |
| Federal Award/Contract Number: | NA |
| Pass-through Entity Name: | Natural Resources Conservation Service |
| Pass-through Award/Contract Number: | 68-0546-13-002 and 68-0546-13-006 |
| Questioned Cost Amount: | \$0 |

Background

The County spent \$532,855 in federal grant funds during 2013 on two projects to prevent danger of disastrous flooding in two areas of the County.

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The County is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The County can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the County may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

Description of Condition

We reviewed the County's internal controls and compliance with regulations over its Emergency Watershed Protection Program. The County did not have internal controls to ensure compliance with the suspension and debarment requirements.

Cause of Condition

Typically, the natural resources department awards contracts for federally funded projects through the competitive bid process and ensures the contracts include clauses covering suspension and debarment requirements. However, one of the Emergency Watershed Protection Program projects (contract#68-0546-13-006) was declared an emergency in accordance with state procurement laws, allowing the County to waive competitive bid requirements. Since the project was not awarded through the competitive bid process,

the department did not include the necessary clauses in the contract or take other measures to ensure federal suspension and debarment requirements were met prior to entering into contracts.

Effect of Condition and Questioned Costs

The County paid one vendor \$88,363 for aerial seeding services and another vendor \$52,206 for construction services. The County did not verify whether the vendors were suspended or debarred. This material weakness in internal controls increases the risk the County will enter into contracts with vendors who are suspended or debarred from receiving federal funds. Payments on contracts to suspended or debarred vendors would be unallowable and cause the County to repay the funding to the grantor.

We were able to verify the vendors had not been suspended or debarred and, therefore, we are not questioning costs for the payments.

Recommendation

We recommend the County establish internal controls to verify suspension and debarment status of all vendors paid with federal funds prior to entering into contracts, including contracts for projects declared emergencies.

County's Response

We would like to thank the State Auditor's Office for their review of our federal grant programs. As always, we appreciate their partnership and professionalism. Although we recognize that two contracts were entered without checking the Excluded Parties List, neither contractor was on this list. Due to the nature of those on the federal Excluded Parties List, the risk of Chelan County contracting with a vendor on this list is extremely low. We understand that the State Auditor's Office is required to report areas of non-compliance in accordance with federal grant rules, but we do not feel that the issue constitutes this level of reporting. Chelan County will continue to promote internal controls over federal grants.

Auditor's Remarks

We appreciate the steps the County is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

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

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

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

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Schedule of Prior Federal Audit Findings

Chelan County January 1, 2013 through December 31, 2013

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

| | | | |
|--|-----------------------------------|--|----------------------------------|
| Audit Period: 1/1/12 – 12/31/12 | Report Ref. No: 1010516 | Finding Ref. No: 1 | CFDA Number(s): 93.959 |
| Federal Program Name and Granting Agency: Block Grants for Prevention and Treatment of Substance Abuse, U.S. Department of Health and Human Services | | Pass-Through Agency Name: Department of Social and Health Services | |
| Finding Caption: Chelan County did not have the appropriate internal controls necessary to monitor activities of its federal grant sub-recipient. | | | |
| Background: <p>During 2012, the County received \$202,096 in federal money from the Block Grants for Prevention and Treatment of Substance Abuse program. The County passed the money from the grant through to a non-profit sub-recipient that provided the services to the public.</p> <p>Federal regulations require the County to monitor sub-recipients of federal funds. This includes informing them of regulations associated with grants, such as the federal Office of Management and Budget (OMB) Circulars A-122, A-133 and A-110. Subrecipients are expected to follow these requirements and the County has the responsibility to monitor their activities to ensure the money is used for authorized purposes. The requirements are contained in a written agreement between the County and the non-profit.</p> <p>Our audit found the County did not have sufficient internal controls to ensure program costs the sub-recipient claimed for reimbursement complied with grant requirements or OMB Circular A-122, which governs the allowability of federal grant expenditures by non-profits. The invoices received from the nonprofit organization did not contain sufficient detail to support those expenditures.</p> | | | |
| Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid </div> | | | |
| Corrective Action Taken: <i>Since the prior audit of this program, beginning in 2014, the County now obtains invoices with supporting documentation from the sub-recipient and is reviewing/reconciling them on a monthly basis. Any discrepancies are followed up on and resolved to ensure accountability.</i> | | | |

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

Chelan County
January 1, 2013 through December 31, 2013

Board of Commissioners
Chelan County
Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chelan County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 30, 2014. As described in Note 14 to the financial statements, the County's 2012 basic financial statements have been restated to correct a misstatement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

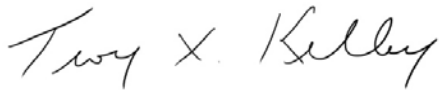
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

June 30, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Chelan County
January 1, 2013 through December 31, 2013

Board of Commissioners
Chelan County
Wenatchee, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of 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 each of its major federal programs for the year ended December 31, 2013. The County's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. Our opinion on each major federal program is not modified with respect to these matters.

County's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 County's internal control over compliance.

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

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

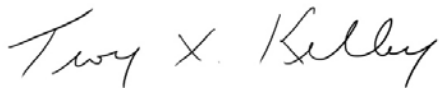
combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

County's Response to Findings

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

September 2, 2014

Independent Auditor's Report on Financial Statements

Chelan County January 1, 2013 through December 31, 2013

Board of Commissioners
Chelan County
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chelan County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chelan County, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Road Special Revenue and Natural Resources Special Revenue funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis Regarding Material Misstatements in Previously Issued Financial Statements

As described in Note 14 to the financial statements, the County's 2012 basic financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 25 and information on postemployment benefits other than pensions on page 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

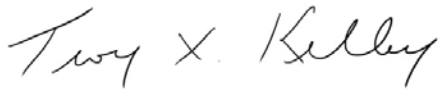
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

June 30, 2014

Financial Section

Chelan County January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities – 2013

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary and Actual – General Fund – 2013

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – County Roads Special Revenue Fund – 2013

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Natural Resources Special Revenue Fund – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Fiduciary Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Health Insurance Plan – Schedule of Funding Progress – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chelan County's discussion and analysis presents the readers of the County's annual financial report a narrative overview of the County's financial performance during the fiscal year that ended on December 31, 2013. We encourage readers to consider the information presented here in conjunction with the County's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The proprietary fund financial statements are prepared using the same basis of accounting as the government-wide financial statements. They include both the enterprise and internal service funds. Enterprise funds account for business-like functions of the county that provide services and charge fees. These funds roll directly into the business-type activities in the government-wide financial statements. Internal service funds support the county government by accounting for the accumulation of assets for vehicle/equipment replacement and insurance functions. Because both of these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Individual fund data for each of these nonmajor enterprise and all internal service funds is provided in the form of combining statements after the notes to the financial statements.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Chelan County, assets exceeded liabilities by \$91,720,284 at the close of the most recent fiscal year. This increased by \$4,765,005 over the previous year. Some of the growth was a reaction to the recent recession that drove the County to tighten the budget of the General fund to replenish the fund balances. While the revenues generated from the local economy continue to increase, the expenses have been held lower. Another aspect of net asset growth was due to large infrastructure assets being capitalized.

Chelan County's Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|-------------|--------------------------|-----------|-------------|-------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current & other assets | 33,455,507 | 27,355,319 | 2,606,241 | 3,244,421 | 36,061,748 | 30,599,740 |
| Capital assets (net of depr.) | 76,960,683 | 77,374,617 | 2,083,797 | 2,084,570 | 79,044,480 | 79,459,187 |
| Total assets | 110,416,189 | 104,729,936 | 4,690,038 | 5,328,991 | 115,106,228 | 110,058,927 |
| Long-term liabilities | 18,634,974 | 18,222,960 | 525,385 | 520,422 | 19,160,359 | 18,743,382 |
| Other liabilities | 3,499,982 | 3,706,276 | 725,603 | 677,143 | 4,225,585 | 4,383,419 |
| Total liabilities | 22,134,956 | 21,929,236 | 1,250,988 | 1,197,565 | 23,385,944 | 23,126,801 |
| Net position: | | | | | | |
| Net investment in capital assets | 63,148,523 | 62,812,448 | 2,083,797 | 2,084,570 | 65,232,320 | 64,897,018 |
| Restricted | 13,870,565 | 12,769,857 | - | - | 13,870,565 | 12,769,857 |
| Unrestricted | 11,262,145 | 7,218,396 | 1,355,253 | 2,046,856 | 12,617,398 | 9,265,251 |
| Total net position | 88,281,234 | 82,800,700 | 3,439,050 | 4,131,426 | 91,720,284 | 86,932,126 |

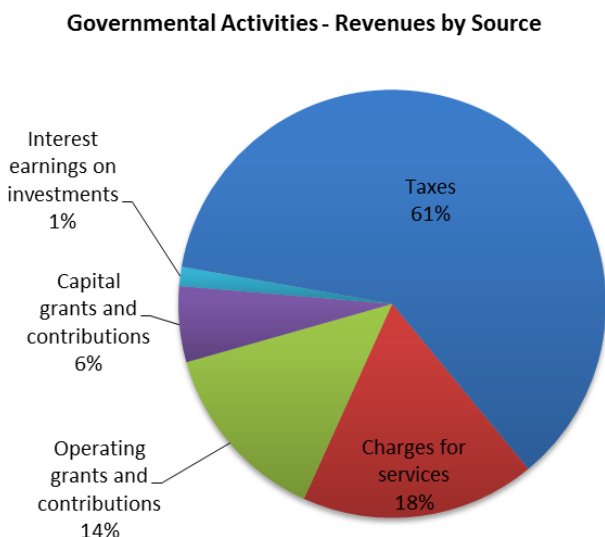
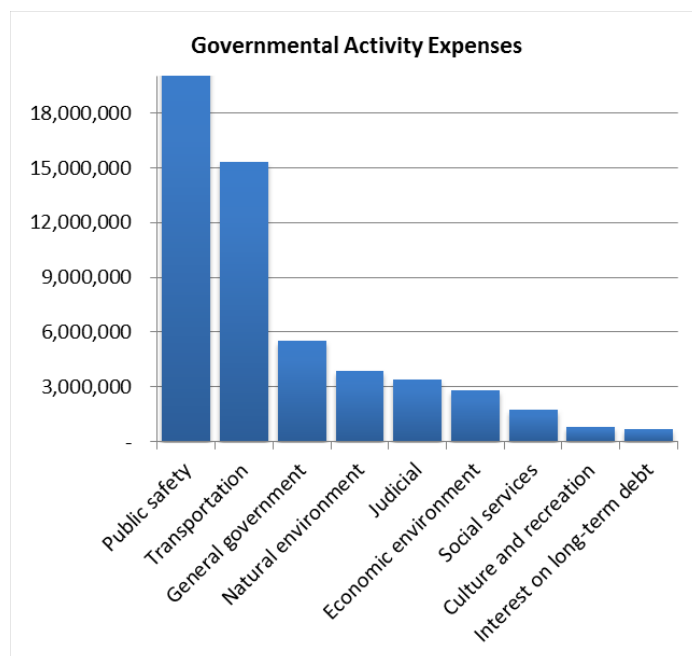
Chelan County's Changes in Net Position

| Revenues | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|------------|--------------------------|------------|------------|------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Program revenues: | | | | | | |
| Charges for services | 10,668,613 | 9,946,322 | 9,176,159 | 9,633,511 | 19,844,773 | 19,579,833 |
| Operating grants and contrib. | 8,310,703 | 7,266,384 | 614,859 | 471,069 | 8,925,562 | 7,737,452 |
| Capital grants and contributions | 3,442,683 | 5,277,809 | - | - | 3,442,683 | 5,277,809 |
| General revenues: | | | | | | |
| Taxes | 36,810,937 | 36,305,834 | - | 10,138 | 36,810,937 | 36,315,972 |
| Interest earnings on invest. | 868,742 | 227,235 | 622 | 975 | 869,364 | 228,210 |
| Total revenues | 60,101,678 | 59,023,584 | 9,791,640 | 10,115,692 | 69,893,319 | 69,139,276 |
| Program Expenses | | | | | | |
| General government | 5,494,639 | 8,533,353 | - | - | 5,494,639 | 8,533,353 |
| Judicial | 3,386,871 | 4,771,923 | - | - | 3,386,871 | 4,771,923 |
| Public safety | 20,556,030 | 18,994,713 | - | - | 20,556,030 | 18,994,713 |
| Natural environment | 3,855,296 | 2,166,320 | - | - | 3,855,296 | 2,166,320 |
| Transportation | 15,304,064 | 12,184,649 | - | - | 15,304,064 | 12,184,649 |
| Social services | 1,777,641 | 1,659,125 | - | - | 1,777,641 | 1,659,125 |
| Economic environment | 2,783,933 | 2,879,754 | - | - | 2,783,933 | 2,879,754 |
| Culture and recreation | 803,696 | 733,164 | - | - | 803,696 | 733,164 |
| Utilities | - | - | 1,962,210 | 1,566,644 | 1,962,210 | 1,566,644 |
| Regional justice center | - | - | 7,862,926 | 8,270,353 | 7,862,926 | 8,270,353 |
| Other | - | - | 658,879 | 693,808 | 658,879 | 693,808 |
| Interest on long term debt | 682,129 | 639,677 | - | - | 682,129 | 639,677 |
| Total expenses | 54,644,298 | 52,562,678 | 10,484,016 | 10,530,805 | 65,128,314 | 63,093,483 |
| Excess (deficiency) revenues over (under) expenses | 5,457,380 | 6,460,906 | (692,376) | (415,113) | 4,765,005 | 6,045,793 |
| Transfers | - | 10,000 | - | (10,000) | - | - |
| Change in net position | 5,457,380 | 6,470,906 | (692,376) | (425,113) | 4,765,005 | 6,045,793 |
| Net position as of Jan 1, restated | 82,823,853 | 76,329,795 | 4,131,426 | 4,556,538 | 86,955,279 | 80,886,333 |
| Net position as of Dec 31 | 88,281,234 | 82,800,700 | 3,439,050 | 4,131,426 | 91,720,284 | 86,932,126 |

A large portion of the County's net position (71%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position (15%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (14%) may be used to meet the county's general ongoing obligations to citizens and creditors.

