



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

City of Leavenworth

Chelan County

For the period January 1, 2013 through December 31, 2014

Published January 25, 2016

Report No. 1016094





Washington State Auditor's Office

January 25, 2016

Mayor and City Council
City of Leavenworth
Leavenworth, Washington

Report on Financial Statements

Please find attached our report on the City of Leavenworth's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	7
Financial Section.....	11
About The State Auditor's Office.....	75

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

**City of Leavenworth
Chelan County
January 1, 2013 through December 31, 2014**

Mayor and City Council
City of Leavenworth
Leavenworth, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Leavenworth, Chelan County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 12, 2016.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 12, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Leavenworth Chelan County January 1, 2013 through December 31, 2014

Mayor and City Council
City of Leavenworth
Leavenworth, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Leavenworth, Chelan County, Washington, for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Leavenworth has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Leavenworth, for the years ended December 31, 2014 and 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Leavenworth, as of December 31, 2014 and

2013, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 12, 2016

FINANCIAL SECTION

**City of Leavenworth
Chelan County
January 1, 2013 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2014
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014
Schedule of Liabilities – 2013

City of Leavenworth
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 Current Expense	101 Streets
Beginning Cash and Investments				
30810	Reserved	853,020	-	67,547
30880	Unreserved	1,779,141	561,951	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	3,679,654	1,851,942	391,612
320	Licenses and Permits	169,115	169,115	-
330	Intergovernmental Revenues	578,747	51,764	526,982
340	Charges for Goods and Services	4,048,644	176,777	-
350	Fines and Penalties	13,678	75	-
360	Miscellaneous Revenues	359,226	49,626	2,006
Total Operating Revenues:		8,849,063	2,299,299	920,600
Operating Expenditures				
510	General Government	436,218	370,643	-
520	Public Safety	702,833	702,833	-
530	Utilities	2,477,652	68,498	-
540	Transportation	655,323	-	414,891
550	Natural and Economic Environment	1,217,759	255,691	-
560	Social Services	5,410	5,410	-
570	Culture and Recreation	632,517	458,099	-
Total Operating Expenditures:		6,127,712	1,861,174	414,891
Net Operating Increase (Decrease):		2,721,351	438,125	505,709
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	904,237	413,928	258,000
391-393	Debt Proceeds	18,398	-	-
397	Transfers-In	659,613	-	348,000
Total Nonoperating Revenues:		1,582,248	413,928	606,000
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	934,458	427,846	358,717
591-593	Debt Service	1,232,769	-	62,974
594-595	Capital Expenditures	2,029,784	363,789	734,968
597	Transfers-Out	361,613	-	22,509
Total Nonoperating Expenditures:		4,558,624	791,635	1,179,168
Net Increase (Decrease) in Cash and Investments:		(255,025)	60,418	(67,459)
Ending Cash and Investments				
50810	Reserved Fund Balance (GAAP)/Reserved Cash and Investments (Cash Basis)	501,043	-	89
50880	Unreserved Fund Balance (GAAP)/Unreserved Cash and Investments (Cash Basis)	1,876,093	622,370	-
Total Ending Cash and Investments		2,377,136	622,370	89

The accompanying notes are an integral part of this statement.

104 Lodging Tax	107 P.W. Capital Improvement	176 Community Swimming Pool	201 1997 G.O. Bond	202 2009 G.O. Bond	203 2013 G.O. Bond
194,829	83,461	301	-	-	-
-	-	-	115,132	-	52
-	-	-	-	-	-
1,155,223	105,175	113,625	62,077	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	87,597	-	-	-
-	-	-	-	-	-
28	24	2,155	60	-	-
1,155,251	105,199	203,377	62,136	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
962,068	-	-	-	-	-
-	-	-	-	-	-
-	-	174,419	-	-	-
962,068	-	174,419	-	-	-
193,183	105,199	28,958	62,136	-	-
-	-	37,500	-	-	-
-	-	-	-	-	-
-	-	-	-	29,043	183,489
-	-	37,500	-	29,043	183,489
-	-	51,000	-	-	-
136,831	-	45	91,822	29,043	183,513
57,281	-	3,312	-	-	-
29,043	78,000	-	-	-	-
223,154	78,000	54,357	91,822	29,043	183,513
(29,972)	27,199	12,101	(29,686)	0	(24)
164,858	110,660	12,402	-	-	-
-	-	-	85,447	-	28
164,858	110,660	12,402	85,447	-	28

The accompanying notes are an integral part of this statement.

301 Capital Projects Fund (Warehouse)	402 Garbage	403 Water	404 Sewer	410 Stormwater	415 Parking
388,882	-	-	118,000	-	-
-	93,695	255,576	406,027	22,425	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	658,152	1,361,030	1,466,487	52,911	-
-	-	6,801	6,801	-	-
37	2,701	64	235	-	302,189
37	660,854	1,367,895	1,473,523	52,911	302,189
-	-	-	-	-	-
-	-	-	-	-	-
-	606,511	872,178	920,068	10,397	-
-	-	-	-	-	24,059
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	606,511	872,178	920,068	10,397	24,059
37	54,343	495,717	553,455	42,514	278,130
-	-	42,542	-	-	-
-	-	18,398	-	-	-
28,000	-	-	-	-	71,082
28,000	-	60,940	-	-	71,082
-	-	42,542	-	-	53,859
-	12,994	330,880	292,943	5,553	83
273,312	28,744	342,952	99,556	10,340	-
48,573	-	-	-	-	183,489
321,885	41,737	716,374	392,499	15,893	237,431
(293,848)	12,605	(159,717)	160,956	26,621	111,781
95,034	-	-	118,000	-	-
-	106,301	95,859	566,983	49,046	111,780
95,034	106,301	95,859	684,983	49,046	111,780

The accompanying notes are an integral part of this statement.

501 Equip Rental & Revolving Fund	502 Central Services
-	-
323,527	756
-	-
-	-
-	-
-	-
162,917	82,773
-	-
102	-
<u>163,019</u>	<u>82,773</u>
-	65,575
-	-
-	-
216,374	-
-	-
-	-
-	-
<u>216,374</u>	<u>65,575</u>
<u>(53,355)</u>	<u>17,198</u>
152,267	-
-	-
-	-
<u>152,267</u>	<u>-</u>
494	-
86,088	-
97,577	17,954
-	-
<u>184,159</u>	<u>17,954</u>
<u>(85,248)</u>	<u>(756)</u>
-	-
238,280	-
<u>238,280</u>	<u>-</u>

The accompanying notes are an integral part of this statement.

City of Leavenworth
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	001 Current Expense	101 Streets
Beginning Cash and Investments				
30810	Reserved	522,041	-	57,996
30880	Unreserved	1,374,795	371,975	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	3,552,172	1,742,375	363,352
320	Licenses & Permits	170,833	170,833	-
330	Intergovernmental Revenues	647,262	52,825	525,558
340	Charges for Goods and Services	3,614,935	123,936	-
350	Fines & Penalties	16,120	(10)	-
360	Miscellaneous Revenues	278,371	47,092	58,766
Total Operating Revenues:		8,279,693	2,137,051	947,676
Operating Expenditures				
510	General Government	580,945	416,585	-
520	Public Safety	760,642	760,642	-
530	Utilities	2,378,345	70,370	-
540	Transportation	621,878	-	412,097
550	Natural and Economic Environment	1,111,465	228,207	-
560	Social Services	5,369	5,369	-
570	Culture And Recreation	676,961	511,361	-
Total Operating Expenditures:		6,135,605	1,992,534	412,097
Net Operating Increase (Decrease):		2,144,088	144,517	535,579
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	611,825	195,825	100,000
391-393	Debt Proceeds	5,152,327	-	75,652
397	Transfers-In	638,527	120,000	50,000
Total Nonoperating Revenues:		6,402,679	315,825	225,652
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	568,086	265,199	118,826
591-593	Debt Service	2,515,430	-	24,962
594-595	Capital Expenditures	4,089,409	5,175	588,891
597	Transfers-Out	638,527	-	19,000
Total Nonoperating Expenditures:		7,811,452	270,374	751,679
Net Increase (Decrease) in Cash and Investments:		735,315	189,968	9,552
Ending Cash and Investments				
5081000	Reserved	853,020	-	67,547
5088000	Unreserved	1,779,131	561,943	1
Total Ending Cash and Investments		2,632,151	561,943	67,548

The accompanying notes are an integral part of this statement.

