



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Chelan

Chelan County

For the period January 1, 2015 through December 31, 2015

Published February 2, 2017

Report No. 1018533





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

February 2, 2017

Mayor and City Council
City of Chelan
Chelan, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
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.....	27

**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 Chelan
Chelan County**

January 1, 2015 through December 31, 2015

Mayor and City Council
City of Chelan
Chelan, 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 Chelan, Chelan County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 23, 2017.

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 audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 23, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Chelan Chelan County

January 1, 2015 through December 31, 2015

Mayor and City Council
City of Chelan
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Chelan, Chelan County, Washington, for the year ended December 31, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Chelan 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 Chelan, for the year ended December 31, 2015, 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 Chelan, as of December 31, 2015, or the changes in financial position or cash flows for the year 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 audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is 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 23, 2017 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

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

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

Pat McCarthy

State Auditor

Olympia, WA

January 23, 2017

FINANCIAL SECTION

**City of Chelan
Chelan County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

City of Chelan
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 Current Expense	103 Stadium	301 Capital Improvement
Beginning Cash and Investments					
30810	Reserved	1,772,364	-	1,027,528	474,077
30880	Unreserved	12,280,971	4,553,700	-	-
388 & 588	Prior Period Adjustments, Net	-	-	-	-
Operating Revenues					
310	Taxes	4,691,330	3,445,462	863,383	382,485
320	Licenses and Permits	179,063	179,063	-	-
330	Intergovernmental Revenues	1,458,914	162,652	-	870,811
340	Charges for Goods and Services	6,281,963	1,526,135	-	-
350	Fines and Penalties	82,380	82,380	-	-
360	Miscellaneous Revenues	1,658,943	1,286,258	4,051	1,293
Total Operating Revenues:		14,352,594	6,681,951	867,434	1,254,589
Operating Expenditures					
510	General Government	1,152,241	1,152,241	-	-
520	Public Safety	1,247,929	1,247,929	-	-
530	Utilities	3,156,836	-	-	-
540	Transportation	1,112,228	763,831	-	-
550	Natural and Economic Environment	1,353,951	636,819	717,131	-
560	Social Services	4,273	4,273	-	-
570	Culture and Recreation	2,382,602	2,382,602	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		10,410,060	6,187,695	717,131	0
Net Operating Increase (Decrease):		3,942,533	494,256	150,303	1,254,589
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	408,870	8,585	-	39,637
391-393	Debt Proceeds	47,831	-	-	-
397	Transfers-In	1,082,419	436,930	-	25,972
Total Nonoperating Revenues:		1,539,120	445,515	0	65,609
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	8,681	4,039	-	-
591-593	Debt Service	1,179,091	166,846	-	-
594-595	Capital Expenditures	3,008,933	-	-	1,170,733
597	Transfers-Out	1,082,419	352,066	538,140	28,790
Total Nonoperating Expenditures:		5,279,124	522,951	538,140	1,199,523
Net Increase (Decrease) in Cash and Investments:		202,529	416,820	-387,837	120,675
Ending Cash and Investments					
5081000	Reserved	1,243,773	-	639,690	594,752
5088000	Unreserved	13,012,092	4,970,520	-	-
Total Ending Cash and Investments		14,255,865	4,970,520	639,690	594,752

The accompanying notes are an integral part of this statement.

302 Street Projects	310 Recreation Capital Improvement	400 Sewer	401 Water	403 Sanitation	502 Equipment Repair & Replacement
-	270,760	-	-	-	-
230,147	-	3,249,748	2,643,685	145,818	1,457,874
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
254,021	162,013	3,784	3,784	1,849	-
-	-	1,626,667	1,866,441	970,142	292,576
-	-	-	-	-	-
618	561	188,298	31,070	138,650	8,145
254,639	162,574	1,818,749	1,901,295	1,110,642	300,721
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,022,309	1,102,829	1,031,698	-
-	-	-	-	-	348,398
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
0	0	1,022,309	1,102,829	1,031,698	348,398
254,639	162,574	796,440	798,466	78,944	-47,677
-	-	134,371	226,277	-	-
-	-	47,831	-	-	-
240,000	130,000	-	-	-	249,517
240,000	130,000	182,202	226,277	0	249,517
-	-	1,901	2,742	-	-
-	-	659,795	352,450	-	-
360,366	554,003	374,821	131,551	13,929	403,529
-	-	46,563	50,586	66,274	-
360,366	554,003	1,083,080	537,329	80,203	403,529
134,273	-261,429	-104,437	487,414	-1,259	-201,689
-	9,331	-	-	-	-
364,419	-	3,132,177	3,144,232	144,558	1,256,185
364,419	9,331	3,132,177	3,144,232	144,558	1,256,185