Governmental Activities. Chelan County's governmental activities improved the County's net position by \$5,457,380. This was due largely to the capitalization of several infrastructure asset as well as lingering budget reductions in the General funds. The fund balances of these funds were hit hard during the economic downturn and expenses were reduced across all functions to rebuild the fund balances. Revenues have started to pick up while increases to general expenses have been held to a minimum.



Business-type Activities. Business-type activities decreased Chelan County's net position by \$692,376. The majority of this decrease was due to the Regional Justice Center housing fewer contract inmates during 2013. The reduction in inmate housing revenue was not offset by decreased spending.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The General fund, County Roads, and Natural Resources funds were the County's major governmental funds. Together these three funds account for 53% of total governmental fund balance.

The General fund is the chief operating fund of Chelan County. At the end of the current fiscal year, unassigned fund balance of the General fund was \$6,225,947, which represents 21% of total General fund expenditures. The fund balance of General fund increased by \$1,838,982 during the current fiscal year and is larger than it has been since Chelan County has had comparable financial statements. The tremendous growth is due to the response from the recent economic recession. Between 2009 and 2010, General fund expenditures were reduced by almost \$3 million, a 10% expenditure reduction. These budget reductions allowed the General fund to start successfully rebuilding its fund balance in 2010 and continue that through 2013. In combination with the continued reduced expenditures, the local economy appears to be turning around slightly, resulting in increased tax revenues and increased fund balance. The cash balance of the General fund was reduced by \$599,351 due to a cyber-theft of Hospital District funds. Due to pending litigation, substantially all of the cash is expected to be recovered, and is listed as a Treasurer claim receivable on the Governmental Funds Balance Sheet.

The fund balance of the County Roads special revenue fund increased by \$21,877 during the current fiscal year. The After a few years of re-growing the fund balance, County Roads was able to spend roughly the same amount as they brought in from taxes and outside funding, allowing them to continue at a sustainable fund balance level. Because property taxes in this fund are collected for the explicit purpose of road construction and maintenance, these funds are restricted for that purpose.

The fund balance of the Natural Resources special revenue fund decreased by \$22,729 during the current fiscal year. This fund is mostly operated through grant reimbursements. As fewer grants allow indirect costs to be charged, only direct costs are reimbursed and the amount of fund balance has decreased. By the end of 2013, the Natural Resources department needed to take an interfund loan of \$841,000 to cash flow the reimbursement grants it receives.

Proprietary funds. The Solid Waste, Surface & Storm Water Utility, and the Regional Justice Center were the County's three major proprietary funds.

Total net position of the Solid Waste fund at the end of the year amounted to \$1,144,033. The total decrease in net position for this fund was \$42,286. The Solid Waste fund has maintained a higher net position than needed for operations and has been slowly spending this down since 2010.

The Surface & Storm Water Utility net position increased by \$264,082 during the past fiscal year to \$1,770,329. The projects this fund will finance are still in the development stage, so the utility assessment is bringing in revenue while the projects are still in the planning stages. This has resulted in continual yearly growth to the net position.

Total net position of the Regional Justice Center fund decreased by \$1,093,841, leaving it with a negative 474,319 net position. This year-over-year continued decrease is due to fewer contracted inmates being housed, which reduced the revenue brought in by this fund. Cash flow is currently being supported by other funds and with new housing contracts and slightly smaller expenditures, the net position losses appear to be slowing.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Differences between the original budget and the final amended budget amounted to \$1,036,360 of increases in expenditure appropriations. Of this budget increase, \$506,074 was to be funded out of unexpected grants and increased reimbursements. The remaining \$530,286 was to be spent from the available fund balance.

| Department | Amount | Explanation |
|--------------------------|------------------|--|
| Assessor | 54,000 | For capital outlay. From grant revenue. |
| Auditor | 30,000 | To account for special election printing costs. From increased election reimbursement revenue. |
| Clerk | 39,056 | For wages and small equipment. From state reimbursement revenue and available fund balance. |
| Commissioners | 9,100 | For extra salary. From available fund balance. |
| District Court | 14,619 | For small equipment. From state reimbursement revenue and available fund balance. |
| District Court Probation | 21,282 | To increase wages and benefits. From available fund balance. |
| Non-Departmental | 242,042 | For settlement of an employee claim and other services. From available fund balance. |
| Sheriff | 225,872 | For wages and small equipment. From increased grant revenue and available fund balance. |
| Superior Court | 100,389 | For increased salaries and services. From available fund balance and increased grant revenue. |
| Traffic Safety | 300,000 | For a new traffic safety program. From increased court fines revenue. |
| Total | 1,036,360 | |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Chelan County's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to \$79,044,480 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. The County's investment in capital assets remained relatively flat for the current fiscal year decreasing by less than 1% (a 0.5% decrease for governmental activities and no change for business-type activities). There were no significant asset transactions in the business-type activities. In governmental activities, there was a slight increase from due to infrastructure projects such as: \$876,557 for the Stemilt Loop Road infrastructure improvement; \$607,758 for the Manson Downtown Business District infrastructure improvement and \$401,599 for the Entiat River Road Guardrail Infill. There was also a purchase of an addition to the main County campus of \$625,488. However, when netted with general asset turnover and normal depreciation, the total capital assets balance had very little movement.

Chelan County's Capital Assets (net of depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|------------|--------------------------|-----------|------------|------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land | 3,356,019 | 3,356,019 | 278,911 | 209,348 | 3,634,930 | 3,565,367 |
| Other improvements | 787,615 | 951,168 | 19,444 | - | 807,059 | 951,168 |
| Construction in progress | 417,846 | 2,088,326 | - | - | 417,846 | 2,088,326 |
| Buildings | 26,816,720 | 27,226,198 | 1,171,508 | 1,196,214 | 27,988,229 | 28,422,412 |
| Equipment | 5,203,006 | 5,361,189 | 613,933 | 679,008 | 5,816,939 | 6,040,197 |
| Infrastructure | 40,379,477 | 38,391,717 | - | - | 40,379,477 | 38,391,717 |
| Total | 76,960,683 | 77,374,617 | 2,083,797 | 2,084,570 | 79,044,480 | 79,459,187 |

Additional information on the County's capital assets can be found in note 5.

Long-term Debt. At the end of the current fiscal year, Chelan County had total bonded debt outstanding of \$14,465,000. The total amount of this debt is backed by the full faith and credit of the government. Chelan County's total bonded debt decreased by \$755,000 (5%) during the current fiscal year. This was due solely to the regularly scheduled bond payments. See note 8 for further information about long term debt.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Chelan County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chelan County Auditor's Office, PO Box 400, Wenatchee, WA 98807. Financial information requests can also be emailed to accounting@co.chelan.wa.us

CHELAN COUNTY, WASHINGTON

Statement of Net Position

December 31, 2013

| | Primary Government | | |
|--|---------------------------|----------------------|--------------------|
| | Governmental | Business-Type | |
| | Activities | Activities | Total |
| Assets | | | |
| Cash and cash equivalents | 22,127,286 | 2,527,970 | 24,655,255 |
| Deposits with fiscal agents | 80,855 | 19,164 | 100,019 |
| Investments | 5,917,686 | 164,464 | 6,082,149 |
| Accounts receivable | 108,493 | 54,245 | 162,739 |
| Property tax receivable | 798,489 | - | 798,489 |
| Court judgements receivable | 1,249,953 | - | 1,249,953 |
| Due from other governments | 1,186,095 | 449,470 | 1,635,565 |
| Treasurer claim receivable | 599,351 | - | 599,351 |
| Internal balances | 609,072 | (609,072) | - |
| Inventory | 778,228 | - | 778,228 |
| Capital assets not being depreciated: | | | |
| Land | 3,356,019 | 278,911 | 3,634,930 |
| Construction in progress | 417,846 | - | 417,846 |
| Capital assets, net of accumulated depreciation: | | | |
| Other improvements | 787,615 | 19,444 | 807,059 |
| Buildings | 26,816,720 | 1,171,508 | 27,988,229 |
| Equipment | 5,203,006 | 613,933 | 5,816,939 |
| Infrastructure | 40,379,477 | - | 40,379,477 |
| Total assets | <u>110,416,189</u> | <u>4,690,038</u> | <u>115,106,228</u> |
| Liabilities | | | |
| Accounts payable | 1,049,978 | 182,000 | 1,231,977 |
| Due to other governments | 200,066 | 6,168 | 206,234 |
| Accrued payroll liabilities | 2,209,083 | 518,272 | 2,727,355 |
| Deposits payable | 40,855 | 19,164 | 60,019 |
| Noncurrent liabilities: | | | |
| Due within one year | 1,032,295 | 195,748 | 1,228,043 |
| Due in more than one year | 17,602,679 | 329,637 | 17,932,316 |
| Total liabilities | <u>22,134,956</u> | <u>1,250,988</u> | <u>23,385,944</u> |
| Net Position | | | |
| Net investment in capital assets | 63,148,523 | 2,083,797 | 65,232,320 |
| Restricted for: | | | |
| Transportation | 4,735,696 | - | 4,735,696 |
| Capital projects | 4,399,263 | - | 4,399,263 |
| Security of persons and property | 1,750,116 | - | 1,750,116 |
| Economic environment | 1,250,258 | - | 1,250,258 |
| Health services | 250,471 | - | 250,471 |
| General government technology | 733,203 | - | 733,203 |
| Physical environment | 394,818 | - | 394,818 |
| Judicial improvements | 356,741 | - | 356,741 |
| Unrestricted | 11,262,145 | 1,355,253 | 12,617,398 |
| Total net position | <u>88,281,234</u> | <u>3,439,050</u> | <u>91,720,284</u> |

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

CHELAN COUNTY, WASHINGTON

Statement of Activities

For the Year Ended December 31, 2013

| Functions/Programs | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position - Primary Government | | |
|--|-----------------|----------------------|------------------------------------|--|-------------------------|--------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | 5,494,639 | 3,299,140 | 357,932 | - | (1,837,566) | - |
| Judicial | 3,386,871 | 2,244,207 | 1,149,376 | - | 6,713 | - |
| Public safety | 20,556,030 | 2,959,293 | 2,479,755 | - | (15,116,982) | - |
| Natural environment | 3,855,296 | 379,941 | 3,245,990 | - | (229,365) | - |
| Transportation | 15,304,064 | 95,822 | - | 3,442,683 | (11,765,559) | - |
| Social services | 1,777,641 | 35,572 | 865,620 | - | (876,448) | - |
| Economic environment | 2,783,933 | 1,437,351 | 184,038 | - | (1,162,544) | - |
| Culture and recreation | 803,696 | 217,287 | 27,991 | - | (558,417) | - |
| Interest on long-term debt | 682,129 | - | - | - | (682,129) | - |
| Total governmental activities | 54,644,298 | 10,668,613 | 8,310,703 | 3,442,683 | (32,222,299) | - |
| Business-type activities: | | | | | | |
| Utilities | 1,962,210 | 1,819,812 | 406,007 | - | - | 263,608 |
| Public safety | 7,862,926 | 6,707,509 | 61,576 | - | - | (1,093,841) |
| Recreation | 658,879 | 648,839 | 147,275 | - | - | 137,235 |
| Total business-type activities | 10,484,016 | 9,176,159 | 614,859 | - | - | (692,998) |
| Total primary government | 65,128,314 | 19,844,773 | 8,925,562 | 3,442,683 | (32,222,299) | (692,998) |
| | | | | | | (32,915,296) |
| General revenues | | | | | | |
| Taxes: | | | | | | |
| Property | | | | | 18,089,545 | - |
| Sales and use | | | | | 7,825,514 | - |
| Motor vehicle fuel tax | | | | | 2,183,380 | - |
| Emergency communication tax | | | | | 2,180,071 | - |
| Federal land PILT | | | | | 2,342,695 | - |
| Other taxes | | | | | 4,189,732 | - |
| Interest and investment earnings | | | | | 868,742 | 622 |
| Total general revenues | | | | | 37,679,679 | 622 |
| Change in net position | | | | | 5,457,380 | (692,376) |
| Net position - beginning, restated (note 14) | | | | | 82,823,853 | 4,131,426 |
| Net position - ending | | | | | 88,281,234 | 3,439,050 |
| | | | | | | 91,720,284 |