104 Lodging Tax	107 P.W. Capital Improvement	176 Community Swimming Pool	201 1997 G.O. Bond	202 2009 G.O. Bond	203 2013 G.O. Bond
167,110	17,632	15,231	-	-	-
-	-	-	124,200	-	-
-	-	-	-	-	-
1,121,703	135,829	110,200	78,713	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	86,158	-	-	-
-	-	-	-	-	-
1,774	-	230	-	-	-
<u>1,123,477</u>	<u>135,829</u>	<u>196,588</u>	<u>78,713</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
883,258	-	-	-	-	-
-	-	-	-	-	-
-	-	165,600	-	-	-
<u>883,258</u>	<u>-</u>	<u>165,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>240,219</u>	<u>135,829</u>	<u>30,988</u>	<u>78,713</u>	<u>-</u>	<u>-</u>
-	-	93,000	-	-	-
-	-	-	-	-	4,134,912
-	-	-	-	29,043	19,000
<u>-</u>	<u>-</u>	<u>93,000</u>	<u>-</u>	<u>29,043</u>	<u>4,153,912</u>
-	-	59,730	-	-	67,300
140,129	-	52	87,781	29,043	1,491,560
43,329	-	79,136	-	-	2,106,691
29,043	70,000	-	-	-	488,309
<u>212,501</u>	<u>70,000</u>	<u>138,918</u>	<u>87,781</u>	<u>29,043</u>	<u>4,153,860</u>
27,718	65,829	(14,930)	(9,068)	-	52
194,829	83,461	301	-	-	-
(1)	-	-	115,132	-	52
<u>194,828</u>	<u>83,461</u>	<u>301</u>	<u>115,132</u>	<u>-</u>	<u>52</u>

The accompanying notes are an integral part of this statement.

301 Capital Projects Fund (Warehouse)	402 Garbage	403 Water	404 Sewer	410 Stormwater	501 Equip Rental & Revolving Fund
24	-	132,024	132,024	-	-
-	126,915	119,776	271,925	-	349,875
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	68,879	-	-	-	-
-	597,391	1,147,407	1,383,926	27,149	162,917
-	-	8,065	8,065	-	-
169,494	-	509	506	-	-
<u>169,494</u>	<u>666,270</u>	<u>1,155,981</u>	<u>1,392,497</u>	<u>27,149</u>	<u>162,917</u>
75,475	-	-	-	-	-
-	-	-	-	-	-
-	618,099	827,631	857,521	4,724	-
-	-	-	-	-	209,781
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>75,475</u>	<u>618,099</u>	<u>827,631</u>	<u>857,521</u>	<u>4,724</u>	<u>209,781</u>
<u>94,019</u>	<u>48,171</u>	<u>328,350</u>	<u>534,976</u>	<u>22,425</u>	<u>(46,864)</u>
43,200	-	2,528	-	-	177,272
-	-	685,706	26,057	-	230,000
388,309	-	-	-	-	32,175
<u>431,509</u>	<u>-</u>	<u>688,234</u>	<u>26,057</u>	<u>-</u>	<u>439,447</u>
52,439	-	2,528	-	-	2,064
25	12,994	288,875	371,891	-	68,118
84,207	36,224	721,406	69,064	-	348,748
-	32,175	-	-	-	-
<u>136,671</u>	<u>81,393</u>	<u>1,012,809</u>	<u>440,955</u>	<u>-</u>	<u>418,930</u>
388,857	(33,222)	3,775	120,078	22,425	(26,347)
388,882	-	-	118,000	-	-
(1)	93,693	255,575	406,027	22,425	323,528
<u>388,881</u>	<u>93,693</u>	<u>255,575</u>	<u>524,027</u>	<u>22,425</u>	<u>323,528</u>

The accompanying notes are an integral part of this statement.

502 Central Services
-
10,129
-
-
-
-
86,051
-
-
86,051
88,885
-
-
-
-
-
88,885
(2,834)
-
-
-
-
6,538
-
6,538
(9,372)
-
757
757

The accompanying notes are an integral part of this statement.

City of Leavenworth
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	601 Cemetery Endowment Fund	630 Transportation Benefit District Agency Fund
308	Beginning Cash and Investments	119,103	119,103	-
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	307,567	9,567	298,000
380-390	Other Increases and Financing Sources	33,000	33,000	-
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	298,000	-	298,000
Net Increase (Decrease) in Cash and Investments:		42,567	42,567	-
508	Ending Cash and Investments	161,670	161,670	-

The accompanying notes are an integral part of this statement.

City of Leavenworth
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	601 Cemetery Endowment Fund
308	Beginning Cash and Investments	213,611	213,611
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	5,492	5,492
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	100,000	100,000
	Net Increase (Decrease) in Cash and Investments:	(94,508)	(94,508)
508	Ending Cash and Investments	119,103	119,103

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

CITY OF LEAVENWORTH

January 1, 2014 through December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Leavenworth was incorporated in 1906 and operates under the laws of the State of Washington applicable to a Non Charter Code City with a Mayor-Council form of Government. The City of Leavenworth is a general purpose government and provides the following services: administrative, police (contracted), fire protection (through fire district), library (through a regional library district), cemetery, parks and recreation, street/parking maintenance and improvement, and garbage collection. In addition, the City owns and operates its own water, sewer and stormwater systems.

The City of Leavenworth reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting Systems (BARS)* Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

a. Fund Accounting

Financial transactions of the City of Leavenworth are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The City of Leavenworth's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used by the City of Leavenworth:

GOVERNMENTAL FUND TYPES:

Current Expense (General) Fund (001)

This fund is the primary operating fund of the City of Leavenworth. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds (100-199)

These funds account for revenue sources that are restricted or committed to expenditures for specified purposes of the City of Leavenworth.

Debt Service Funds (200-299)

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Fund (300-399)

These funds account for the financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds (400-499)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds (500-599)

These funds account for operations that provide goods or services to other departments or funds of the City of Leavenworth on a cost-reimbursement basis.

FIDUCIARY FUND TYPES (600 - 699 Series):

Fiduciary funds account for assets held by the City of Leavenworth in a trustee capacity or as an agent on behalf of others.

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments. The City of Leavenworth maintains a Cemetery Endowment Fund that is best described as a Private-Purpose Trust Fund. This fund was originally created as a trust fund by

donation from a private citizen to establish and build a reserve fund over time to operate and maintain the Leavenworth Mountain View Cemetery once there are no remaining open lots or niches available. The City of Leavenworth continues to build this fund by providing 50% of all lot sales to the Cemetery Endowment Fund.