The accompanying notes are an integral part of this statement.

City of Chelan
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	631 South Shore Sewer Trust	633 Development Deposits	650 Treasurer's Suspense
308	Beginning Cash and Investments	431,204	364,624	59,820	6,760
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	167,915	167,915	-	-
380-390	Other Increases and Financing Sources	560,625	13,905	352,800	193,920
510-570	Expenditures	169,500	169,500	-	-
580-590	Other Decreases and Financing Uses	547,921	-	351,480	196,441
Net Increase (Decrease) in Cash and Investments:		11,119	12,320	1,320	(2,521)
508	Ending Cash and Investments	442,324	376,945	61,140	4,239

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
City of Chelan
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chelan was incorporated on May 7, 1902, and operates under the laws of the State of Washington applicable to a non-charter code city. The city is a general purpose government and provides street maintenance and improvement, parks and recreation, health and social services, and general administrative services. The city owns and operates water and sewer utilities, a garbage utility, a 165 site recreational vehicle park, a 100 slip marina, an 18 hole professional putting course, and an 18 hole municipal golf course. It contracts for law enforcement services and is annexed into a fire district, which provides fire protection services. It is also part of the North Central Washington Regional Library system and provides the facility for a local library.

The City of Chelan reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (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 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 Chelan'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:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the general operating fund of the city. It accounts for all financial resources and transactions except those required or elected to be accounted for in another fund.

Special Revenue Funds

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

Debt Service Funds

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 Funds

These funds account for 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

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account for assets the city holds for others in an agency capacity.

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 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous year.

C. Budgets

The city adopts annual appropriated budgets for the following funds: Current Expense, Street, Tourism, Parks & Recreation, Councilmanic Debt, Assessment Debt, Capital Improvement, Street Capital, Parks & Recreation Capital, Sewer, Water, Water/Sewer Debt Redemption, Sanitation, Water Capital, Sewer Capital, and Equipment Repair & Replacement. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
#001 - Current Expense	\$4,102,449	\$3,139,899	\$962,550
#101 - Street Fund	\$1,157,935	\$1,082,617	\$75,318
#103 - Tourism Promotion	\$1,299,540	\$1,255,271	\$44,269
#110 - Parks & Recreation	\$2,645,204	\$2,371,284	\$273,920
#201 - Councilmanic Debt	\$166,930	\$166,846	\$84
#301 - Capital Improvement	\$2,191,475	\$1,199,523	\$991,952
#302 - Street Capital	\$782,901	\$360,366	\$422,535
#310 - Parks & Rec Capital	\$665,201	\$554,003	\$111,198
#400 - Sewer	\$1,790,637	\$1,734,140	\$56,497
#401 - Water	\$1,897,658	\$1,853,415	\$44,243
#402 - Water/Sewer Debt	\$1,013,325	\$1,012,245	\$1,080
#403 - Sanitation	\$1,175,398	\$1,111,901	\$63,497
#406 - Water Capital	\$746,110	\$476,993	\$269,117
#407 - Sewer Capital	\$1,401,160	\$1,071,250	\$329,910
#502 - Equip Repair & Replace	\$807,000	\$751,926	\$55,074
Totals	\$21,842,923	\$18,141,679	\$3,701,244

** Excludes #203 Special Assessment Debt, #633 Development Deposits and #650 Treasurer's Suspense (not budgeted); and #603 Sewer Trust and #631 Lake Chelan Sewer Trust Fund (budgets set by Lake Chelan Sewer District)