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

CHELAN COUNTY, WASHINGTON

Balance Sheet
 Governmental Funds
 December 31, 2013

| | General Fund | County Roads | Natural Resources | Nonmajor Governmental Funds | Total |
|---|-------------------------|-------------------------|------------------------------|--|-------------------|
| Assets | | | | | |
| Cash and cash equivalents | 6,982,673 | 5,684,190 | 745,830 | 3,508,155 | 16,920,848 |
| Deposits with fiscal agents | - | 40,855 | - | - | 40,855 |
| Investments | 332,071 | - | - | 5,336,743 | 5,668,814 |
| Accounts receivable | 35,782 | - | 43,158 | - | 78,939 |
| Property tax receivable | 476,822 | 311,328 | - | 10,339 | 798,489 |
| Court judgements receivable | 1,249,953 | - | - | - | 1,249,953 |
| Due from other funds | 87,655 | - | 3,018 | - | 90,673 |
| Interfund loan receivable | - | - | - | 1,392,000 | 1,392,000 |
| Due from other governments | 335,668 | 185,093 | 607,878 | 57,370 | 1,186,008 |
| Treasurer claim receivable | 599,351 | - | - | - | 599,351 |
| Total assets | <u>10,099,975</u> | <u>6,221,465</u> | <u>1,399,883</u> | <u>10,304,607</u> | <u>28,025,930</u> |
| Liabilities | | | | | |
| Accounts payable | 309,900 | 176,406 | 160,397 | 245,660 | 892,363 |
| Due to other funds | 5,055 | 385,739 | 930 | 30,261 | 421,985 |
| Interfund loan payable | - | - | 841,000 | - | 841,000 |
| Due to other governments | 133,150 | 20,339 | 18,133 | 11,177 | 182,799 |
| Accrued payroll | 1,699,148 | 368,270 | 50,108 | 27,942 | 2,145,469 |
| Deposits payable | - | 40,855 | - | - | 40,855 |
| Total liabilities | <u>2,147,252</u> | <u>991,609</u> | <u>1,070,568</u> | <u>315,041</u> | <u>4,524,470</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue - property tax | 476,822 | 311,328 | - | 10,339 | 798,489 |
| Unavailable revenue - court judgements | 1,249,953 | - | - | - | 1,249,953 |
| Total deferred inflows of resources | <u>1,726,775</u> | <u>311,328</u> | <u>-</u> | <u>10,339</u> | <u>2,048,442</u> |
| Fund Balances | | | | | |
| Restricted | - | 4,918,528 | 329,315 | 9,698,624 | 14,946,467 |
| Committed | - | - | - | 280,603 | 280,603 |
| Unassigned | 6,225,947 | - | - | - | 6,225,947 |
| Total fund balances | <u>6,225,947</u> | <u>4,918,528</u> | <u>329,315</u> | <u>9,979,227</u> | <u>21,453,018</u> |
| Total liabilities, fund balances, and deferred inflows of resources | <u>10,099,975</u> | <u>6,221,465</u> | <u>1,399,883</u> | <u>10,304,607</u> | <u>28,025,930</u> |

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

CHELAN COUNTY, WASHINGTON

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position December 31, 2013

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

Fund balances of governmental funds: 21,453,018

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

| | | |
|------------------------------------|--------------|------------|
| Capital assets | 136,230,204 | |
| Depreciation | (63,669,042) | |
| Capital assets net of depreciation | | 72,561,162 |

Deferred inflows of resources that are not available to finance current liabilities are excluded from governmental activities.

| | | |
|-------------------------------|-----------|-----------|
| Property tax | 798,489 | |
| Court judgements | 1,249,953 | |
| Deferred inflows of resources | | 2,048,442 |

Long-term debt and compensated absences that have not been included in the governmental fund activity

| | | |
|--|--------------|--------------|
| Bonds payable | (14,465,000) | |
| Compensated absences | (1,669,897) | |
| OPEB benefit for LEOFF | (1,590,967) | |
| Working capital loan for Substance Abuse | (110,394) | |
| Long-term debt | | (17,836,258) |

Internal service funds are used by management to charge the cost of certain activities, such as equipment management and insurance to individual funds. These assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.

| | | |
|-------------------------------|-------------|------------|
| Assets | 11,092,322 | |
| Liabilities | (1,037,452) | |
| Internal service net position | | 10,054,870 |

Net position of governmental activities 88,281,234

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

CHELAN COUNTY, WASHINGTON

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2013

| | General Fund | County Roads | Natural Resources | Nonmajor Governmental Funds | Total |
|--|-----------------|-----------------|----------------------|-----------------------------------|------------|
| Revenues | | | | | |
| Taxes | 16,885,633 | 6,992,921 | - | 7,074,356 | 30,952,910 |
| Licenses and permits | 982,410 | - | - | - | 982,410 |
| Intergovernmental revenues | 6,633,257 | 5,632,188 | 3,147,384 | 2,317,606 | 17,730,436 |
| Charges for services | 4,992,629 | 93,113 | 2,305 | 910,638 | 5,998,685 |
| Fees and fines | 1,435,712 | - | - | 33,142 | 1,468,854 |
| Miscellaneous | 1,026,364 | 47,537 | - | 668,059 | 1,741,960 |
| Total revenues | 31,956,005 | 12,765,759 | 3,149,689 | 11,003,801 | 58,875,254 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 11,841,477 | 25,176 | - | 206,128 | 12,072,780 |
| Public safety | 16,258,450 | - | - | 3,225,910 | 19,484,360 |
| Natural environment | - | - | 3,174,268 | 531,064 | 3,705,331 |
| Transportation | - | 9,827,486 | - | 34,136 | 9,861,622 |
| Social services | 519,214 | - | - | 1,415,864 | 1,935,079 |
| Economic environment | 1,033,641 | - | - | 1,271,918 | 2,305,559 |
| Culture and recreation | 298,489 | - | - | 217,728 | 516,217 |
| Debt Service: | | | | | |
| Principal | - | - | - | 755,000 | 755,000 |
| Interest and other charges | 77,114 | - | 3,150 | 601,865 | 682,129 |
| Capital outlay | 153,638 | 3,197,251 | - | 1,290,529 | 4,641,417 |
| Total expenditures | 30,182,023 | 13,049,913 | 3,177,418 | 9,550,142 | 55,959,495 |
| Excess (deficiency) of revenues over (under) expenditures | 1,773,982 | (284,154) | (27,729) | 1,453,659 | 2,915,759 |
| Other Financing Sources (Uses) | | | | | |
| Sale of capital assets | - | 6,031 | - | - | 6,031 |
| Transfers in | 100,000 | 400,000 | 5,000 | 30,000 | 535,000 |
| Transfers out | (35,000) | (100,000) | - | (400,000) | (535,000) |
| Total other financing sources and uses | 65,000 | 306,031 | 5,000 | (370,000) | 6,031 |
| Net change in fund balances | 1,838,982 | 21,877 | (22,729) | 1,083,659 | 2,921,790 |
| Fund balances - beginning | 4,386,965 | 4,896,651 | 352,044 | 8,895,568 | 18,531,228 |
| Fund balances - ending | 6,225,947 | 4,918,528 | 329,315 | 9,979,227 | 21,453,018 |

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

CHELAN COUNTY, WASHINGTON

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2013

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds 2,921,790

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|-------------------------------|--------------------|-----------|
| Capital outlay | 6,019,622 | |
| Disposition of capital assets | (2,137,603) | |
| Depreciation expense | <u>(3,988,193)</u> | |
| | | (106,174) |

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

| | | |
|--|-----------------|----------|
| Decreases in governmental fund court judgements receivable | (8,161) | |
| Decreases in governmental fund taxes receivable | <u>(68,269)</u> | |
| | | (76,430) |

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

| | | |
|---|--------------|---------|
| Decreases in governmental fund bonds payable | 755,000 | |
| Increase in liability for OPEB benefit for LEOFF | (645,415) | |
| Contributions toward OPEB benefit for LEOFF | 311,650 | |
| Increases in governmental fund compensated absences payable | (79,550) | |
| Decreases in governmental fund compensated absences payable | <u>2,969</u> | |
| | | 344,654 |

The net revenue of certain activities of internal service funds is reported with governmental activities.

2,373,541

Change in net position of governmental activities

5,457,380

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

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

For the Year Ended December 31, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|-------------------------|--------------|----------------|---|
| Revenues | Original | Final | Amounts | |
| Assessor | 34,060 | 88,060 | 88,304 | 244 |
| Auditor | 911,208 | 941,208 | 980,135 | 38,927 |
| Community Development | 1,100,707 | 1,100,707 | 1,311,971 | 211,264 |
| Clerk | 792,920 | 802,820 | 854,044 | 51,224 |
| Commissioners | 9,577,480 | 9,577,480 | 10,562,868 | 985,388 |
| Coroner | 15,000 | 15,000 | 20,497 | 5,497 |
| Information Technology | 107,723 | 107,723 | 111,909 | 4,186 |
| Facilities Maintenance | 622,435 | 622,435 | 630,928 | 8,493 |
| District Court | 1,219,470 | 1,232,470 | 1,247,794 | 15,324 |
| District Court Probation | 294,148 | 294,148 | 317,979 | 23,831 |
| Extension | 58,500 | 58,500 | 49,918 | (8,582) |
| Juvenile | 646,446 | 646,446 | 682,893 | 36,447 |
| Non-Departmental | 539,131 | 539,131 | 601,186 | 62,055 |
| Child Support Enforcement | 397,617 | 397,617 | 333,644 | (63,973) |
| Prosecuting Attorney | 530,146 | 530,146 | 537,250 | 7,104 |
| Sheriff | 3,030,211 | 3,106,083 | 3,180,438 | 74,355 |
| Superior Court | 82,295 | 105,597 | 114,993 | 9,396 |
| Treasurer | 1,291,219 | 1,291,219 | 1,367,957 | 76,738 |
| Taxes | 10,921,212 | 10,921,212 | 10,949,633 | 28,421 |
| Traffic Safety | 0 | 300,000 | 128,215 | (171,785) |
| Total revenues | 32,171,928 | 32,678,002 | 34,072,554 | 1,394,552 |
| Expenditures | | | | |
| Assessor | 1,144,961 | 1,198,961 | 1,162,382 | 36,579 |
| Auditor | 1,107,622 | 1,137,622 | 1,047,883 | 89,739 |
| Board of Equalization | 7,225 | 7,225 | 2,250 | 4,975 |
| Community Development | 1,527,624 | 1,527,624 | 1,378,800 | 148,824 |
| Civil Service Commission | 11,097 | 11,097 | 5,407 | 5,690 |
| Clerk | 1,060,433 | 1,099,489 | 1,083,728 | 15,761 |
| Commissioners | 667,197 | 676,297 | 666,177 | 10,120 |
| Coroner | 219,817 | 219,817 | 208,105 | 11,712 |
| Information Technology | 678,175 | 678,175 | 667,561 | 10,614 |
| Facilities Maintenance | 1,495,879 | 1,495,879 | 1,440,030 | 55,849 |
| District Court | 1,211,385 | 1,226,004 | 1,160,082 | 65,922 |
| District Court Probation | 413,086 | 434,368 | 401,402 | 32,966 |
| Extension | 290,119 | 290,119 | 293,127 | (3,008) |
| Juvenile | 2,654,060 | 2,654,060 | 2,541,244 | 112,816 |
| Non-Departmental | 7,309,282 | 7,551,324 | 7,382,474 | 168,850 |
| Child Support Enforcement | 375,356 | 375,356 | 307,509 | 67,847 |
| Prosecuting Attorney | 1,788,431 | 1,788,431 | 1,745,584 | 42,847 |
| Sheriff | 8,676,448 | 8,902,320 | 8,898,580 | 3,740 |
| Superior Court | 937,050 | 1,037,439 | 1,000,515 | 36,924 |
| Treasurer | 591,267 | 591,267 | 588,646 | 2,621 |
| Taxes | 30,000 | 30,000 | 30,000 | - |
| Traffic Safety | 0 | 300,000 | 222,085 | 77,915 |
| Total expenditures | 32,196,514 | 33,232,874 | 32,233,572 | 999,302 |
| Excess (deficiency) of revenues over (under) expenditures | (24,586) | (554,872) | 1,838,982 | 2,393,854 |
| Fund balances - beginning | 1,600,000 | 1,600,000 | 4,386,965 | 2,786,965 |
| Fund balances - ending | 1,575,414 | 1,045,128 | 6,225,947 | 5,180,819 |