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity. The City of Leavenworth maintains a Leavenworth Transportation Benefit District Agency Fund to hold and distribute funds from the District to the City's Street Fund for transportation related maintenance and capital projects.

b. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City of Leavenworth also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period, these expenditures are all booked with a date of 12/31 in the given calendar year.

c. Budgets

The City of Leavenworth adopts biennial appropriated budgets for the Current Expense (General), Leavenworth Civic Center, Streets, Lodging Tax, P.W. Capital Improvement, Community Swimming Pool, 1997 G.O. Bond, 2009 G.O. Bond, 2013 G.O. Bond, Capital Projects Fund (Warehouse), Garbage, Water, Sewer, Water Bond Reserve, Sewer Bond Reserve, Stormwater, Parking, Equipment Rental & Revolving, Central Services, Cemetery Endowment, and Transportation Benefit District Agency funds. These budgets are appropriated at the fund level including use of ending fund reserved and unreserved balances unless otherwise noted. The budget constitutes the legal authority for expenditures at that level. Any managerial funds are combined with the appropriate fund for reporting purposes only as required by the BARS manual; these would include the Leavenworth Civic Center (Fund 110) being included within the General Fund (001); the Water Bond Reserve Fund (405) being included in the Water Fund (403); and the Sewer Bond Reserve Fund (406) being included in the Sewer Fund (404). Interfund activity between managerial funds would be eliminated. Biennial appropriations for all funds lapse at the fiscal year end of the second year of the Biennial Budget.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted 2013-2014 combined budgets were as follows as of December 31, 2014:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
Current Expense (General) Fund	\$5,497,581.00	\$4,761,771.83	\$735,809.17
Leavenworth Civic Center	\$427,351.00	\$153,939.05	\$273,411.95
Streets Fund	\$3,293,223.00	\$2,757,835.79	\$535,387.21
Lodging Tax Fund	\$2,591,939.00	\$2,280,980.06	\$310,958.94
P.W. Capital Improvement Fund	\$241,093.00	\$148,000.00	\$93,093.00
Community Swimming Pool Fund	\$598,135.00	\$533,293.29	\$64,841.71
1997 GO Bond Fund	\$379,332.00	\$179,602.68	\$199,729.32
2009 GO Bond Fund	\$58,086.00	\$58,085.56	\$0.44
2013 GO Bond Fund	\$4,337,453.00	\$4,337,372.89	\$80.11
Capital Projects Fund	\$1,189,991.00	\$534,029.69	\$655,961.31
Garbage Fund	\$1,498,551.00	\$1,347,737.26	\$150,813.74
Water Fund	\$3,713,017.00	\$3,428,991.90	\$284,025.10
Water Bond Reserve Fund	\$264,048.00	\$130,000.00	\$134,048.00
Sewer Fund	\$3,366,269.00	\$2,611,043.74	\$755,225.26
Sewer Bond Reserve Fund	\$264,048.00	\$0.00	\$264,048.00
Stormwater Fund	\$134,005.00	\$31,014.57	\$102,990.43
Parking Fund	\$316,000.00	\$261,490.19	\$54,509.81
Equip Rental & Revolving Loan Fund	\$1,630,363.00	\$1,029,244.11	\$601,118.89
Central Services	\$180,037.00	\$178,952.58	\$1,084.42
Cemetery Endowment Fund	\$380,939.00	\$100,000.00	\$280,939.00
Transportation Benefit District Fund	\$298,000.00	\$298,000.00	\$0.00
TOTAL	\$30,659,461.00	\$25,161,385.19	\$5,498,075.81

The department head in conjunction with the Finance Director is authorized to transfer budgeted amounts between fund/object classes within any department within any fund, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Leavenworth's legislative body.

d. Cash and Investments

See Note 2, Deposits and Investments.

e. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. The capital assets of the City of Leavenworth are recorded as expenditures when purchased.

f. Compensated Absences

Vacation leave may be accumulated up to 30 days for a prospective retiree (within four years of retirement). Otherwise, up to 15 days for Public Works and Office Staff and 10 days for Returning Seasonal Staff may be carried over from year to year at the employee's request. Non-Union Exempt employees may accumulate up to forty days for annual carryover. Upon separation or retirement, employees are compensated for accrued and unused vacation time. As of December 31, 2014 the total payout liability of all employees totals \$81,010.49.

Sick leave may accumulate up to 1200 hours. Upon separation or retirement, employees having at a minimum of five years of employment with the City may receive payment of unused leave, up to 240 hours. As of December 31, 2014 the total payout liability of eligible employees totals \$76,888.70.

Compensatory leave may accumulate for union employees to a maximum of 40 hours and should not be carried over in any given year without prior authorization by the City Administrator; generally any accrued comp time is paid out with the final year end check. Upon separation or retirement, employees are compensated for accrued and unused comp time. As of December 31, 2014 the total payout liability of all employees totals \$0.00.

g. Long-Term Debt

See Note 5, Debt Service Requirements.

h. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consists of all interfund loans in and out; Non Revenues and Non Expenses related to processing of funds for other governments or individuals such as leasehold excise and sales taxes; building permit and auction related surcharges; County Treasurer related funds for the Upper Valley Park and Recreation Service Area; Business Licensing, Developer, Pool Pass and other related refunds; Utility Reimbursement Agreement funds; premiums, proceeds, and debt issuance costs from refunding bonds, and proceeds from the sale of capital assets.

i. Risk Management

The City of Leavenworth is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 175 Members. New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former

member from its unresolved loss history incurred during membership. Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually. Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance. In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services. WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall. An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The City of Leavenworth in conjunction with the Upper Valley Park and Recreation Service Area is also a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2014, there are 491 Enduris members representing a broad array of special purpose districts throughout the state. Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of

construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers crime coverage up to a limit of \$1,000,000 per occurrence. Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown on the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members. The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement. Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house. A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Risk Pool Financial Statements are available for WCIA at <http://www.wciapool.org/communications/annual-reports>; and for Enduris at <http://www.enduris.us/home/finance/>.

j. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance of the City Council. When expenditures that meet restrictions are incurred, the City of Leavenworth intends to use reserved resources first before using unreserved amounts. The City of Leavenworth has the following reserve funds:

FUND 101 Ordinance No. 1093 passed in 1998 created the purpose of the Street Fund into which moneys shall be placed for the purpose of constructing and maintaining arterial highways and city streets, or for the payment of any municipal indebtedness which may be incurred in the construction, improvement,

chip sealing, seal-coating, repair and maintenance of arterial highways and city streets. Fund balance on December 31, 2014 was \$89.

FUND 104 Ordinance No. 1051 passed in 1997 established the Lodging Tax Fund for the City. These funds are generated by revenue from transient lodging tax and used for the construction of tourist facilities or for tourist promotion within the meaning of RCW 35.21.700 and RCW 67.28.1815 and bears on the tourist expansion in the City of Leavenworth or the areas adjacent to the City of Leavenworth which bear upon its economic condition. Fund balance on December 31, 2014 was \$164,858.

FUND 107 is the Public Works Capital Improvement Fund generated by real estate excise taxes as imposed by the state under chapter 82.46 RCW. Fund balance on December 31, 2014 was \$110,660.

FUND 176 is the Community Swimming Pool Fund that the City operates by interlocal agreement in conjunction with the Upper Valley Park & Recreation Service Area (UVPRSA). Annual resolutions are adopted by the UVPRSA to collect property tax dollars that are committed by voter approval to the operations and maintenance of the pool. All other revenues of the pool would be dedicated to the pool fund per the interlocal agreement between the City and the UVPRSA. Fund balance on December 31, 2014 was \$12,402.

FUND 301 is a Capital Projects Fund (Warehouse) that was created per requirements to dedicate these specific dollars for capital improvement through the issuance of a Limited Tax General Obligation Improvement and Refunding Bond, 2013. These remaining dollars are to be dedicated to the capital improvements of the Leavenworth Fruit Warehouse lot that was purchased for public parking. Fund Balance on December 31, 2014 was \$95,034.

FUND 404 (Includes rolled funds from FUND 406 Sewer Bond Reserve) Sewer Fund includes a reserve amount on a Department of Ecology Loan that was issued in 2000 and stated a requirement to reserve one year of annual payments which equates to \$118,000. Reserve Fund Balance on December 31, 2014 was \$118,000.