Although the city adopts and maintains the above funds at the management level, for reporting purposes the following funds are reported together: Rolled into #001 Current Expense are #101 Street, #110 Parks and Recreation, and #201 Councilmanic Debt; rolled into #302 Street Capital is #203 Special Assessments; rolled into #400 Sewer are #407 Sewer Capital and a portion of #402 Water/Sewer Debt; rolled into #401 Water are #406 Water Capital and a portion of #402 Water/Sewer Debt rolled into #631 Lake Chelan Sewer Trust is #603 Sewer Trust.

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revision that alters the total expenditures of a fund, or that affects the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

In 2015 the city amended its budget four times to account for unanticipated revenues and expenditures that occurred during the course of the year. These amendments were necessary to account for several grants and their corresponding projects, including: TIB grant \$250,000; remainder of DES energy grant of approximately \$690,000; CERB grant of \$22,500 for a waterline study; FAA \$683,775 and WSDOT \$36,338 grants for the purchase of land for the airport; an interfund loan of \$750,000 that ultimately was not needed; increases to Water and Sewer Fund transfers to their respective capital funds of \$100,000 each; increased garbage

tipping fees of \$100,000; purchase of a dump truck \$135,000 and additional cost of \$57,000 to purchase a garbage truck; building improvements to city owned facilities of \$14,000; additional advertising from the Tourism Fund of \$179,000 due to the 2015 fires; a final revision to the revenue budget of the Wastewater Treatment Plant Phase II project \$47,800 in the Sewer Capital Fund. In addition, there were several smaller adjustments (jail services of \$22,000; redistribution of janitor's wages/benefits; additional part time employee wages and benefits; additional vehicle repair costs of \$25,000 and other, smaller supplies and services line items.)

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 \$500 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement, after six months of employment. Sick leave may accumulate indefinitely. Upon retirement, sick leave is paid out at a ratio of 4 to 1 with a maximum of 240 hours. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, Debt Service Requirements.

H. Other Financing Sources and Uses

The City's "Other Financing Sources or Uses" consist of:

1. Transfers to support the operations of other funds.
2. Contributions to the capital of enterprise or internal service funds and transfers to establish or reduce working capital in other funds.

I. Risk Management

The city of Chelan 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 179 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 sub-limits 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 Chelan has the following coverages and deductibles: Auto, General, Police, Errors or Omissions, Employment Practices, Employee Benefit, and Stop-Gap Liability layered total limit of \$20,000,000 per occurrence with no deductible; Property Program \$300,000,000 per occurrence (\$150,000,000 earthquake/\$100,000,000 flood) with \$5,000 deductible (2% of values for earthquake/\$250,000 per occurrence for flood); Auto Physical Damage Actual Cash Value or optional replacement cost with \$1,000 deductible; Boiler and Machinery Program \$100,000,000 maximum limit with \$10,000 deductible; Crime/Fidelity Program \$2,500,000 for employee theft, robbery or safe burglary, computer fraud, money orders and counterfeit money, and faithful performance of duty with \$10,000 deductible; Cyber Insurance \$10,000,000 aggregate pool limit with \$25,000 deductible.

Claims history is as follows for paid claims: 5 claims totaling \$64,522 in 2011; 6 claims totaling \$14,566 in 2012; 6 claims totaling \$111,395 in 2013; and 10 claims totaling \$46,655 in 2014. There are 4 open claims as of December 31, 2015.