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

CHELAN COUNTY, WASHINGTON**County Roads Special Revenue Fund****Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013**

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|-------------------------|--------------|----------------|---|
| | Original | Final | Amounts | |
| Revenues | | | | |
| Taxes | 6,944,752 | 6,944,752 | 6,992,921 | 48,169 |
| Intergovernmental revenues | 5,033,574 | 5,033,574 | 5,632,188 | 598,614 |
| Charges for services | 17,000 | 17,000 | 93,113 | 76,113 |
| Miscellaneous | 500 | 500 | 47,537 | 47,037 |
| Total revenues | 11,995,826 | 11,995,826 | 12,765,759 | 769,933 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,092 | 4,092 | 25,176 | (21,084) |
| Transportation | 9,874,551 | 9,874,551 | 9,827,486 | 47,065 |
| Capital outlay | 3,336,596 | 3,336,596 | 3,197,251 | 139,345 |
| Total expenditures | 13,215,239 | 13,215,239 | 13,049,913 | 165,326 |
| Excess (deficiency) of revenues over (under) expenditures | (1,219,413) | (1,219,413) | (284,154) | 935,259 |
| Other Financing Sources (Uses) | | | | |
| Sale of capital assets | 1,000 | 1,000 | 6,031 | 5,031 |
| Intergovernmental loan proceeds | 400,000 | 400,000 | - | (400,000) |
| Transfers in | 700,000 | 700,000 | 400,000 | (300,000) |
| Transfers out | (100,000) | (100,000) | (100,000) | - |
| Total other financing sources and uses | 1,001,000 | 1,001,000 | 306,031 | (694,969) |
| Net change in fund balances | (218,413) | (218,413) | 21,877 | 240,290 |
| Fund balances - beginning | 2,450,368 | 2,450,368 | 4,896,651 | 2,446,283 |
| Fund balances - ending | 2,231,955 | 2,231,955 | 4,918,528 | 2,686,573 |

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

CHELAN COUNTY, WASHINGTON

Natural Resources Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------------|--------------|----------------|-----------------------|
| | Original | Final | Amounts | Final Budget - |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Intergovernmental revenues | 4,406,978 | 4,406,978 | 3,147,384 | (1,259,594) |
| Charges for services | 7,630 | 7,630 | 2,305 | (5,325) |
| Total revenues | 4,414,608 | 4,414,608 | 3,149,689 | (1,264,919) |
| Expenditures | | | | |
| Current: | | | | |
| Natural environment | 4,570,072 | 4,570,072 | 3,174,268 | 1,395,804 |
| Debt Service | | | | |
| Interest | 700 | 700 | 3,150 | (2,450) |
| Total expenditures | 4,570,772 | 4,570,772 | 3,177,418 | 1,393,354 |
| Excess (deficiency) of revenues over (under) expenditures | (156,164) | (156,164) | (27,729) | 128,435 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 5,000 | 5,000 | 5,000 | - |
| Total other financing sources and uses | 5,000 | 5,000 | 5,000 | - |
| Net change in fund balances | (151,164) | (151,164) | (22,729) | 128,435 |
| Fund balances - beginning | 226,659 | 226,659 | 352,044 | 125,385 |
| Fund balances - ending | 75,495 | 75,495 | 329,315 | 253,820 |

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

CHELAN COUNTY, WASHINGTON

Statement of Net Position
Proprietary Funds
December 31, 2013

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities | |
|--|--|-------------------------------------|-------------------------------|---------------------------------|----------------------------|---------------------------|
| | Solid Waste | Surface & Storm Water Utility | Regional Justice Center | Nonmajor Enterprise Funds | Totals | Internal Service Funds |
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | 99,079 | 1,632,332 | 3,092 | 793,466 | 2,527,970 | 5,206,438 |
| Deposits with fiscal agents | 19,164 | - | - | - | 19,164 | 40,000 |
| Investments | 164,464 | - | - | - | 164,464 | 248,871 |
| Accounts receivable | 53,472 | - | 774 | - | 54,245 | 29,554 |
| Due from other funds | - | - | 737 | 11,025 | 11,762 | 348,624 |
| Interfund loan receivable | - | - | - | - | - | 41,000 |
| Due from other governments | 18,919 | 31,811 | 384,765 | 13,975 | 449,470 | 86 |
| Inventory | - | - | - | - | - | 778,228 |
| Total current assets | 355,098 | 1,664,143 | 389,368 | 818,466 | 3,227,075 | 6,692,802 |
| Noncurrent assets: | | | | | | |
| Capital assets: net of accumulated depreciation) | | | | | | |
| Land & improvements | 233,911 | 45,000 | - | 19,444 | 298,355 | - |
| Buildings | 393,025 | 57,470 | 654,523 | 66,490 | 1,171,508 | 28,557 |
| Equipment | 306,505 | 35,318 | 105,184 | 166,925 | 613,933 | 4,370,963 |
| Total noncurrent assets | 933,442 | 137,788 | 759,707 | 252,860 | 2,083,797 | 4,399,520 |
| Total assets | 1,288,539 | 1,801,931 | 1,149,075 | 1,071,326 | 5,310,872 | 11,092,322 |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 76,753 | 28,432 | 44,072 | 32,743 | 182,000 | 157,615 |
| Due to other funds | 25,529 | - | 1,325 | 1,981 | 28,834 | 240 |
| Interfund loan payable | - | - | 592,000 | - | 592,000 | - |
| Due to other governments | 331 | - | 1,328 | 4,509 | 6,168 | 17,267 |
| Accrued payroll liability | 14,810 | 3,170 | 477,504 | 22,787 | 518,272 | 63,615 |
| Deposits payable | 19,164 | - | - | - | 19,164 | - |
| Compensated absences | 2,951 | - | 188,960 | 3,837 | 195,748 | 5,483 |
| Total current liabilities | 139,537 | 31,602 | 1,305,189 | 65,857 | 1,542,185 | 244,219 |
| Noncurrent liabilities: | | | | | | |
| Compensated absences | 4,969 | - | 318,206 | 6,462 | 329,637 | 31,611 |
| Claims reserve | - | - | - | - | - | 761,622 |
| Total noncurrent liabilities | 4,969 | - | 318,206 | 6,462 | 329,637 | 793,233 |
| Total liabilities | 144,506 | 31,602 | 1,623,395 | 72,319 | 1,871,822 | 1,037,452 |
| Net Position | | | | | | |
| Investment in capital assets | 933,442 | 137,788 | 759,707 | 252,860 | 2,083,797 | 4,399,520 |
| Unrestricted | 210,591 | 1,632,541 | (1,234,026) | 746,147 | 1,355,253 | 5,655,350 |
| Total net position | 1,144,033 | 1,770,329 | (474,319) | 999,007 | 3,439,050 | 10,054,870 |

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

CHELAN COUNTY, WASHINGTON

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

For the Year Ending December 31, 2013

| | Business-Type Activities Enterprise Funds | | | | Governmental Activities | |
|--|--|-------------------------------------|-------------------------------|---------------------------------|----------------------------|--------------------------|
| | Solid Waste | Surface & Storm Water Utility | Regional Justice Center | Nonmajor Enterprise Funds | Totals | Internal Service Fund |
| Operating Revenues | | | | | | |
| Intergovernmental revenues | - | - | 17,400 | - | 17,400 | - |
| Charges for services | 1,331,802 | 343,757 | 6,616,447 | 348,998 | 8,641,004 | 489,718 |
| Fines & forfeits | - | - | 11,102 | - | 11,102 | - |
| Miscellaneous | 21,181 | - | 82,766 | 425,138 | 529,085 | 10,757,173 |
| Total operating revenues | 1,352,983 | 343,757 | 6,727,715 | 774,136 | 9,198,591 | 11,246,891 |
| Operating Expenses | | | | | | |
| Salaries | 128,062 | 32,378 | 4,429,916 | 292,659 | 4,883,015 | 543,277 |
| Personnel benefits | 54,255 | 12,641 | 1,950,207 | 102,844 | 2,119,947 | 195,541 |
| Supplies | 14,499 | 30 | 352,434 | 70,318 | 437,281 | 1,484,710 |
| Other services & charges | 1,019,025 | 96,665 | 222,262 | 484,929 | 1,822,880 | 5,442,800 |
| Intergovernmental services and taxes | 36,567 | - | - | - | 36,567 | - |
| Interfund payments for services | 97,035 | 4,731 | 846,725 | 79,748 | 1,028,240 | 209,300 |
| Depreciation | 59,412 | 6,216 | 61,382 | 29,076 | 156,086 | 1,078,344 |
| Total operating expenses | 1,408,854 | 152,661 | 7,862,926 | 1,059,574 | 10,484,016 | 8,953,972 |
| Operating income (loss) | (55,871) | 191,096 | (1,135,212) | (285,438) | (1,285,425) | 2,292,919 |
| Nonoperating Revenues (Expenses) | | | | | | |
| Grants and assistance | 13,585 | 72,986 | 44,176 | 466,712 | 597,459 | - |
| Gain on sale of capital assets | - | - | - | - | - | 112,601 |
| Loss on disposal of assets | - | - | (2,806) | (1,604) | (4,410) | (31,978) |
| Total nonoperating revenues (expenses) | 13,585 | 72,986 | 41,371 | 465,108 | 593,049 | 80,622 |
| Change in net position | (42,286) | 264,082 | (1,093,841) | 179,670 | (692,376) | 2,373,541 |
| Net position - beginning, restated (note 14) | 1,186,319 | 1,506,247 | 619,522 | 819,337 | 4,131,426 | 7,681,329 |
| Net position - ending | 1,144,033 | 1,770,329 | (474,319) | 999,007 | 3,439,050 | 10,054,870 |

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

CHELAN COUNTY, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2013

| | Business-Type Activities Enterprise Funds | | | | | Governmental Activities |
|---|--|-------------------------------------|-------------------------------|---------------------------------|-------------|------------------------------|
| | Solid Waste | Surface & Storm Water Utility | Regional Justice Center | Nonmajor Enterprise Funds | Totals | Internal Service Funds |
| Cash Flows From Operating Activities: | | | | | | |
| Cash received from customers and users | 1,350,352 | 369,160 | 6,532,539 | 750,761 | 9,002,813 | 11,193,988 |
| Cash payments to suppliers | (1,126,838) | (77,284) | (1,408,208) | (633,742) | (3,246,072) | (7,470,855) |
| Cash payments to employees and retirees | (176,364) | (42,853) | (6,395,429) | (397,795) | (7,012,442) | (736,626) |
| Net cash provided (used) by operating activities | 47,151 | 249,023 | (1,271,098) | (280,776) | (1,255,700) | 2,986,508 |
| Cash Flows From Noncapital Financing Activities | | | | | | |
| Grants and assistance | 13,585 | 72,986 | 44,176 | 466,712 | 597,459 | - |
| Interfund loans paid | - | - | - | - | - | (41,000) |
| Interfund loans received | - | - | 592,000 | - | 592,000 | - |
| Net cash provided (used) by noncapital financing activities | 13,585 | 72,986 | 636,176 | 466,712 | 1,189,459 | (41,000) |
| Cash Flows From Capital Financing Activities | | | | | | |
| Proceeds from sale of capital assets | - | - | 60 | 199,648 | 199,708 | 112,601 |
| Acquisition and construction of capital assets | (269,906) | (45,000) | - | (44,524) | (359,430) | (802,562) |
| Net cash provided (used) by capital financing activities | (269,906) | (45,000) | 60 | 155,124 | (159,722) | (689,962) |
| Cash Flows From Investing Activities | | | | | | |
| Proceeds from sales and maturities of investments | 196,117 | - | - | 240,782 | 436,899 | 5,924 |
| Purchase of investments | (493) | - | - | (59,900) | (60,393) | (394) |
| Net cash provided (used) by investing activities | 195,624 | - | - | 180,882 | 376,506 | 5,530 |
| Net increase (decrease) in cash and cash equivalents | (13,546) | 277,008 | (634,862) | 521,942 | 150,542 | 2,261,076 |
| Cash and cash equivalents, January 1 | 112,625 | 1,355,324 | 637,954 | 271,524 | 2,377,427 | 2,945,362 |
| Cash and cash equivalents, December 31 | 99,079 | 1,632,332 | 3,092 | 793,466 | 2,527,970 | 5,206,438 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | (55,871) | 191,096 | (1,135,212) | (285,438) | (1,285,425) | 2,292,919 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) operating activities: | | | | | | |
| Depreciation and amortization of deferred charge | 59,412 | 6,216 | 61,382 | 29,076 | 156,086 | 1,078,344 |
| (Increase) decrease in accounts receivable | (3,613) | - | 94 | - | (3,519) | 25,665 |
| (Increase) decrease in due from other funds/gov | 982 | 25,403 | (195,269) | (23,375) | (192,259) | (78,568) |
| (Increase) decrease in inventory | - | - | - | - | - | (185,804) |
| Increase (decrease) in vouchers/contracts payable | 17,224 | 24,142 | 16,224 | (3,745) | 53,844 | (92,395) |
| Increase (decrease) in due to other funds/gov | 23,065 | - | (3,012) | 4,998 | 25,052 | (55,846) |
| Increase (decrease) in accrued payroll liabilities | 3,195 | 2,166 | (16,748) | (3,055) | (14,442) | 7,147 |
| Increase (decrease) in accrued employee leave benefits | 2,758 | - | 1,442 | 763 | 4,963 | (4,955) |
| Total adjustments | 103,022 | 57,926 | (135,886) | 4,662 | 29,724 | 693,589 |
| Net cash provided (used) by operating activities | 47,151 | 249,023 | (1,271,098) | (280,776) | (1,255,700) | 2,986,508 |

The County is not aware of any material noncash transactions.