TOTAL BALANCE of all reserved funds is \$501,043.

NOTE 2: DEPOSITS AND INVESTMENTS

It is the City of Leavenworth's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on investments is prorated to the various funds based on the monthly ending cash balance in each fund. Due to the decline in interest rates in the current economy, all interest gained from the City's main checking account currently posts to the General Fund to offset all monthly bank service charges which exceed monthly interest gains and is reconciled against monthly bank statements. As the market changes and interest gains increase, the City will divert back to distributing interest gains in the main checking account on a

prorated basis by fund. Interest gains on all interfund loans are posted to the fund issuing the interfund loan as required by resolutions. Interest gains for the Water Bond Reserve Fund are recorded in the Water Fund and gains for the Sewer Bond Reserve Fund are recorded in the Sewer Fund.

The City of Leavenworth's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City or its agent in the City's name.

Investments are presented at amortized cost meaning interest earnings are recorded when earned. Investments by type at December 31, 2014 are as follows:

Type of Investment	Leavenworth's own investments	Investments held by Leavenworth as an agent for other local governments, individual or private organizations.	Total
L.G.I.P.	\$1,738,457.50	\$125,061.13	\$1,863,518.63
U.S. Gov. Securities			
Other			
Total	\$1,738,457.50	\$125,061.13	\$1,863,518.63

NOTE 3: PROPERTY TAX

The Chelan County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are generally distributed at the end of each month while mid month distributions occur in April, May, October and November when taxes are due.

Property tax revenues are recognized when cash is received by the City of Leavenworth. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Leavenworth's regular levy for 2014 was \$1.1722357123 per \$1,000 on an assessed valuation of \$342,776,624, for a total regular levy of \$401,815.00.

The City also has a special levy in the amount of \$.1790244905 per \$1,000 on an assessed valuation of \$337,361,999 for a total special levy of \$60,396.06. This special levy was approved by the voters in 1997 and is used to retire bonds issued to finance the construction of a new fire station and purchase of fire equipment with the final bond payment identified for 2017.

NOTE 4: INTERFUND LOANS

The following table identified below displays interfund loan activity during 2014; payments and balances include principle only. Interest is charged for short-term loans at the current rate of the LGIP or as defined by resolution and is typically paid back at the time of the principle payment; in the case of a multi-year interfund loan, interest is typically paid by December 31 of each year. The City Council approved Resolution 9-2009 granting authority for loans between city funds. Within this resolution temporary loans, which may not exceed more than 90 days, are authorized

to be completed and notified to the City Council by the Finance Director without a resolution; all other loans exceeding 90 days must be authorized by resolution of the City Council.

In 2014 the City continued to make payments on the 5-year interfund loan to the ER&R Fund from the Current Expense and Street Funds; this loan was paid in full in 2014.

The City paid in full a temporary interfund loan to the Pool from the Current Expense Fund from December 2013 that was paid back on January 1, 2014 for a total of \$3,500. This loan was necessary to ensure the Pool Fund did not carryover with a negative fund balance. Additionally, the Pool received from the General Fund \$37,500 in 2014 that was paid back in 2014 for cash flow purposes.

The Finance Director authorized a temporary interfund loan related to grant reimbursement funding on August 31, 2014 to the Street Fund from the General Fund with a total loan amount of \$245,000 that was paid back in full on November 30, 2014.

The Finance Director authorized a temporary interfund loan for cash flow due to capital projects on December 31, 2014 to the Street Fund from the General Fund in the amount of \$13,000 that was paid back on January 1, 2015.

In 2013 the City Council authorized two short-term (3 years or less) interfund loans by resolutions. The first 3-year interfund loan identified below for the Street/Parking borrowing fund was \$100,000 for capital improvements for the design and construction of a city parking lot; in 2013 Parking was a department within the Street Fund. Beginning with the 2014 Budget year, the City Council transitioned the Parking revenues and expenditures into a new enterprise fund called Parking; with this transition the payments due over the next 3 years would be paid back from the new Parking Fund to the Cemetery Endowment Fund for the Parking Lot debt. The payments are anticipated for payback starting in 2014 and ending in 2016. The second 3-year interfund loan identified below for the Pool borrowing fund was authorized by the City Council in support of major capital improvements completed in 2013 at the Pool. With a new levy passed by voters in 2012, the Pool Fund is anticipated to pay back this loan at \$10,000 per year with interest charges starting in 2014 and being paid back by December 31, 2016.

In 2014 the City Council authorized one short-term (3 years or less) interfund loan of \$130,000 by resolution from the Water Bond Reserve Fund to the Water Fund for the installation of the new Well #3. Due to the funds being provided from Water related funds no interest is to be charged on this loan. Payments are set at \$43,000 per year for 2015 and 2016 with the final payment of \$44,000 due in 2017.

Borrowing Fund	Lending Fund	Balance 1/1/2014	New Loans	Repayments	Balance 12/31/2014
Current Expense	ER&R	\$ 30,000		\$ 30,000	\$ 0
Street	ER&R	\$113,717		\$113,717	\$ 0
Pool	Current Expense	\$ 3,500	\$ 37,500	\$ 41,000	\$ 0
Street	Current Expense	\$ 0	\$245,000	\$245,000	\$ 0
Street	Current Expense	\$ 0	\$ 13,000	\$ 0	\$ 13,000
Street/Parking	Cemetery	\$100,000	\$	\$ 33,000	\$ 67,000
Pool	Current Expense	\$ 30,000	\$ 0	\$ 10,000	\$ 20,000
Water	Water Bond Res.	\$130,000	\$ 0	\$ 0	\$130,000

NOTE 5: DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Leavenworth and summarizes the City's debt transactions for year ended December 31, 2014. The debt service requirements for general obligation bonds, revenue bonds and public works loans from the Departments of Ecology and Commerce (listed as Other Debt below), including both principle and interest, are as follows:

	G. O. Bonds	Revenue Bonds	Other Debt	Total Debt
2015	577,251	0	627,528	1,204,779
2016	580,568	0	624,434	1,205,002
2017	578,873	0	608,313	1,187,186
2018	492,078	0	460,268	952,346
2019	465,773	0	457,836	923,609
2020-2024	2,073,534	0	1,641,857	3,715,391
2025-2029	1,627,638	0	761,537	2,389,175
2030-2034	812,950	0	363,523	1,176,473
2035-2039	0	0	150,238	150,238
TOTALS	7,208,665	0	5,695,534	12,904,199

In 2013 the City received a new PWTF Loan for completion of the East Leavenworth Watermain Project. The Schedule 9 and notes above include the draw amount of \$18,397.79 that was received in 2014. Interest included in the notes above was overstated as of December 31, 2013 due to the loan terms not yet finalized, with the closure of the loan occurring in 2014, the loan was reduced from 2% to 0.5% which is now finalized and incorporated.

In 2014 the City received notice on three Public Works Trust Fund Loans that the annual principle due date would be moved from July 1 to June 1 beginning in 2015. Due to the new debt schedule being provided in 2014, the interest amount was reduced slightly on each of these loans and has been incorporated with the new amount for the 2014 outstanding balances listed above. Also, some minor adjustments were corrected on principle balances within the Schedule of Liabilities (09) in 2014 to accurately reflect outstanding balances; this equated to a difference of approximately \$4.00 due to the rounding of cents within the Schedule 09 Excel Spreadsheet.

NOTE 6: PENSION PLANS

Substantially all City of Leavenworth full-time and qualifying part-time employees participate in PERS plans 2 and 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

NOTE 7: OTHER DISCLOSURES

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City of Leavenworth.