Further information may be obtained from:

Washington Cities Insurance Authority
P.O. Box 88030
Tukwila, WA 98138

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

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

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating

employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

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 City Council. When expenditures that meet restrictions are incurred, the city intends to use reserved resources first before using unreserved amounts. Reservations of Ending Cash and Investments consist of: Lodging Tax Funds \$639,691 (reserved per RCW 67.28.180 and 67.28.1815); Capital Improvement Funds (REET) \$594,753 (reserved per RCW 82.46.010 and 82.46.035); Parks & Recreation Capital Funds (comes from Lodging Tax) \$9,331; South Shore Sewer Trust Funds \$376,944 (funds belong to Lake Chelan Sewer District); Developer Deposit Trust Funds \$61,140 (funds consist of developer deposits which are held until they are recognized as expenditures or returned to the developer and retainage payments which will be paid out at the end of a project); and Treasurer's Suspense Funds \$4,239 (funds consist of sales taxes, building fees, and other state taxes collected and remitted to the state), for a total of \$1,686,098 in reserved cash.

NOTE 2 – DEPOSITS AND INVESTMENTS

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All 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 government's name.

Investments are reported at original cost. Investments by type at December 31, 2015 are as follows:

State Treasurer's Investment Pool	4,074,007
U.S. Government Securities	<u>3,189,936</u>
Total Investments	\$7,263,943

NOTE 3 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month, except in April and October when taxes are also distributed several times during those months.

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

The city's regular levy for the year 2015 was \$1.535857 per \$1,000 on an assessed valuation of \$784,536,131 for a total regular levy amount of \$1,204,935.

NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2015.

The debt service requirements for general obligation bonds, revenue bonds, and public works and other loans, including both principle and interest, are as follows:

	Principal	Interest	Total Debt
2016	1,274,969	111,978	1,386,947
2017	1,068,489	92,642	1,161,131
2018	872,113	70,961	943,074
2019	820,444	61,282	881,726
2020	815,013	52,509	867,522
2021/2025	2,581,088	164,857	2,745,945
2026/2030	1,801,524	60,703	1,862,227
2031/2035	1,580,710	35,567	1,616,277
2036/2040	1,580,710	15,807	1,596,517
2041	316,142	790	316,932
Totals	12,711,202	667,096	13,378,298

NOTE 5 - PENSION PLANS

Substantially all city full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

As stated in the Participating Employer Financial Information- For the Fiscal Year Ended June 30, 2015 the city's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

Plan	Allocation %	Liability
PERS 1	0.0010970000%	57,383
PERS 1 UAAL	0.026566%	1,389,649
PERS 2 and 3	0.034313%	1,226,023
LEOFF 1	0.005517%	(66,492)

LEOFF Plan 1

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

NOTE 6 – OTHER DISCLOSURES

Extraordinary Events

On August 14, 2015 a fire erupted just outside the city limits of Chelan. Two structures within the city were destroyed and several just outside the city and on city services. Fire and smoke from the fire caused significant cancellations in hotels and the city's own RV park. Loss of revenue was significant to the city's RV park, putting course, and golf course and the hotel/motel tax distribution for October (August lodging) was down by more than \$114,000 (50%) from the previous year.

Contingencies and Litigation

In 2012 the city received a claim for damages seeking at least \$12,000,000 for an injury that resulted from a juvenile being struck by a golf ball. This claim has been turned over to the city's insurance provider. In the opinion of management, the city's insurance policies and programs are

adequate to pay all known or pending claims. As of December 31, 2015 this claim was still pending.

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

Self Insurance

The city maintains insurance against most normal hazards except for unemployment insurance where it has elected to become self-insured (reimbursable). The city budgets within each fund an amount to pay anticipated claims based upon prior claims history. This history shows paid claims are made up primarily of the city's seasonal employees. Claims reimbursements have ranged from \$47,000 to \$64,000 over the past six years and the city budgets \$80,000 to \$90,000 to cover these payments. Therefore, no reserve is set aside for claims.

Joint Ventures

The City of Chelan and Port District of Chelan County jointly operate the Lake Chelan Airport. The Lake Chelan Airport was organized in 1985 to serve the air transportation needs of the City of Chelan and surrounding areas. The original interlocal agreement between the city and port district was amended in 1987, 1992, 1999 and again in 2011.

The airport is governed by a board consisting of eight members, the seven council members and mayor of the city. The council members serve as the legislative body of the board and the mayor serves as the chief executive of the board and administrative officer of the airport. Each of the parent entities owns an undivided one-half interest in the airport. On dissolution of the joint venture, the net assets will be shared proportionate to the amount of contributed capital provided by the city and port district.