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

CHELAN COUNTY, WASHINGTON

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2013

| | <u>Agency Funds</u> |
|-----------------------------|---------------------|
| Assets | |
| Cash | 13,300,348 |
| Investments | 83,540,580 |
| Deposits with fiscal agents | 2,313,309 |
| Taxes receivable | 3,198,277 |
| Total assets | <u>102,352,515</u> |
| Liabilities | |
| Accounts payable | 320,919 |
| Other accrued liabilities | 518,637 |
| Custodial accounts | 101,512,959 |
| Total liabilities | <u>102,352,515</u> |

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

CHELAN COUNTY, WASHINGTON

Notes to the Financial Statements
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are 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.

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

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

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

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

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

liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by Chelan County.

Chelan County reports the following major governmental funds:

- The General fund (Current Expense) is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The County Roads special revenue fund accounts for the finance, design, construction, and maintenance of Chelan County roads. The majority of its funding comes from property taxes, motor vehicle fuel taxes, and state and federal grants.
- The Natural Resources special revenue fund uses revenues from federal, state, and local grants to address environmental issues including water resources, timber, fish, wildlife, and agriculture within Chelan County.

Chelan County reports the following major proprietary funds:

- The Solid Waste fund accounts for the operations of solid waste disposal and management.
- The Surface & Storm Water Management Utility receives its revenue from an assessment on property in the unincorporated areas of Chelan County and grants. The fund is used to aid in the effort to implement the Storm Water Management Plan required by the Clean Water Act and to construct new storm water infrastructure.
- The Regional Justice Center fund accounts for the operation of the Chelan County regional correction facility. It receives its funding from providing Jail bed space to other entities as well as the Chelan County General fund.

Additionally, Chelan County reports the following fund types:

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

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

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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Solid Waste are from charges for services and state grants, the principal operating revenues of the Expo Center and Fair are from event admission fees and off-season rentals, the principal operating revenues of the Surface and Storm Water Utility are from user fees, and the principal operating revenues from the Regional Justice Center are from Chelan County, other governments, and charges for detention services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Equities

1. Deposits and Investments

It is the County's policy to invest all temporary cash surpluses. At December 31, 2013, the Treasurer was holding \$25,089,316 in residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the general fund.

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

2. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Note 4). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Court judgments receivable consist of fines and penalties assessed by the Superior and District Court Judges.

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

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund loans receivable/payable". All other outstanding balances between funds are reported as "due to/from other funds." 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 11.

4. Inventories

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

5. Capital Assets – See Note 5

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 columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than \$5,000, or in the case of infrastructure assets with an initial cost of more than \$100,000, and for all categories of assets, an estimated useful life in excess of one year. 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.

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

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

6. Compensated Absences

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

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

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

7. Other Accrued Liabilities

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

8. Deferred Inflows of Resources

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

9. Fund Balance Classification

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

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

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

10. Minimum Fund Balance Policy

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

The General fund (010), County Roads (110), Farm Worker Housing (124), and all enterprise funds (400 series funds) shall maintain a minimum year-end unrestricted fund balance of 8% of its annual expenditures. In the event the fund balance is not at that level, the county shall create a plan to restore the fund balance to 8% within two years.

The county’s long-term fund balance target is a year-end unrestricted fund balance of 15% of annual expenditures.

11. Detailed Fund Balance Constraints

| Fund Balances: | Special Revenue Funds | | | | | Total |
|------------------------|-----------------------|--------------|-------------------|--------------------------------|---------------------------------|------------|
| | General Fund | County Roads | Natural Resources | Nonmajor Special Revenue Funds | Nonmajor Capital Projects Funds | |
| Restricted for: | | | | | | |
| Transportation | - | 4,918,528 | - | 77,942 | - | 4,996,470 |
| Public safety | - | - | - | 1,750,116 | - | 1,750,116 |
| Archiving | - | - | - | 364,137 | - | 364,137 |
| Housing | - | - | - | 430,316 | - | 430,316 |
| Pest control | - | - | - | 79,281 | - | 79,281 |
| Technology | - | - | - | 242,898 | - | 242,898 |
| Weed control | - | - | - | 10,140 | - | 10,140 |
| Judicial | - | - | - | 356,741 | - | 356,741 |
| Veterans | - | - | - | 231,125 | - | 231,125 |
| Foreclosure costs | - | - | - | 126,168 | - | 126,168 |
| Tourism | - | - | - | 819,941 | - | 819,941 |
| Natural resources | - | - | 329,315 | 27,975 | - | 357,290 |
| Substance abuse | - | - | - | 129,740 | - | 129,740 |
| L&J renovation | - | - | - | - | 652,841 | 652,841 |
| Other capital project: | - | - | - | 2,357,643 | 2,041,620 | 4,399,263 |
| Committed to: | | | | | | |
| Public safety | - | - | - | 51,848 | - | 51,848 |
| Parks | - | - | - | 83,923 | - | 83,923 |
| Parent education | - | - | - | 14,351 | - | 14,351 |
| Transportation | - | - | - | 25,789 | - | 25,789 |
| Elections | - | - | - | 104,693 | - | 104,693 |
| Unassigned | 6,225,947 | - | - | - | - | 6,225,947 |
| | 6,225,947 | 4,918,528 | 329,315 | 7,284,766 | 2,694,461 | 21,453,018 |

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for general, special revenue, debt service, capital project, and proprietary funds on the modified accrual basis of accounting. However, interfund activity is also budgeted and must be removed (see note 2(A)(5) for a reconciliation to GAAP basis). These budgets are adopted at the fund and department levels. Appropriations for all budgeted funds lapse at year-end. Major capital projects are also included in the County's capital financing plan, which carries forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

2. Procedures for Adopting the Original Budget

The County's budget procedures are mandated by RCW 36.40. The steps in the budget process are as follows:

By the first Tuesday in September, the County Auditor submits a proposed budget to the County Commission. This budget is based on priorities established by the commission and estimates provided by County departments during the preceding months, and balanced with each department. The County Commission conducts public hearings on the proposed budget between November and December. The Board makes its adjustments to the proposed budget and adopts by resolution a final balanced budget no later than December 31st.

3. Amending the Budget

Any revisions that alter the total expenditures of the County, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the County Commission. Transfers of appropriations were not material in relation to original appropriations.

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

4. Excess of Expenditures Over Appropriations

The following excess of expenditures over appropriations were not anticipated in the original 2013 budget and the expenditures occurred late in 2013 after any supplemental budget appropriations could be legally made.

The Extension department of the General fund had expenditures that exceeded appropriation by \$3,008. The excess expenditures were covered with the General fund balance.

The Cashmere-Dryden Airport fund expenditures exceeded appropriations by \$352 due to larger maintenance services than anticipated. The excess expenditures were covered with the Cashmere-Dryden Airport fund balance.

The Mental Health fund expenditures exceeded appropriations by \$1,550. This fund operates as a pass-through fund, so the excess expenditures were covered with corresponding revenues received.

The CASA fund expenditures exceeded appropriations by \$5,392. This fund operates as a pass-through fund, so the excess expenditures were covered with corresponding revenues received.

The Solid Waste Planning fund expenses exceeded appropriations by \$171,143 as budgeted on the modified accrual basis of accounting. The excess expenses were covered with the Solid Waste Planning fund balance.

5. Reconciliation of Budgetary and Actual Statements

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

| General Fund | Revenues | Expenditures |
|---------------------|-----------------|---------------------|
| Budgetary basis | 34,072,554 | 32,233,572 |
| Interfund activity | (2,016,549) | (2,016,549) |
| Transfers | (100,000) | (35,000) |
| GAAP basis | 31,956,005 | 30,182,023 |

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits

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

B. Investments

As of December 31, 2013 the County had the following investments:

| Investments | Weighted average maturity of Chelan County's own investments | Fair value of Chelan County's own investments | Fair value of investments held by Chelan County as an agent for other local governments | Total |
|----------------------------|--|---|---|------------|
| State investment pool | less than 90 days | 6,082,149 | 81,063,803 | 87,145,952 |
| U.S. government securities | N/A | - | 699,087 | 699,087 |
| Certificate of deposit | N/A | - | 1,717,581 | 1,717,581 |
| Municipal money market | N/A | - | 60,109 | 60,109 |
| Total | | 6,082,149 | 83,540,580 | 89,622,729 |

| Surplus cash pooled and invested, listed as cash and cash equivalents in the financial statements See Note 1(D) | | |
|--|-------------------|------------|
| State investment pool | less than 90 days | 11,726,364 |
| Municipal money market | less than 90 days | 1,001,120 |
| Certificate of deposit | 5 months | 250,000 |
| U.S. government securities | 34 months | 12,111,832 |
| | | 25,089,316 |

State investment pool. The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

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

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The state investment pool does not have a credit rating. Chelan County holds municipal bonds with Moody's ratings of A2 and A3. The County also holds federal securities all holding a Moody's rating of Aaa and S&P rating of AA+. Chelan County does not have a policy related to credit risk.

NOTE 4 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

| 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 installment payments is due |
| May 31 | Assessed value of property established for next year's levy at 100 percent of market value |
| October 31 | Second installment is due |

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

The County may levy up to \$1.80 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

The County's regular levy for 2013 was \$1.288 per \$1,000 on an assessed valuation of \$8,646,158,916 for a total regular levy of \$11,137,201.

The County is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The County's road levy for 2013 was \$1.356 per \$1,000 on an assessed valuation of \$5,090,238,795 for a total road levy of \$6,900,725.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2013 was as follows:

| Governmental Activities | Beginning Balance 01/01/2013 | Increases | Decreases | Ending Balance 12/31/2013 |
|--|---|------------------|------------------|--|
| Capital assets, not being depreciated: | | | | |
| Land | 3,356,019 | - | - | 3,356,019 |
| Construction in progress | 2,088,326 | 417,846 | 2,088,326 | 417,846 |
| Total capital assets, not being depreciated | 5,444,345 | 417,846 | 2,088,326 | 3,773,865 |
| Capital assets, being depreciated: | | | | |
| Other improvements | 2,141,035 | - | - | 2,141,035 |
| Buildings and structures | 50,482,653 | 625,488 | - | 51,108,141 |
| Machinery and equipment | 20,658,268 | 1,080,416 | 481,672 | 21,257,012 |
| Infrastructure | 71,257,529 | 4,698,434 | - | 75,955,963 |
| Total capital assets being depreciated | 144,539,484 | 6,404,338 | 481,672 | 150,462,151 |
| Less accumulated depreciation for: | | | | |
| Other improvements | 1,189,866 | 163,554 | - | 1,353,420 |
| Buildings and structures | 23,256,455 | 1,034,965 | - | 24,291,421 |
| Machinery and equipment | 15,297,079 | 1,193,840 | 436,912 | 16,054,006 |
| Infrastructure | 32,865,812 | 2,710,675 | - | 35,576,487 |
| Total accumulated depreciation | 72,609,212 | 5,103,034 | 436,912 | 77,275,334 |
| Total capital assets, being depreciated, net | 71,930,273 | 1,301,305 | 44,760 | 73,186,817 |
| Governmental activities capital assets, net | 77,374,617 | 1,719,151 | 2,133,085 | 76,960,683 |