In a review of the 2011 and 2012 annual reports that was completed on February 11, 2014, the State Auditor's Office (SAO) recommended including the Leavenworth Transportation Benefit District funds on the City's financial statements as agency funds rather than directly depositing those funds into the City's Street Fund. Due to the closure of the 2013 fiscal year prior to the end of the audit, the City made this necessary transition beginning with the 2014 Budget year. Based on this recommendation, the SAO anticipates an improvement to the internal controls over the identification of related parties and ensures such relationship is reported and disclosed within the financial statements and notes. A second recommendation by the Auditor's Office is to create and implement a Cost Allocation Plan. In 2014 the Finance Director attended several trainings to gain a better understanding of what options and details need to be included in a cost allocation plan and has contracted with a consultant as of March 2015 to complete the plan prior to the next audit cycle. Due to the potential historical tracking of data that may need to occur regarding staff time allocations for restricted and proprietary funds, the first year of data collection will occur in 2015 to be incorporated within the 2016 budget and annual report.

On October 31, 2014 the City reported a theft of a small generator and tools from its public works shop to the Washington State Auditor's Office. These items were not recovered during any Chelan County Sheriff investigations.

In November 2014 the City submitted two notices of intent to the State of Washington LOCAL financing program that was finalized and issued in March 2015. These will be new General Obligation Non-Voted Debt instruments reported in 2015. The first new debt is for \$250,000 (principle only) to acquire land related to the City's Chumstick Trail Capital Project anticipated to go into construction in 2015. The second new debt is for \$88,876.79 (principle only) to assist

in grant match funding of a Department of Commerce Energy/Solar Grant that the City received in 2014 and is anticipated for completion in 2015.

Additional major capital related projects occurring in 2015 include the Local Improvement District for the Meadowlark Subdivision of which the City will participate and provide up to \$193,000 of debt service payments on and will be administering a portion of a \$750,000 CDBG Grant (funds will be spent in different years as the project is phased in) that the City acquired for the Meadowlark Developers. This project coincides with the Chumstick Trail Project of which the City is also receiving federal funding for. The City will also be completing the Commercial Street from 3rd to 8th Street Project which includes street reconstruction and a new water line; this project also includes some federal funding. The City will need to watch carefully in 2015 on the amount of federal funds expended that may exceed \$750,000 and trigger a single audit process in 2016 for the 2015 budget.

NOTES TO FINANCIAL STATEMENTS

CITY OF LEAVENWORTH

January 1, 2013 through December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Leavenworth reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting Systems (BARS)* manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Leavenworth was incorporated in 1906 and operates under the laws of the State of Washington applicable to a Non Charter Code City with a Mayor-Council form of Government. The City of Leavenworth is a general purpose government and provides the following services: administrative, police and fire protection (contracted), library (through a regional library district), cemetery, parks and recreation, street/parking maintenance and improvement, and garbage collection. In addition, the City owns and operates its own water, sewer and stormwater systems. The City of Leavenworth uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. **Fund Accounting**

The accounts of the City of Leavenworth are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Leavenworth's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Leavenworth:

GOVERNMENTAL FUND TYPES:

Current Expense (General) Fund (001)

This fund is the primary operating fund of the City of Leavenworth. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds (100-199)

These funds account for revenue sources that are restricted or committed to expenditures for specified purposes of the City of Leavenworth.

Debt Service Funds (200-299)

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Fund (300-399)

These funds account for the financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds (400-499)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds (500-599)

These funds account for operations that provide goods or services to other departments or funds of the City of Leavenworth on a cost-reimbursement basis.

FIDUCIARY FUND TYPES (600 - 699 Series):

Fiduciary funds account for assets held by the City of Leavenworth in a trustee capacity or as an agent on behalf of others. These may include (a) investment trust funds, (b) pension (and other employee benefit) trust funds, (c) private-purpose trust funds, and (d) agency funds.

Private-Purpose Trust Funds

The City of Leavenworth maintains a Cemetery Endowment Fund that is best described as a Private-Purpose Trust Fund. These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund was originally created as a trust fund by donation from a private citizen to establish and build a reserve fund over time to operate and maintain the Leavenworth Mountain View Cemetery once there are no remaining open lots or niches available. The City of Leavenworth continues to build this fund by providing 50% of all lot sales to the Cemetery Endowment Fund.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including

those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the City of Leavenworth also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

The City of Leavenworth adopts biennial appropriated budgets for the Current Expense (General), Leavenworth Civic Center, Streets, Lodging Tax, P.W. Capital Improvement, Community Swimming Pool, 1997 G.O. Bond, 2009 G.O. Bond, 2013 G.O. Bond, Capital Projects Fund (Warehouse), Garbage, Water, Sewer, Water Bond Reserve, Sewer Bond Reserve, Stormwater, Equipment Rental & Revolving, Central Services and Cemetery Endowment funds. These budgets are appropriated at the fund level including use of ending fund reserved and unreserved balances unless otherwise noted. The budget constitutes the legal authority for expenditures at that level. Any managerial funds are combined with the appropriate fund for reporting purposes only as required by the BARS manual; these would include the Leavenworth Civic Center (Fund 110) being included within the General Fund (001); the Water Bond Reserve Fund (405) being included in the Water Fund (403); and the Sewer Bond Reserve Fund (406) being included in the Sewer Fund (404). Interfund activity between managerial funds would be eliminated; however, no interfund activity occurred between the above mentioned funds. Biennial appropriations for all funds lapse at the fiscal year end of the second year of the Biennial Budget; due to this process the final biennial budget appropriations will likely change by December 31, 2014.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted 2013-2014 combined budgets were as follows as of December 31, 2013:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
Current Expense (General) Fund	\$4,959,972.00	\$2,218,898.55	\$2,741,073.45
Leavenworth Civic Center	\$203,500.00	\$44,003.77	\$159,496.23
Streets Fund	\$1,935,516.41	\$1,163,776.99	\$771,739.42
Lodging Tax Fund	\$2,390,082.00	\$1,095,757.96	\$1,294,324.04
P.W. Capital Improvement Fund	\$172,632.00	\$70,000.00	\$102,632.00
Community Swimming Pool Fund	\$611,167.00	\$304,517.56	\$306,649.44
1997 GO Bond Fund	\$396,458.00	\$87,780.93	\$308,677.07
2009 GO Bond Fund	\$58,086.00	\$29,042.78	\$29,043.22
2013 GO Bond Fund	\$4,153,912.00	\$4,153,859.89	\$52.11
Capital Projects Fund	\$956,209.00	\$212,145.01	\$744,063.99
Garbage Fund	\$1,430,118.00	\$699,489.36	\$730,628.64
Water Fund	\$3,358,766.00	\$1,840,439.92	\$1,518,326.08
Water Bond Reserve Fund	\$177,048.00	\$0.00	\$177,048.00
Sewer Fund	\$3,091,172.00	\$1,298,476.75	\$1,792,695.25
Sewer Bond Reserve Fund	\$264,048.00	\$0.00	\$264,048.00
Stormwater Fund	\$118,265.00	\$4,724.10	\$113,540.90
Equip Rental & Revolving Loan Fund	\$1,822,945.00	\$628,711.53	\$1,194,233.47
Central Services	\$179,398.00	\$95,423.74	\$83,974.26
Cemetery Endowment Fund	\$384,386.00	\$100,000.00	\$284,386.00
TOTAL	\$26,663,680.41	\$14,047,048.84	\$12,616,631.57

The department head in conjunction with the Finance Director is authorized to transfer budgeted amounts between fund/object classes within any department within any fund, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Leavenworth's legislative body.

d. Cash

It is the City of Leavenworth's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on investments is typically prorated to the various funds based on the monthly ending cash balance in each fund; however with the decline in interest rates in the current economy, all interest currently posts to the General Fund to offset all monthly bank service charges which exceed monthly interest gains and is reconciled against monthly bank statements. As the market changes and interest gains increase, the City will divert back to distributing interest gains on a prorated basis by fund. Interest gains on all interfund loans are posted to the fund issuing the interfund loan.

e. Deposits

The City of Leavenworth's deposits and certificates of deposit, if applicable, are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

f. Investments

See Investment Note #2.

g. Derivatives and Similar Transactions

None.

h. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. The capital assets of the City of Leavenworth are recorded as expenditures when purchased.

i. Compensated Absences

Vacation leave may be accumulated up to 30 days for a prospective retiree (within four years of retirement). Otherwise, up to 15 days for Public Works and Office Staff and 10 days for Returning Seasonal Staff may be carried over from year to year at the employee's request. Non-Union Exempt employees may accumulate up to forty days for annual carryover. Upon separation or retirement, employees are compensated for accrued and unused vacation time. As of December 31, 2013 the total payout liability of all employees totals \$77,709.68.