The airport obtains operating resources through user fees and the sale of aviation fuel. In addition, the city and port district provide the additional funding necessary to maintain operations. This operating subsidy is provided in the annual budget as adopted in a joint resolution of the city and port district. In 2015, the city's share of the operating subsidy was \$37,813.

Also in 2015, the city became the lead agency in securing a \$683,775 FAA grant and a \$34,338 WSDOT grant, which, combined with \$39,637 in local funds from the airport, were used to purchase approximately 38 acres of land. This land will be used in the ongoing runway realignment project.

Complete financial statements for the Lake Chelan Airport can be obtained from the Lake Chelan Airport administrative offices at 135 E. Johnson Avenue, P.O. Box 1407, Chelan, WA 98816.

Significant commitments or obligations

OPEB

The city has a commitment to pay for post-employment benefits for employees that belong to LEOFF 1. These benefits include medical, dental, vision, and long term care. As of December 31, 2015 the city had three retirees who received benefits totaling \$47,605.

Construction Commitments

The city has one active construction project as of December 31, 2015. The Woodin Avenue Sidewalk Extension Project is being funded through a \$250,000 TIB grant and city contribution of \$147,161, for a total project cost of \$397,161. Engineering work started in 2015 and construction is anticipated to start in the spring of 2016.

At year-end the city's commitments with the contractor is as follows:

Project	Spent to Date	Remaining Commitment
Woodin Ave sidewalk project	\$42,749	\$354,412

In addition, in 2015 the city made the decision to replace the aging parks administration building after mold was discovered in the walls. Preliminary work was started in 2015 with the placement of a temporary building and demolition of the old building. The 2015 budget of \$31,000 and actual expenditures of \$28,253 covered rental of the temporary building, demolition of the old building, and removal and replacement of power lines, plus other ancillary costs. The 2016 budget is currently \$400,000, however it is not adequate to construct a new building. A budget amendment will be required (total costs anticipated to be \$533,000 plus sales tax and architect fees) once cost cutting measures from the original building plan are implemented.

Interlocal Agreements

In 2001 the City of Chelan entered into an agreement with the Lake Chelan Sewer District for system operations and maintenance and financial services support. This support includes accounts payable, utility billing and receipting, and financial reporting.

The Lake Chelan Sewer District is administered by a commissioner form of government. There are three elected commissioners. The district has no employees; uses the City of Chelan for wastewater treatment services; and contracts with the city for the operation and maintenance of its facilities. The City of Chelan handles major project management, accounting and reporting services for the district. Prior to the agreement with the city, these duties were handled by Chelan County P.U.D.

City of Chelan
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Non Voted GO Debt	12/15/2027	298,881	-	20,482	278,399
251.11	Non Voted GO Debt	12/15/2027	419,913	-	28,782	391,131
251.11	Non Voted GO Debt	12/15/2027	1,013,501	-	69,474	944,027
263.61	Note Payable	10/31/2017	600,000	-	200,000	400,000
Total General Obligation Debt/Liabilities:			2,332,295	-	318,738	2,013,557
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	Loan	10/1/2020	644,210	-	107,369	536,841
263.82	Loan	7/1/2021	1,782,540	-	254,649	1,527,891
263.82	Loan	7/1/2019	46,285	-	9,256	37,029
263.82	Loan	7/1/2018	221,582	-	55,396	166,186
263.82	Loan	6/1/2041	8,488,015	47,831	316,142	8,219,704
264.30	Net Pension Liability		-	2,673,055	-	2,673,055
252.11	NonVoted Revenue Bond	11/1/2016	410,000	-	200,000	210,000
259.12	Compensated Absences (S)		76,763	-	9,495	67,268
259.12	Compensated Absences (V)		186,941	9,801	-	196,742
Total Revenue and Other (non G.O.) Debt/Liabilities:			11,856,336	2,730,687	952,307	13,634,716
Total Liabilities:			14,188,631	2,730,687	1,271,045	15,648,273

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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