Depreciation expense was charged to functions as follows:

| | |
|--|-----------|
| General government | 650,018 |
| Judicial | 9,046 |
| Public safety | 497,628 |
| Physical environment | 12,216 |
| Transportation | 3,650,207 |
| Economic environment | 31,310 |
| Culture and recreation | 252,609 |
| Total depreciation - governmental activities | 5,103,034 |

| Business-Type Activities | Beginning Balance 01/01/2013 | Increases | Decreases | Ending Balance 12/31/2013 |
|---|---|------------------|------------------|--|
| Capital assets, not being depreciated: | | | | |
| Land | 209,348 | 270,815 | 201,252 | 278,911 |
| Total capital assets, not being depreciated | 209,348 | 270,815 | 201,252 | 278,911 |
| Capital assets, being depreciated: | | | | |
| Other improvements | - | 20,649 | - | 20,649 |
| Buildings and structures | 2,521,444 | 23,875 | - | 2,545,319 |
| Machinery and equipment | 1,844,675 | 44,092 | 14,006 | 1,874,761 |
| Infrastructure | 157,378 | - | - | 157,378 |
| Total capital assets being depreciated | 4,523,497 | 88,615 | 14,006 | 4,598,106 |
| Less accumulated depreciation for: | | | | |
| Other improvements | - | 1,205 | - | 1,205 |
| Buildings and structures | 1,325,230 | 48,581 | - | 1,373,811 |
| Machinery and equipment | 1,165,668 | 106,300 | 11,141 | 1,260,827 |
| Infrastructure | 157,378 | - | - | 157,378 |
| Total accumulated depreciation | 2,648,275 | 156,086 | 11,141 | 2,793,220 |
| Total capital assets, being depreciated, net | 1,875,222 | (67,470) | 2,866 | 1,804,886 |
| Business-type activities capital assets, net | <u>2,084,570</u> | <u>203,344</u> | <u>204,117</u> | <u>2,083,797</u> |
| Depreciation expense was charged to functions as follows: | | | | |
| Public safety | | 61,382 | | |
| Utilities | | 88,219 | | |
| Culture and recreation | | 6,484 | | |
| Total depreciation - business-type activities | | <u>156,086</u> | | |

NOTE 6 - PENSION PLANS

Substantially all County full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The 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 from the Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

A. Public Employees' Retirement System (PERS) Plans I, 2 and 3

1. Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement Systems); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. 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 either, February 28, 2002 for state and higher education employees, or 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 March 1, 2002 for state and higher education employees, or 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 Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS 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, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for 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. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. 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 3 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 was 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 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 while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS 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. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 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 one of two provisions (1) with a benefit that is reduced by 3 percent for each year before age 65 or, (2) 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. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan. For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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 by 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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 the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

| | |
|--|----------------|
| Retirees and beneficiaries receiving benefits | 82,242 |
| Terminated plan members entitled to but not yet receiving benefits | 30,515 |
| Active plan members vested | 106,317 |
| Active plan members nonvested | 44,273 |
| Total | 263,347 |

2. Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 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 6 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. 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.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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, 2013 are as follows:

Members not participating in JBM:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|-----------|-------------|-------------|-------------|
| Employer* | 9.21% | 9.21% | 9.21% |
| Employee | 6.00% | 4.92% | *** |

* The employer rates include an employer administrative expense fee of 0.16%.

** Plan 3 defined benefit portion only.

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

Members participating in JBM:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|-----------|-------------|-------------|-------------|
| Employer* | 9.21% | 9.21% | 9.21% |
| Employee | 12.26% | 12.30% | 7.50%*** |

* The employer rates include an employer administrative expense fee of 0.16%.

** Plan 3 defined benefit portion only.

*** Minimum rate.

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

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|------|-------------|-------------|-------------|
| 2013 | 64,287 | 1,064,582 | 255,361 |
| 2012 | 64,693 | 936,695 | 221,657 |
| 2011 | 70,719 | 800,020 | 184,509 |

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

1. Plan Description

LEOFF was established in 1970 by the Legislature. Membership 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 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.

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.

LEOFF 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. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior

to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. 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 disability benefit 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 catastrophically 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, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit 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.

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by 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 eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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, 2012:

| | |
|--|---------------|
| Retirees and beneficiaries receiving benefits | 10,189 |
| Terminated plan members entitled to but not yet receiving benefits | 689 |
| Active plan members vested | 14,273 |
| Active plan members nonvested | 2,633 |
| Total | 27,784 |

2. Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. 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, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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. For DRS' fiscal year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2013, were as follows:

| | LEOFF Plan 2 |
|-----------|--------------|
| Employer* | 5.23% |
| Employee | 8.41% |
| State | 3.36% |

* The employer rates include an employer administrative expense fee of 0.18%.

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

| | LEOFF Plan 2 |
|------|--------------|
| 2013 | 230,723 |
| 2012 | 210,700 |
| 2011 | 198,894 |

C. Public Safety Employees' Retirement System (PSERS) Plan 2

1. Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

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

A "covered employer" is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or

- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. 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.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012:

| | |
|--|--------------|
| Retirees and beneficiaries receiving benefits | 27 |
| Terminated plan members entitled to but not yet receiving benefits | 60 |
| Active plan members vested | 2,083 |
| Active plan members nonvested | 2,167 |
| Total | 4,337 |

2. Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2013, were as follows:

| | PSERS Plan 2 |
|-----------|--------------|
| Employer* | 10.54% |
| Employee | 6.36% |

* The employer rates include an employer administrative expense fee of 0.16%.

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

| | PSERS Plan 2 |
|------|--------------|
| 2013 | 162,250 |
| 2012 | 144,596 |
| 2011 | 128,106 |

NOTE 7 - RISK MANAGEMENT

A. Liability Insurance - Risk Pool

The County maintains insurance against most normal hazards such as torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Claim settlements and loss expenses are accrued in the Insurance Admin & Purchasing Fund for the estimated settlement value of both reported and unreported claims (up to the aggregate stop-loss). This fund is responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements and for purchasing certain insurance policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures. Settlements have not exceeded insurance coverage during the past three years.

Chelan County was one of the twenty-seven county members of the Washington Counties Risk Pool ("Pool") during 2013. The Pool was formed August 18, 1988 when several Washington counties signed an Interlocal (Cooperative) Agreement. It was established to provide its member counties with "joint" programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling and risk management. The Pool operates under Washington's "pooling" laws, more specifically Chapters 48.62 RCW and 82.60 WAC and implemented via Chapter 39.34 RCW. It is overseen by the State Risk Manager and is subject to fiscal audits performed annually by the State Auditor.

New members may be required to pay the Pool modest admittance fees to cover the members' share of organizational expenses and the costs to analyze their loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The Pool is governed by a board of directors consisting of one director (and at least one alternate director) designated by each member county. The Pool's board of directors, made up of both elected and appointed county officials, meets three times each year with the summer meeting being the Annual Meeting. The board of directors is responsible for determining the 3rd-party liability coverage to be offered (approving the insuring agreement or coverage document), the reinsurance program to acquire, the excess insurances to be jointly purchased or offered for optional purchase, and approving the Pool's annual operating budgets and work programs, and the member deposit assessment formulas.

Pool member counties presently acquire \$20 million (with another \$5 million optional) of joint liability coverage on a "per occurrence" basis for 3rd-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, and includes public officials' errors and omissions. Annually, members select a per occurrence deductible amount of \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. The initial \$10 million of

coverage, less the retention (the greater of the member's deductible or \$100,000), is fully reinsured by superior-rated commercial carriers. The remaining insurance, up to \$15 million, is acquired from superior-rated commercial carriers as "following form" excess insurance. There are no aggregate limits to the payments made for any one member county or all member counties combined.

As an individual county option, the Pool provides property insurance, with composite limits of \$500 million for normal (all other perils) exposures and \$200 million for catastrophe (flood / earthquake) exposures and participant deductibles between \$5,000 and \$50,000. Coverage is for structures, vehicles, mobile equipment, EDP equipment, and equipment breakdown, etc. Participants are responsible for their claims' deductibles. Commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy.

The Washington Counties Risk Pool is a cooperative program, so there is joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Pool member counties are required to timely submit their 3rd party liability claims which are handled by the Pool's staff. This includes establishing reserves for both reported and unreported covered events, as well as estimates of the undiscounted future cash payments for losses and related claims adjustment expenses. Deficits resulting from any Pool fiscal year are financed by proportional reassessments against that year's membership. The Pool's reassessments receivable balance as of December 31, 2013 was zero, as no contingent liabilities were known to exist at that time.

B. Self-Insurance

1. Unemployment Compensation

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

| | |
|--------------------------------|------------------|
| Claims liability at 12/31/2012 | \$ 0 |
| Claims incurred | \$ 45,079 |
| Claims paid | <u>\$ 45,079</u> |
| Claims liability at 12/31/2013 | \$ 0 |

2. Workers Compensation

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

| | |
|--------------------------------|-------------------|
| Claims liability at 12/31/2012 | \$ 814,920 |
| Claims incurred | \$ 277,866 |
| Claims paid | <u>\$ 331,164</u> |
| Claims liability at 12/31/2013 | \$ 761,622 |

3. Medical Insurance

At the beginning of 2013, Chelan County started self-insuring for medical insurance. Premera provides the administration of the medical insurance claims for the County. The County has a \$100,000 stop-loss policy to mitigate risk of large individual claims. It also maintained an annual aggregate claims limit of \$4,458,677. Per the Washington Administrative Code, the County must maintain a reserve equal to 16 weeks of program expenses. Based on 2013's average weekly medical plan costs, this amount equals \$1,134,124. As of 12/31/2013, the Health Insurance fund was adequately funded with an ending net position of \$1,729,221.

| | |
|--------------------------------|---------------------|
| Claims liability at 12/31/2012 | \$ 0 |
| Claims incurred | \$ 2,864,533 |
| Claims paid | <u>\$ 2,864,533</u> |
| Claims liability at 12/31/2013 | \$ 0 |

NOTE 8 - LONG-TERM DEBT

A. Long-Term Debt

The County issues general obligation bonds to finance the purchase and construction of buildings and other capital assets. Bonded indebtedness has also been entered into to advance refund general obligation bonds. General obligation bonds have been issued for general government activities and are being repaid from the Criminal Justice Sales Tax, Distressed Counties Tax, and REET funds. These bonds are set to mature between 2013 and 2036.

General obligation bonds currently outstanding are as follows:

| Purpose | Interest Rate | Amount Outstanding |
|---|----------------------|---------------------------|
| 2002 LTGO E911 bonds for acquisition and construction of a multi-jurisdictional public safety answering point for use by the county and other governmental agencies, original issue \$2,560,000 | Not to exceed 5.0% | 1,440,000 |
| 2003 LTGO 2003A bonds to make improvements to certain county facilities, original issue \$3,445,000 | 2.0% - 4.5% | 2,015,000 |
| 2007 LTGO and refunding bonds to advance refund the county's 1998 and 2000 G.O. bonds and \$1,200,000 for technology projects, original issue \$5,735,000 | 4.0% - 5.0% | 3,160,000 |
| 2009 LTGO bonds for the law and justice facility renovation, original issue \$8,150,000 | 2.0% - 5.0% | 7,850,000 |
| Total | | 14,465,000 |

The annual debt service requirements to maturity are as follows:

| Year Ending December 31 | Governmental Activities | |
|------------------------------------|--------------------------------|------------------|
| | Principal | Interest |
| 2014 | 780,000 | 650,890 |
| 2015 | 805,000 | 621,308 |
| 2016 | 835,000 | 585,859 |
| 2017 | 870,000 | 548,852 |
| 2018 | 920,000 | 509,731 |
| 2019-2023 | 3,515,000 | 2,035,765 |
| 2024-2028 | 2,115,000 | 1,423,375 |
| 2029-2033 | 2,690,000 | 850,913 |
| 2034-2036 | 1,935,000 | 184,710 |
| Total | 14,465,000 | 7,411,403 |

B. Refunded Debt

In 2003 Chelan County issued the 2003 LTGO 2003A bonds to defease the 1997 LTGO bonds. In 2007 Chelan County issued the 2007 LTGO refunding bonds to defease the 1998 and 2000 G.O bonds. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the county's financial statements.

NOTE 9 – CHANGES IN LONG TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

| | Beginning Balance 01/01/13 | Additions | Reductions | Ending Balance 12/31/13 | Due Within One Year |
|--|---|------------------|-------------------|--|--------------------------------|
| Governmental Activities: | | | | | |
| Bonds payable | 15,220,000 | - | 755,000 | 14,465,000 | 780,000 |
| OPEB benefit for LEOFF | 1,257,202 | 645,415 | 311,650 | 1,590,967 | - |
| Working capital loan | 110,394 | - | - | 110,394 | - |
| Claims reserve | 814,920 | 277,866 | 331,164 | 761,622 | - |
| Compensated absences | 1,635,364 | 335,179 | 263,553 | 1,706,991 | 252,295 |
| Governmental activity long-term liabilities: | 19,037,880 | 1,258,460 | 1,661,367 | 18,634,974 | 1,032,295 |
| Business-Type Activities: | | | | | |
| Compensated absences | 520,422 | 191,571 | 186,608 | 525,385 | 195,748 |
| Business-type activity long-term liabilities: | 520,422 | 191,571 | 186,608 | 525,385 | 195,748 |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals for governmental activities. At year end, \$37,094 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general and county roads funds. The OPEB benefit for LEOFF is liquidated by the general fund. The majority of the business-type activities compensated absences are liquidated by the regional justice center fund.