Sick leave may accumulate up to 1200 hours. Upon separation or retirement, employees having at a minimum of five years of employment with the City may receive payment of unused leave, up to 240 hours. As of December 31, 2013 the total payout liability of eligible employees totals \$85,782.17.

Compensatory leave may accumulate for union employees to a maximum of 40 hours and should not be carried over in any given year without prior authorization by the City Administrator. Upon separation or retirement, employees are compensated for accrued and unused comp time. As of December 31, 2013 the total payout liability of all employees totals \$0.99.

j. Long-Term Debt

See Long-Term Debt Note #5.

k. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consists of all interfund loans in and out; Non Revenues and Non Expenses related to processing of funds for other governments or individuals such as leasehold excise and sales taxes, building permit and auction related surcharges, County Treasurer related funds for the Upper Valley Park and Recreation Service Area, Business Licensing, Developer and Pool Pass related refunds, and Utility Reimbursement Agreement funds; premiums, proceeds, and debt issuance costs from refunding bonds, and proceeds from the sale of capital assets.

l. Risk Management

The City of Leavenworth is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members. New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership. Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually. Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance. In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services. WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall. An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and

appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The City of Leavenworth in conjunction with the Upper Valley Park and Recreation Service Area is also a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state. Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000. Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis: \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss; \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members. The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement. Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house. A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Risk Pool Financial Statements are available for WCIA at <http://www.wciapool.org/communications/annual-reports>; and for Enduris at <http://www.enduris.us/home/finance/>.

m. Reserved Fund Balance

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance of the City Council. When expenditures that meet restrictions are incurred, the City of Leavenworth intends to use reserved resources first before using unreserved amounts. The City of Leavenworth has the following reserve funds:

FUND 101 Ordinance No. 1093 passed in 1998 created the purpose of the Street Fund into which moneys shall be placed for the purpose of constructing and maintaining arterial highways and city streets, or for the payment of any municipal indebtedness which may be incurred in the construction, improvement, chip sealing, seal-coating, repair and maintenance of arterial highways and city streets. Fund balance on December 31, 2013 was \$67,547.

FUND 104 Ordinance No. 1051 passed in 1997 established the Lodging Tax Fund for the City. These funds are generated by revenue from transient lodging tax and used for the construction of tourist facilities or for tourist promotion within the meaning of RCW 35.21.700 and RCW 67.28.1815 and bears on the tourist expansion in the City of Leavenworth or the areas adjacent to the City of Leavenworth which bear upon its economic condition. Fund balance on December 31, 2013 was \$194,829.

FUND 107 is the Public Works Capital Improvement Fund generated by real estate excise taxes as imposed by the state under chapter 82.46 RCW. Fund balance on December 31, 2013 was \$83,461.

FUND 176 is the Community Swimming Pool Fund that the City operates by interlocal agreement in conjunction with the Upper Valley Park & Recreation Service Area (UVPRSA). Annual resolutions are adopted by the UVPRSA to collect property tax dollars that are committed by voter approval to the operations and maintenance of the pool. All other revenues of the pool would be dedicated to the pool fund per the interlocal agreement between the City and the UVPRSA. Fund balance on December 31, 2013 was \$301.

FUND 301 is a Capital Projects Fund (Warehouse) that was created per requirements to dedicate these specific dollars for capital improvement through the issuance of a Limited Tax General Obligation Improvement and Refunding Bond, 2013. These remaining dollars are to be dedicated to the capital improvements of the Leavenworth Fruit Warehouse lot that was purchased for public parking. Fund Balance on December 31, 2013 was \$388,882.

FUND 404 (Includes rolled funds from FUND 406 Sewer Bond Reserve) Sewer Fund includes a reserve amount on a Department of Ecology Loan that was issued in 2000 and stated a requirement to reserve one year of annual payments which equates to \$118,000. Reserve Fund Balance on December 31, 2013 was \$118,000.

TOTAL BALANCE of all reserved funds is \$853,020.

NOTE 2: INVESTMENTS

The City of Leavenworth's investments are either insured, registered or held by the City or its agent in the City's name.

Investments are presented at fair market value.

Investments by type at December 31, 2013 are as follows:

Type of Investment	Leavenworth's own investments	Investments held by Leavenworth as an agent for other local governments, individual or private organizations.	Total
L.G.I.P.	\$261,973.11	\$0.00	\$261,973.11
U.S. Gov. Securities			
Other			
Total	\$261,973.11	\$0.00	\$261,973.11

NOTE 3: PROPERTY TAX

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

Property tax revenues are recognized when cash is received by the City of Leavenworth. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied.

The City of Leavenworth's regular levy for 2013 was \$1.5948655277 per \$1,000 on an assessed valuation of \$317,905,774, for a total regular levy of \$507,016.96.

The City also has a special levy in the amount of \$.2555260282 per \$1,000 on an assessed valuation of \$313,079,652 for a total of \$80,000.00. This special levy was approved by the voters and is used to retire bonds issued to finance the construction of a new fire station and purchase of fire equipment with the final bond payment identified for 2017.

NOTE 4: INTERFUND LOANS

The following table identified below displays interfund loan activity during 2013; payments and balances include principle only. Interest is typically charged for short-term loans at the current rate of the LGIP or as defined by resolution for long-term loans and is paid back at the time of

the principle payment. The City Council approved Resolution 9-2009 granting authority for loans between city funds. Within this resolution temporary loans, which may not exceed more than 90 days, are authorized to be completed and notified to the City Council by the Finance Director without a resolution; all other loans exceeding 90 days must be authorized by resolution of the City Council.

In 2013 the City continued to make payments on the 5-year interfund loan to the ER&R Fund from the Current Expense and Street Funds; this loan will be finalized and paid in full in 2014.

The City issued one new temporary interfund loan to the Pool from the Current Expense Fund in December 2013 that was paid back on January 1, 2014 for a total of \$3,500. This loan was necessary to ensure the Pool Fund did not carryover with a negative fund balance. Additionally, the Pool received \$59,500 in 2013 that was paid back in 2013.

The City Council authorized an interfund loan to the Capital Projects Fund in the amount of \$43,200 in 2013 that was paid back in 2013.

In 2013 the City Council authorized two short-term (3 years or less) interfund loans by resolutions. The first 3-year interfund loan identified below for the Street/Parking borrowing fund was \$100,000 for capital improvements for the design and construction of a city parking lot; in 2013 Parking was a department within the Street Fund. Beginning with the 2014 Budget year, the City Council transitioned the Parking revenues and expenditures into a new enterprise fund called Parking; with this transition the payments due over the next 3 years would be paid back from the new Parking Fund to the Cemetery Endowment Fund for the Parking Lot debt. The payments are anticipated for payback starting in 2014 and ending in 2016. The second 3-year interfund loan identified below for the Pool borrowing fund was authorized by the City Council in support of major capital improvements completed in 2013 at the Pool. With a new levy passed by voters in 2012, the Pool Fund is anticipated to pay back this loan at \$10,000 per year with interest charges starting in 2014 and being paid back by December 31, 2016.