NOTE 10 – CONTINGENCIES AND LITIGATIONS

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

During 2013, one of Chelan County's junior taxing districts incurred a security breach that resulted in fraudulent payroll ACH transactions being processed through the County's banking platform. The unauthorized transactions resulted in a net unrecovered draw of County funds in the amount of \$599,351. The unrecovered draw is currently reflected in the County General fund. An offsetting Claim Receivable has been booked because, although there are no guarantees, the county expects to recover substantially all of the loss pending litigation.

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

During 2008 and 2009, Chelan County received a loan of \$773,203 from the Department of Community, Trade and Economic Development (CTED) for the express purpose of the construction of restroom, shower, and laundry facilities for the Monitor Park temporary farm worker camp. Repayment of the non-interest bearing loan principal has been deferred until the change of use, noncompliance with agreement, or until it is fully forgiven on December 31, 2017, whichever occurs first. During 2013, the loan agreement was modified to forgive the loan at a rate of 1/15th per year over the first 5 year period, and a rate of 2/15th per year over the second 5 year period. Upon completion of the deferral period, the entire loan will be forgiven. Since the probability of repayment is remote, loan proceeds were recorded as a capital grant in 2008 and 2009. The potential liability for the unamortized balance on December 31, 2013 was \$412,375.

NOTE 11 - INTERFUND BALANCES AND TRANSFERS

A. Due To/From Other Funds

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

Due from other funds and due to other funds as of December 31, 2013 are as follows:

| Due To | Due From | | | | | | | | Total |
|-------------------------|--------------|--------------|-------------------|-----------------------|-------------|-------------------------|---------------------|------------------|---------|
| | General Fund | County Roads | Natural Resources | Nonmajor Governmental | Solid Waste | Regional Justice Center | Nonmajor Enterprise | Internal Service | |
| General Fund | - | 57,269 | - | 27,243 | - | 1,162 | 1,981 | - | 87,655 |
| Natural Resources | - | - | - | 3,018 | - | - | - | - | 3,018 |
| Regional Justice Center | 373 | 124 | - | - | - | - | - | 240 | 737 |
| Nonmajor Enterprise | - | - | - | - | 11,025 | - | - | - | 11,025 |
| Internal service | 4,681 | 328,347 | 930 | - | 14,504 | 162 | - | - | 348,624 |
| Total | 5,055 | 385,739 | 930 | 30,261 | 25,529 | 1,325 | 1,981 | 240 | 451,058 |

B. Interfund Loans Payable/Receivable

Interfund loans have arisen from certain funds requiring cash flow to manage their operations. The following table displays interfund loan activity during 2013:

| Borrowing Fund | Lending Fund | Interfund Loans and Advances Payable | | | |
|-------------------------|----------------------------|--------------------------------------|-----------|------------|------------|
| | | 1/1/2013 | New Loans | Repayments | 12/31/2013 |
| Noxious Weed | REET I | 2,000 | 31,000 | 33,000 | - |
| Natural Resources | REET I | 94,000 | 906,000 | 200,000 | 800,000 |
| Natural Resources | Equipment Rental & Rev | - | 41,000 | - | 41,000 |
| Regional Justice Center | Distressed Counties Tax | - | 92,000 | - | 92,000 |
| Regional Justice Center | Criminal Justice Sales Tax | - | 500,000 | - | 500,000 |
| Total | | 96,000 | 1,570,000 | 233,000 | 1,433,000 |

C. Interfund Transfers

During 2013, interfund transfers were used to move General funds property tax revenues to support Law Library and Natural Resources operations. REET funds were transferred to County Roads so that an equal portion of the road property tax levy could be shifted to the General fund. County Roads transferred funds to the General fund to support county road traffic safety initiatives by the Sheriff.

The following table displays interfund transfers during 2013:

| Transfers In | Transfers Out | | | |
|-----------------------|---------------|--------------|-----------------------|---------|
| | General | County Roads | Nonmajor Governmental | Total |
| General | - | 100,000 | - | 100,000 |
| County Roads | - | - | 400,000 | 400,000 |
| Natural Resources | 5,000 | - | - | 5,000 |
| Nonmajor governmental | 30,000 | - | - | 30,000 |
| Total transfers | 35,000 | 100,000 | 400,000 | 535,000 |

NOTE 12 – JOINT VENTURES

A. Rivercom

Chelan County participates in Rivercom, a joint venture, which was created with an interlocal agreement to build and operate a regional 911 communications center. The other participants in this venture include: Douglas County, the City of East Wenatchee and the City of Wenatchee. Rivercom charges the participants a fee based on the volume of calls generated by each participant. The fees are designed to cover Rivercom's costs. In addition to the fees, the participants provide their 911 tax revenues to the organization. Although Chelan County does have an equity interest in Rivercom, the agreement does not explicitly specify a method for measuring each partner's interest. During 2013, Rivercom received total revenues of \$5,986,880 and incurred total expenses of \$4,641,637 resulting in an increase in fund balance of \$1,345,243, and ending fund balance of \$4,408,686. A copy of Rivercom's financial statements can be obtained from Rivercom at: PO Box 3344, Wenatchee, WA 98807 or (509) 662-4650.

NOTE 13 – RELATED ORGANIZATIONS

A. Mosquito Districts

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

NOTE 14 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$838,073 was made to the beginning net position balance of the governmental activities on the government-wide Statement of Activities due to a court receivables that had not been recognized in prior financial statements.

An estimated claims liability should have been reported in the industrial insurance claims fund. A prior period adjustment of \$814,920 was made to the beginning net position balance of the governmental activities on the government-wide Statement of Activities and in the proprietary combining statements.

| | <u>Governmental activities</u> | <u>Internal Service Funds</u> |
|---|--------------------------------|-------------------------------|
| Net position at December 31, 2012, as previously reported | 82,800,700 | 8,496,249 |
| Prior period adjustment - court receivable | 838,073 | - |
| Prior period adjustment - claims reserve | (814,920) | (814,920) |
| Net position at December 31, 2012, as restated | <u>82,823,853</u> | <u>7,681,329</u> |

NOTE 15 – SUBSEQUENT EVENT

After December 31, 2013 the Regional Justice Center fund required an additional \$372,000 in interfund loans from the Distressed Counties Tax fund to maintain a positive cash balance. This brought their total interfund loan balance up to \$964,000 at the end of May 2014.

NOTE 16 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

A. Plan Description

In addition to the pension benefits described in Note 6, the County provides single-employer defined benefit health insurance for retired public safety employees who are vested in LEOFF 1. All the County's LEOFF 1 employees retired and became eligible for these benefits when they reached normal retirement age while working for the County. There are 22 participants eligible to receive these benefits. The benefits are 100 percent provided by the County in order to meet state statutory requirements under the LEOFF 1 system whereby the County pays for their medical and dental premiums and out-of-pocket medical costs for life.

B. Funding Policy

The County has the authority to establish and amend OPEB contribution policy. The County funds its OPEB obligation on a pay-as-you-go basis, i.e., the cost of retiree medical benefits is recognized as an expense as premiums and medical expenses are paid. For the fiscal year ending December 31, 2013, the County's combined plan contributions were \$311,650.

C. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on an annual required contribution of the employer, an amount actuarially determined in accordance within the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB costs for the fiscal year ending December 31, 2013, the amount actually contributed to the plans, and changes in the County's net OPEB obligation:

| | |
|---|-----------|
| Annual required contribution | 708,201 |
| Interest on net OPEB contribution | 50,288 |
| Adjustments to the annual required contribution | (113,074) |
| Annual OPEB cost/expense | 645,415 |
| Contributions made | (311,650) |
| Increase in the net OPEB obligation | 333,765 |
| Net OPEB obligation, beginning of year | 1,257,202 |
| Net OPEB obligation, end of year | 1,590,967 |

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Costs | Actual Plan Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|-------------------|---------------------------|--|---------------------|
| 12/31/2013 | \$645,415 | \$311,650 | 48% | \$1,590,967 |
| 12/31/2012 | \$529,892 | \$306,057 | 58% | \$1,257,202 |
| 12/31/2011 | \$557,815 | \$320,402 | 57% | \$1,085,598 |

D. Funding Status and Funding Progress

The funded status of the plan as of December 31, 2013, was as follows:

| | |
|---|-----------|
| Actuarial accrued liability (AAL) | 7,874,055 |
| Actuarial value of plan assets | 0 |
| Unfunded actuarial accrued liability | 7,874,055 |
| Funded ratio (actuarial value of plan assets / AAL) | 0% |

E. Methods and Assumptions

Due to the size of the plan (less than 100 participants) the County elected to use the alternative measurement method permitted under GASB Statement No. 45. Actuarial valuations involve estimates of the value of benefits and assumptions about the probability of events far into the future. Calculations are based on the current level of benefits provided by the employer. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and as new estimates are made about the future. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. Medical

inflation rates were expected to start at 7% and generally decreasing to an ultimate rate of 4.6% in 2089. A return on investment earnings rate of 4.0% was assumed. General inflation was projected at 3.0%. General salary increases (including inflation) were projected at 3.75%. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

CHELAN COUNTY, WASHINGTON

Required Supplementary Information

**LEOFF 1 Retiree Health Insurance Plan
Schedule of Funding Progress**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 12/31/2013 | 0 | 7,874,055 | 7,874,055 | 0% | 0 | N/A |
| 12/31/2012 | 0 | 5,690,805 | 5,690,805 | 0% | 0 | N/A |
| 12/31/2011 | 0 | 6,428,952 | 6,428,952 | 0% | 0 | N/A |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

| Federal Agency Name/Pass-Through Agency Name | Federal Program Name | CFDA Number | Other Award Number | Expenditures | | | Footnote Ref |
|---|--|-------------|----------------------|--------------------------|--------------------|----------------|--------------|
| | | | | From Pass-Through Awards | From Direct Awards | Total Amount | |
| Office of National Drug Control Policy/WA State Patrol | National Marijuana Initiative Project | 07.000 | C130638FED | 29,810 | | 29,810 | |
| Agricultural Marketing Service, Department Of Agriculture/WA State Dept of Agriculture | Specialty Crop Block Grant Program - Farm Bill | 10.170 | K524 | 51,890 | | 51,890 | |
| National Institute Of Food And Agriculture, Department Of Agriculture/WA State University | Cooperative Extension Service | 10.500 | G003040 | 110,275 | | 110,275 | |
| U.S. Department of Agriculture/Office of the Superintendent of Public Instruction | School Breakfast Program | 10.553 | 04-246-9777 | 5,321 | | 5,321 | |
| U.S. Department of Agriculture/Office of the Superintendent of Public Instruction | National School Lunch Program (After School Snack) | 10.555 | 04-246-9777 | 1,974 | | 1,974 | |
| U.S. Department of Agriculture/Office of the Superintendent of Public Instruction | National School Lunch Program | 10.555 | 04-246-9777 | 8,968 | | 8,968 | |
| Total CFDA 10.555 | | | | 10,942 | 0 | 10,942 | |
| U.S. Department of Agriculture | Cooperative Forestry Assistance | 10.664 | 09-LE-11061700-023 | | 103,921 | 103,921 | |
| U.S. Department of Agriculture | Schools and Roads/Grants to States - Federal Forest Yield | 10.665 | N/A | | 179 | 179 | 3 |
| U.S. Department of Agriculture | Community Forest Program-Cooperative forestry Asist Act-USDA Forest Svc. | 10.689 | 2013-DG-11062765-703 | | 22,440 | 22,440 | |
| U.S. Department of Agriculture/Natural Resources Conservation Service | Emergency Watershed Protection Program | 10.923 | 68-0546-13-002 | 364,105 | | 364,105 | |
| U.S. Department of Agriculture/Natural Resources Conservation Service | Emergency Watershed Protection Program | 10.923 | 68-0546-13-006 | 168,750 | | 168,750 | |
| Total CFDA 10.923 | | | | 532,855 | 0 | 532,855 | |