Borrowing Fund	Lending Fund	Balance 1/1/2013	New Loans	Repayments	Balance 12/31/2013
Current Expense	ER&R	\$ 60,000		\$ 30,000	\$ 30,000
Street	ER&R	\$227,434		\$113,717	\$113,717
Pool	Current Expense	\$ 0	\$ 63,000	\$ 59,500	\$ 3,500
Capital Projects	Current Expense	\$ 0	\$ 43,200	\$ 43,200	\$ 0
Street/Parking	Cemetery	\$ 0	\$100,000	\$ 0	\$100,000
Pool	Current Expense	\$ 0	\$ 30,000	\$ 0	\$ 30,000

NOTE 5: DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Leavenworth and summarizes the City's debt transactions for year ended December 31, 2013. The debt service requirements for general obligation bonds, revenue bonds and public works loans from the Departments of Ecology and Commerce, including both principle and interest, are as follows:

	G. O. Bonds	Revenue Bonds	Other Debt	Total Debt
2014	600,569	0	638,862	1,239,431
2015	577,251	0	636,568	1,213,819
2016	580,568	0	632,239	1,212,807
2017	578,873	0	615,603	1,194,476
2018	492,078	0	467,041	959,119
2019-2023	2,154,114	0	1,877,987	4,032,101
2024-2028	1,829,594	0	894,693	2,724,287
2029-2033	996,188	0	442,135	1,438,323
2034-2038	0	0	200,813	200,813
TOTALS	7,809,235	0	6,405,941	14,215,176

In 2011 the City issued a UTGO Refunding Bond for the 1997 Voted Bond for the Fire Hall and a 2011 LTGO Bond related to Water Rights. With the 2011 and 2012 annual reports the interest due was being presented based on the schedules from the Bank of New York Mellon; however, upon review of the actual yearly debt schedules from the final closing documents it was identified that the Bank of New York Mellon overstates the total interest due on the loan due to their accounting system adjusting interest every five years rather than every year. With the 2013 annual report the interest due on both of these loans have been modified per the final closing documents which reduced the total interest due.

In 2012 the City received and reported a new Public Works Trust Fund (PWTF) Loan for the Front/Division Street Construction Project that was only partially represented by a draw request of \$1,062,474.97 in principle and an interest amount due of \$70,226.64 that is obligated between the Street, Water and Sewer Funds for debt service payments to be made starting in 2013. As the project was completed in 2013, required payback of funds has been modified across the appropriate Governmental and Proprietary Funds as legally obligated that now includes the Street, Water, Sewer and Stormwater Funds. The final draw amount of \$127,525.03 received in 2013 are included within the Schedule 9 and adjustments have been incorporated for the beginning balances of the funds noted above based on the project costs and matching grant fund requirements.

In 2013 the City received a new PWTF Loan for completion of the East Leavenworth Watermain Project. The Schedule 9 and notes above include the draw amount of \$659,890.21. Interest included in the notes above is overstated as of December 31, 2013 due to the loan terms not yet finalized with the closure of the loan occurring in 2014; the loan process at an interest rate of 2%

will be reduced to .5% upon closure. An adjustment to this loan will be completed in the 2014 annual report for the final principle draw amount and adjusted interest.

In 2013 the City received a LOCAL Loan for the purchase of a new Road Grader. The principle and interest amounts for this loan are included in the notes above with the principle only being presented on the Schedule 9.

In 2013 the City issued a new bond that compiled three different projects into one package. The first item in this bond is the refunding of the 2003 General Obligation Bond for the Festhalle with a new principle amount of \$1,470,000 over ten years. The second item in this bond was a request for new money in the amount of \$125,000 for additional Festhalle improvements to be paid back over ten years. The third item in this bond was a request for new money to purchase the Leavenworth Fruit Warehouse for the creation of a paid parking lot owned by the City in the amount of \$2,485,000 to be paid back over twenty years. Total combined financing of principle related debt equals \$4,080,000. As part of the retirement of the 2003 General Obligation Bond for the Festhalle, costs for refinancing have been included on the Schedule 9 to match accounting records on the Schedule 1.

Additional debt related items that affect the Schedule 9 are identified below under Other Disclosures as they do not affect the Debt items listed in the table above.

NOTE 6: PENSION PLANS

Substantially all City of Leavenworth full-time and qualifying part-time employees participate in PERS plans 2 and 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

NOTE 7: OTHER DISCLOSURES

In January 2012, the City signed a Lease with Option to Purchase Agreement for additional public lands. Starting in 2012, the lease payments were recognized as part of the Long-Term Liabilities reported on the Schedule 9 of the City's financial statements. As of September 1, 2013, the City took out a bond for the purchase of the land and ended the lease payments. Beginning on January 1, 2013 the City had a liability of \$469,009.92 for this remaining lease and expended \$66,235.25 in actual monthly lease payments. The remaining difference of \$402,774.67 has been included on the Schedule 9 as a reduction to remove this liability that no longer exists.

In May of 2013 it was brought to the City's attention that there is a liability that had not been previously recorded in the City's Schedule 9 for a debt obligation related to a Sewer Utility Reimbursement Agreement that was entered into in 2005. Upon the City Council's acknowledgement of this debt that had been and would continue to accrue interest obligations at 5% per year through 2020, the City Council opted to pay this debt in full from the Sewer Fund to avoid future additional debt. The City paid a total of \$79,478.09 saving nearly \$30,000 in additional interest accruals. The debt has been included as an addition and reduction in the Schedule 9.

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City of Leavenworth.

In a review of the 2011 and 2012 annual reports, the State Auditor's Office (SAO) recommended including the Leavenworth Transportation Benefit District funds on the City's financial statements as agency funds rather than directly depositing those funds into the City's Street Fund. Due to the closure of the 2013 fiscal year prior to the end of the audit, the City will be making this necessary transition beginning with the 2014 Budget year. Based on this recommendation, the SAO anticipates an improvement to the internal controls over the identification of related parties and ensures such relationship is reported and disclosed within the financial statements and notes.

In 2012 the City put forth a ballot to the citizens of Leavenworth to consider the annexation of the City into the Chelan County Fire District, which passed, allowing for the annexation to occur in 2014 based on the 2013 assessed values. With this transition the City made a significant reduction (\$125,000) in the annual property tax request for assessment as the City would no longer have an interlocal agreement requiring the collection and payment of taxes to the Fire District. The City's reduction equates to nearly 25% of the previous year's property tax collection and is now considered "banked capacity" for future increases. Included within a separate Annexation Agreement with the Fire District is specific language regarding the transfer of ownership from the City to the Fire District for various equipment/apparatus owned or partially owned by the City, which was originally purchased using tax payer dollars, that includes a stipulation to return the equipment if/when it is deemed no longer useful and ready for surplus. Additionally, the City negotiated a new Police Services Contract with Chelan County that is now in force until 2017.

In 2013 the City had banking relations with Bank of America. The City was alerted mid-year by Bank of America that the Leavenworth Branch would be sold to Washington Federal. Due to the City being a commercial municipal account, the City's account was not sold to Washington Federal thus leaving the City with no local branch for banking services and deposits within Chelan County. The City proceeded to review options for opening a new checking account with the new Washington Federal Bank and long-time local banking institution Cashmere Valley Bank. Upon review of each Bank's fee structure compared to the savings allocation the City Council Finance Committee authorized the Finance Director to proceed with transitioning the City's Checking Account from Bank of America to Cashmere Valley Bank; this transition began in late 2013 and completed in early 2014.

On May 1, 2013 the City ended a long-term agreement with the local non-profit Leavenworth Civic Center Foundation (LCCF) regarding the oversight of the Leavenworth Festhalle at the request of the LCCF. The Leavenworth Festhalle is a Civic Center Facility that the City owns but did not oversee the daily operations of. In taking over the operations, the current Festhalle Manager and Janitorial staff continued under the City's new direction and policies to operate the facility. In late 2013 the City found discrepancies in revenue and expenditure internal controls and alerted the appropriate law enforcement officials and State Auditor's Office regarding suspected losses. At this time this case continues to be under investigation. It is noted that the previous Festhalle Manager was let go in early January 2014 and a new Manager has been hired for the position.

City of Leavenworth
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	General Obligation Non-Voted 2/9/2009	12/1/2018	133,706	-	25,142	108,564
263.96	General Obligation Non-Voted 11/17/2009	12/1/2019	159,447	-	24,543	134,903
263.96	General Obligation Non-Voted 11/17/2009	12/1/2014	12,716	-	12,716	-
263.96	General Obligation Non-Voted 6/16/2010	12/1/2015	15,603	-	10,341	5,262
263.96	General Obligation Non-Voted 11/16/2011	12/1/2021	141,506	-	15,607	125,899
251.12	General Obligation Voted (Refunding) 11/22/2011	12/1/2017	335,000	-	85,000	250,000
251.19	General Obligation Non-Voted 11/22/2011	12/1/2026	635,000	-	40,000	595,000
263.96	General Obligation Non-Voted 3/19/2013	6/1/2023	197,244	-	16,209	181,035
251.14	General Obligation Voted 9/5/2013	12/1/2028	1,455,000	-	80,000	1,375,000
251.11	General Obligation Non-Voted 9/5/2013	12/1/2028	115,000	-	5,000	110,000
251.19	General Obligation Non-Voted 9/5/2013	12/1/2033	2,485,000	-	90,000	2,395,000
263.81	Governmental - PWTF Loan 7/3/2009	7/1/2029	304,184	-	19,737	284,447
263.81	Governmental - PWTF Loan 2/15/2013	6/1/2037	903,104	-	37,188	865,916
259.11	Compensated Absences - Governmental	12/31/2013	76,842	-	1,050	75,792
Total General Obligations:			6,969,351	-	462,533	6,506,818

City of Leavenworth
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations						
263.82	Proprietary - PWTF Loan 2/20/1998	7/1/2017	552,316	-	138,079	414,237
263.82	Proprietary - DOE Loan 3/1/1998	2/28/2017	61,538	-	18,462	43,077
263.82	Proprietary - DOE Loan 3/1/2000	3/31/2020	767,000	-	118,000	649,000
263.82	Proprietary - DWSRF Loan 10/27/2004	10/1/2023	798,446	-	79,845	718,601
263.82	Proprietary - DWSRF Loan 10/21/2008	10/1/2025	1,045,600	-	87,133	958,466
263.82	Proprietary - PWTF Loan 1/24/2007	7/1/2025	331,939	-	27,662	304,277
263.82	Proprietary - PWTF Loan 7/3/2009	7/1/2029	163,698	-	9,868	153,829
263.82	Proprietary - PWTF Loan 7/3/2009	7/1/2029	163,698	-	9,868	153,829
263.82	Proprietary - PWTF Loan 2/15/2013	6/1/2037	125,397	-	5,454	119,943
263.82	Proprietary - PWTF Loan 2/15/2013	6/1/2037	42,499	-	1,983	40,516
263.82	Proprietary - PWTF Loan 2/15/2013	6/1/2037	119,000	-	4,958	114,042
263.82	Proprietary - PWTF Loan 8/21/2013	6/1/2032	659,890	18,398	35,699	642,589
259.12	Compensated Absences - Proprietary	12/31/2013	86,651	-	4,544	82,108
Total Revenue Obligations:			4,917,671	18,398	541,556	4,394,513
Total Liabilities:			11,887,022	18,398	1,004,089	10,901,332

City of Leavenworth
Schedule of Liabilities
For the Year Ended December 31, 2013

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.14	General Obligation Voted 10/27/2003	12/1/2028	1,500,000	33,849	1,533,849	-
251.11	General Obligation Non-Voted 2/9/2009	12/1/2018	158,097	-	24,390	133,706
263.96	General Obligation Non-Voted 11/17/2009	12/1/2019	183,236	-	23,789	159,448
263.96	General Obligation Non-Voted 11/17/2009	12/1/2014	25,071	-	12,355	12,716
263.96	General Obligation Non-Voted 6/16/2010	12/1/2015	25,705	-	10,102	15,603
263.96	General Obligation Non-Voted 11/16/2011	12/1/2021	156,659	-	15,152	141,506
251.12	General Obligation Voted (Refunding) 11/22/2011	12/1/2017	415,000	-	80,000	335,000
251.19	General Obligation Non-Voted 11/22/2011	12/1/2026	675,000	-	40,000	635,000
263.96	General Obligation Non-Voted 3/19/2013	6/1/2023	-	197,244	-	197,244
251.14	General Obligation Voted 9/5/2013	12/1/2028	-	1,470,000	15,000	1,455,000
251.11	General Obligation Non-Voted 9/5/2013	12/1/2028	-	125,000	10,000	115,000
251.19	General Obligation Non-Voted 9/5/2013	12/1/2033	-	2,485,000	-	2,485,000
263.81	Governmental - PWTF Loan 7/3/2009	7/1/2029	323,921	-	19,737	304,184
263.81	Governmental - PWTF Loan 2/15/2013	6/1/2037	903,104	-	-	903,104
263.51	Lease Agreement with Purchase Option 1/1/2012	8/31/2013	469,010	-	469,010	-
259.11	Compensated Absences - Governmental	12/31/2013	70,545	6,297	-	76,842
Total General Obligations:			4,905,346	4,317,390	2,253,383	6,969,353

City of Leavenworth
Schedule of Liabilities
For the Year Ended December 31, 2013

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations						
263.82	Proprietary - PWTF Loan 2/20/1998	7/1/2017	690,396	-	138,079	552,317
263.82	Proprietary - DOE Loan 3/1/1998	2/28/2017	80,001	-	18,462	61,539
263.82	Proprietary - DOE Loan 3/1/2000	3/31/2020	885,000	-	118,000	767,000
263.82	Proprietary - DWSRF Loan 10/27/2004	10/1/2023	878,291	-	79,845	798,446
263.82	Proprietary - DWSRF Loan 10/21/2008	10/1/2025	1,132,733	-	87,133	1,045,600
263.82	Proprietary - PWTF Loan 1/24/2007	7/1/2025	359,600	-	27,662	331,938
263.82	Proprietary - PWTF Loan 7/3/2009	7/1/2029	173,566	-	9,868	163,698
263.82	Proprietary - PWTF Loan 7/3/2009	7/1/2029	173,566	-	9,868	163,698
263.82	Proprietary - PWTF Loan 2/15/2013	6/1/2037	116,872	8,525	-	125,397
263.82	Proprietary - PWTF Loan 2/15/2013	6/1/2037	42,499	-	-	42,499
263.82	Proprietary - PWTF Loan 2/15/2013	6/1/2037	-	119,000	-	119,000
263.82	Proprietary - PWTF Loan 8/21/2013	6/1/2032	-	659,890	-	659,890
263.92	Proprietary - Clennon URA Payout	5/30/2013	-	79,478	79,478	-
259.12	Compensated Absences - Proprietary	12/31/2013	76,424	10,228	-	86,651
Total Revenue Obligations:			4,608,948	877,121	568,395	4,917,674
Total Liabilities:			9,514,294	5,194,511	2,821,778	11,887,027

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Adam Wilson Adam.Wilson@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