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

| Federal Agency Name/Pass-Through Agency Name | Federal Program Name | CFDA Number | Other Award Number | Expenditures | | | Footnote Ref |
|---|---|-------------|----------------------------|--------------------------|--------------------|--------------|--------------|
| | | | | From Pass-Through Awards | From Direct Awards | Total Amount | |
| U.S. Department of Agriculture/ | USFS Title II Lake Chelan Common Crupina Control | 10.PA022 | 11-PA-11061700-022 | | 21,896 | 21,896 | 6 |
| U.S. Department of Commerce/WA State Recreation and Conservation Office | Pacific State Marine Fish Comm/Entiat IMW-Dillwater | 11.436 | 12-1757M | 5,999 | | 5,999 | |
| U.S. Department of Commerce/WA State Recreation and Conservation Office | Pacific Coast Salmon Recovery, Pacific Salmon Treaty Program | 11.438 | 10-1843R | 15,156 | | 15,156 | |
| U.S. Department of Commerce/WA State Recreation and Conservation Office | Salmon Restoration Award NA12NMF4380230/Mill Cr. Culvert Replace. | 11.438 | 12-1620R | 13,858 | | 13,858 | |
| U.S. Department of Commerce/WA State Recreation and Conservation Office | Salmon Restoration Award NA12NMF4380230/Low Nason Cr RM 3.7-4.7 | 11.438 | 12-1438R | 54,584 | | 54,584 | |
| U.S. Department of Commerce/WA State Recreation and Conservation Office | Salmon Restoration Award NA12NMF4380230/Peshastin RM 8.8 | 11.438 | 12-1447P | 5,025 | | 5,025 | |
| National Oceanic And Atmospheric Administration (noaa), Department Of Commerce/WA State Recreation and Conservation | Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program | 11.438 | 180016 | 32,962 | | 32,962 | |
| Total CFDA 11.438 | | | | 121,584 | 0 | 121,584 | |
| U.S. Department of Commerce/EdLab Group | ARRA - Broadband Technology Opportunities Program | 11.557 | 53-42-B10585 | 15,383 | | 15,383 | 5 |
| U.S. Dept of Housing & Urban Development/WA State Department of Commerce | Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | 12-65400-014 & 1365400-003 | 68,102 | | 68,102 | |
| U.S. Department of the Interior/ | Fish and Wildlife Coordination Act | 15.517 | RO9AC10415 | | 393,572 | 393,572 | |
| U.S. Department of Justice/WA Dept of Social and Health Services | Juvenile Accountability Block Grant (JABG) | 16.523 | 1363-83989 | 6,300 | | 6,300 | |
| U.S. Department of Justice/WA State Department of Commerce | Violence Against Women Formula Grants - Stop Grant | 16.588 | F12-31103-043 | 12,000 | | 12,000 | |
| U.S. Department of Justice/WA State Department of Commerce | Violence Against Women Formula Grants - Stop Grant | 16.588 | F12-31103-044 | 17,932 | | 17,932 | |
| Total CFDA 16.588 | | | | 29,932 | 0 | 29,932 | |

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

| Federal Agency Name/Pass-Through Agency Name | Federal Program Name | CFDA Number | Other Award Number | Expenditures | | | Footnote Ref |
|--|--|-------------|--------------------------|--------------------------|--------------------|----------------|--------------|
| | | | | From Pass-Through Awards | From Direct Awards | Total Amount | |
| U.S. Department of Justice/ | State Criminal Alien Assistance Program | 16.606 | 2013-AP-BX-0370 | | 44,176 | 44,176 | 4 |
| U.S. Department of Justice | Bulletproof Vest Partnership Program | 16.607 | 2012BUBX12064235 | | 9,157 | 9,157 | |
| U.S. Department of Justice/WA State Department of Commerce | Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | M13-31440-004 | 67,380 | | 67,380 | |
| U.S. Department of Justice/WA State Department of Commerce | Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | M12-34021-004 | 116,583 | | 116,583 | |
| | | | Total CFDA 16.738 | 183,963 | 0 | 183,963 | |
| U.S. Department of Justice | US Marshals Service Support | 16.999 | M-13-D85-O-000166 | | 2,960 | 2,960 | |
| U.S. Department of Justice/WA State Patrol | Domestic Cannabis Eradication/Suppression Program | 16.999 | C130889FED | 17,599 | | 17,599 | |
| | | | Total CFDA 16.999 | 17,599 | 2,960 | 20,559 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 678 | 20.205 | BHS-A042(004) LA-7941 | | 44,778 | 44,778 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 670 | 20.205 | BROS-2004(080) LA-7780 | | 95,585 | 95,585 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 678 | 20.205 | BHOS-2004(081) LA-7946 | | 8,293 | 8,293 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 677 | 20.205 | BROS-2004(082) LA-7924 | | 47,574 | 47,574 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 677 | 20.205 | BROS-2004(083) LA-7920 | | 48,455 | 48,455 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 677 | 20.205 | BHOS-04WF(001) LA-7919 | | 45,451 | 45,451 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 680 | 20.205 | HSIP-H041(001) LA-8029 | | 374,117 | 374,117 | |
| U.S. Department of Transportation | Highway Planning and Construction - CRP 638 | 20.205 | HSIP-000S(348) LA-7912 | | 75,065 | 75,065 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 673 | 20.205 | STPR-P045(005) LA-7824 | | 560,230 | 560,230 | |

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

| Federal Agency Name/Pass-Through Agency Name | Federal Program Name | CFDA Number | Other Award Number | Expenditures | | | Footnote Ref |
|---|--|-------------|----------------------------|--------------------------|--------------------|------------------|--------------|
| | | | | From Pass-Through Awards | From Direct Awards | Total Amount | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 658 | 20.205 | HSIP-0005(283), LA-7474 | | 6,560 | 6,560 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 649 | 20.205 | STPR-A042(003), LA-7233 | | 10,362 | 10,362 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 597 | 20.205 | BROS-2004(077), LA-5859 | | 671,964 | 671,964 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA CRP 612 | 20.205 | FH-HSIP-A044(001), LA-7330 | | 17,844 | 17,844 | |
| U.S. Department of Transportation | Highway Planning and Construction - FHWA HSIP CRP 642 | 20.205 | STPR-04WA(001), LA-7267 | | 9,726 | 9,726 | |
| Total CFDA 20.205 | | | | 0 | 2,016,003 | 2,016,003 | |
| U.S. Department of Transportation/WA Traffic Safety Commission | Alcohol Impaired Driving Countermeasures Incentive Grants I | 20.601 | MOU | 5,383 | | 5,383 | |
| U.S. Department of Transportation/WA Traffic Safety Commission | Occupant Protection Incentive Grants | 20.602 | MOU | 1,876 | | 1,876 | |
| U.S. Department of Transportation/WA Association of Sheriffs & Police Chiefs | Child Safety and Child Booster Seats Incentive Grants | 20.613 | MOU | 440 | | 440 | |
| Pipeline And Hazardous Materials Safety Administration, Department Of Transportation/WA Military Department | Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 10-276 | 7,304 | | 7,304 | |
| Environmental Protection Agency/WA State Department of Ecology | Nonpoint Source Implementation Grants | 66.46 | G1300019 | 43,748 | | 43,748 | |
| U.S. Department of Energy/ | BPA - Division of Fish & Wildlife | 81.180016 | 1800016 | | 19,428 | 19,428 | 6 |
| U.S. Department of Energy/ | BPA - Division of Fish & Wildlife | 81.58733 | 58733 | | 29,827 | 29,827 | 6 |
| U.S. Department of Energy/ | BPA - Division of Fish & Wildlife/LWP Lower Connection | 81.61917 | 61917 | | 1,373,143 | 1,373,143 | 6 |
| U.S. Department of Health and Human Services/WA Dept of Social and Health Services | Child Support Enforcement - Prosecuting Attorney | 93.563 | 0763-15023 | 25,089 | | 25,089 | |

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

| Federal Agency Name/Pass-Through Agency Name | Federal Program Name | CFDA Number | Other Award Number | Expenditures | | | Footnote Ref |
|---|--|-------------|---------------------------------------|--------------------------|--------------------|------------------|--------------|
| | | | | From Pass-Through Awards | From Direct Awards | Total Amount | |
| U.S. Department of Health and Human Services/WA Dept of Social and Health Services | Child Support Enforcement - Clerk | 93.563 | 2110-80333 | 141,541 | | 141,541 | |
| U.S. Department of Health and Human Services/WA Dept of Social and Health Services | Child Support Enforcement - Superior Court | 93.563 | 2110-80333 | 202,956 | | 202,956 | |
| | | | Total CFDA 93.563 | 369,586 | 0 | 369,586 | |
| Administration For Children And Families, Department Of Health And Human Services/WA Dept of Early Learning | Community-Based Child Abuse Prevention Grants | 93.590 | K-372 003 | 10,078 | | 10,078 | |
| U.S. Department of Health and Human Services/WA Dept of Social and Health Services | Medical Assistance Program - Title XIX - Fed Waiver | 93.778 | 1163-27291 | 110,877 | | 110,877 | |
| U.S. Department of Health and Human Services/WA Dept of Social and Health Services | Block Grants for Prevention and Treatment of Substance Abuse - SAPT Grant in Aid | 93.959 | 1163-27291 | 143,049 | | 143,049 | |
| U.S. Department of Homeland Security/Washington State Parks & Recreation Commission | Law Enforcement Boating Equipment Grant | 97.012 | RBS | 4,414 | | 4,414 | |
| U.S. Department of Homeland Security/WA Military Department | Fire Management Assistance Grant | 97.046 | E13-080 | 33,399 | | 33,399 | |
| U.S. Department of Homeland Security/WA Military Department | Fire Management Assistance Grant | 97.046 | E13-086 | 20,093 | | 20,093 | |
| U.S. Department of Homeland Security/WA Military Department | Fire Management Assistance Grant | 97.046 | E13-121 | 6,548 | | 6,548 | |
| U.S. Department of Homeland Security/WA Military Department | Fire Management Assistance Grant | 97.046 | E13-129 | 14,404 | | 14,404 | |
| U.S. Department of Homeland Security/WA Military Department | Fire Management Assistance Grant | 97.046 | E13-136 | 11,392 | | 11,392 | |
| | | | Total CFDA 97.046 | 85,835 | 0 | 85,835 | |
| U.S. Department of Homeland Security/Grant County Dept of Emergency Management | Homeland Security Grant Program | 97.067 | E13-173 | 26,910 | | 26,910 | |
| U.S. Department of Homeland Security/Grant County Dept of Emergency Management | Emergency Management Performance Grants - FEMA | 97.067 | E-11-109 | 91,301 | | 91,301 | |
| | | | Total CFDA 97.067 | 118,212 | 0 | 118,212 | |
| | | | Total Federal Awards Expended: | 2,090,758 | 4,036,703 | 6,127,460 | |

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

CHELAN COUNTY, WASHINGTON

Notes to the Schedule of Expenditures of Federal Awards January 1, 2013 Through December 31, 2013

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the County's financial statements. The County uses the accrual basis of accounting for all funds except the governmental fund types, expendable trust funds and agency funds, which use the modified accrual basis of accounting. The modified accrual basis differs from the accrual basis in the following ways:

1. Purchases of capital assets are considered expenditures.
2. Redemption of long-term debt are considered expenditures when due.
3. Revenues are recognized only when they become both measurable and available to finance expenditures of the current period.
4. Inventories and prepaid items are reported as expenditures purchased.
5. Interest on long-term debt is not accrued but is recorded as an expenditure when due.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only state/federal portion of the program costs. Actual program costs, including the county's portion, may be more than shown.

NOTE 3 - NOT APPLICABLE (N/A)

The County was unable to obtain other identification number.

NOTE 4 – SCAAP GRANT

The grantor, the Department of Justice, provides the Regional Justice Center with the calculation for the amount of allowable expenditures the federal program will provide. The calculation for the 2013 grant revenues were based on the most recent data available, which was from July 1, 2011 through June 30, 2012. Since the county receives funding based on the granting agency's calculation of previous year expenditures, a current year estimation was made based on the most recent data available.

NOTE 5 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for federal programs with titles preceeded by "ARRA" were funded by the American Recovery and Reinvestment Act of 2009.

NOTE 6 – NO CFDA NUMBER

Federal participation agreements with the U.S. Department of Agriculture do not have CFDA numbers. The numbers used in place of a CFDA number are a combination of the U.S. Department of Agriculture CFDA prefix and a portion of the participation agreement number.

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

Corrective Action Plan for Findings Reported Under OMB Circular A-133

Chelan County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the CHELAN COUNTY. The State Auditor's Office has reviewed the information as presented by the County.

| | |
|---|--|
| Finding ref number: 1 | Finding caption: The County did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements. |
| Name, address, and telephone of auditee contact person: Mike Kaputa 316 Washington Street, Suite 401, Wenatchee WA 98801 | |
| Corrective action the auditee plans to take in response to the finding: <i>Chelan County will continue to promote internal controls over federal grants to ensure compliance with federal suspension and debarment requirements. To meet the requirement, prior to entering into a contract with vendor, the County will obtain a written certification from the vendor stating it is not suspended or debarred or, the County will review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration.</i> | |
| Anticipated date to complete the corrective action: September 11, 2014 | |

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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| Contact information for the State Auditor's Office | |
|--|--|
| Deputy Director for Communications | Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367 |
| Public Records requests | (360) 725-5617 |
| Main telephone | (360) 902-0370 |
| Toll-free Citizen Hotline | (866) 902-3900 |
| Website | www.sao.wa.gov |