

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

City of Wenatchee
Chelan County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010591

Issue Date
September 30, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

September 30, 2013

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

Table of Contents

**City of Wenatchee
Chelan County
January 1, 2012 through December 31, 2012**

Federal Summary	1
Schedule of Audit Findings and Responses	3
Status of Prior Audit Findings.....	6
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 <i>Government Auditing Standards</i>	7
Independent Auditor’s Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	9
Independent Auditor’s Report on Financial Statements.....	12
Financial Section.....	15

Federal Summary

**City of Wenatchee
Chelan County
January 1, 2012 through December 31, 2012**

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

We noted instances of noncompliance that were material to the financial statements of the City.

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

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

<u>CFDA No.</u>	<u>Program Title</u>
14.251	CPD, EDI, Special Projects

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

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

Schedule of Audit Findings and Responses

**City of Wenatchee
Chelan County
January 1, 2012 through December 31, 2012**

1. The Greater Wenatchee Regional Events Center Public Facility District, a component unit of the City, invested public funds in ineligible investments.

Background

The Greater Wenatchee Regional Events Center Public Facility District (District) was formed through an interlocal agreement in June 2006 to oversee the construction and operation of an event center facility. The District is included in the City of Wenatchee's financial statements as a discretely presented component unit because of the financial commitment of the 0.2 percent additional sales and use tax the City imposed in 2012 to assist the District to refinance its outstanding debt.

Description of Condition

The District issued Limited Sales Tax Bonds Series A and B in the amount of \$48,235,000 on September 20, 2012. Approximately \$4 million of this bond issuance was deposited with the Escrow Agent as debt service reserve. As of December 31, 2012, the Escrow Agent invested the \$4 million debt service reserve and approximately \$470,000 from sales tax revenue, in a taxable money market fund that includes debt obligations of foreign banks and foreign corporations, which are not allowable investments for municipalities under state law.

All funds on deposit with the Escrow Agent as of December 31, 2012 have been accounted for.

Cause of Condition

The District relied on professionals involved in the bond issuance to identify accounts for investment of the debt service reserve by the Escrow Agent and failed to instruct the Escrow Agent regarding applicable statutes limiting allowable investment instruments.

Effect of Condition

The District invested public funds in ineligible investments.

Recommendation

We recommend the City ensure that the District advise its Escrow Agent of state law regarding allowable investments and instruct the Escrow Agent to invest the District funds accordingly.

City's Response

As indicated in the finding the District is reported as a discreetly presented component unit of the City of Wenatchee. The District's information is presented on the City's Government Wide Financial Statements only and the City has no control over the District's activities. The District's response to this finding indicates that the District is correcting this error and ensuring future investment are consistent with Washington State law.

Auditor's Remarks

We appreciate the comments provided by the City. We will review this at the District during our next audit.

Applicable Laws and Regulations

RCW 39.59.030 states:

In addition to any other investment authority granted by law, the state of Washington and local governments in the state of Washington are authorized to invest their funds and money in their custody or possession, eligible for investment and subject to the arbitrage provisions of section 148 of the federal internal revenue code or similar provision concerning the investment of state and local money and funds, in:

(1) Shares of mutual funds with portfolios consisting of only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds described in RCW 39.59.020 (1) or (2), except that bonds otherwise described in RCW 39.59.020 (1) or (2) shall have one of the four highest credit ratings of a nationally recognized rating agency;

(2) Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency; or

(3) Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

RCW 39.59.020, Authorized investments — Bonds, warrants, and other investments, states:

In addition to any other investment authority granted by law and notwithstanding any provision of law to the contrary, the state of Washington and local governments in the state of Washington are authorized to invest their funds and money in their custody or possession, eligible for investment, in:

- (1) Bonds of the state of Washington and any local government in the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
- (2) General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
- (3) Subject to compliance with RCW 39.56.030, registered warrants of a local government in the same county as the government making the investment; or
- (4) Any investments authorized by law for the treasurer of the state of Washington or any local government of the state of Washington other than a metropolitan municipal corporation but, except as provided in chapter 39.58 RCW, such investments shall not include certificates of deposit of banks or bank branches not located in the state of Washington.

Status of Prior Audit Findings

City of Wenatchee Chelan County January 1, 2012 through December 31, 2012

The status of findings contained in the prior years' audit reports of the City of Wenatchee is provided below:

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

Report No. 1008545, dated August 10, 2012

Background

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

Description of Condition

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

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

Status

The City had a vacant accountant position since June 2011; this position was filled January 2013. Having this position filled provides staff to assist in internal controls and financial statement preparation and review.

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

**City of Wenatchee
Chelan County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Wenatchee, Chelan County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 2, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Audit Findings and Responses as Finding 1.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



TROY KELLEY
STATE AUDITOR

August 2, 2013

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

**City of Wenatchee
Chelan County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Wenatchee, Chelan County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.


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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

August 2, 2013

Independent Auditor's Report on Financial Statements

City of Wenatchee Chelan County January 1, 2012 through December 31, 2012

Mayor and City Council
City of Wenatchee
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Wenatchee, Chelan County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Wenatchee, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, street and arterial street funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 25, pension trust fund information on pages 81 through 82 and information on postemployment benefits other than pensions on page 83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2013 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

August 2, 2013

Financial Section

**City of Wenatchee
Chelan County
January 1, 2012 through December 31, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012
Statement of Activities – 2012
Balance Sheet – Governmental Funds – 2012
Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Position – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2012
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Street Fund – 2012
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Arterial Street Fund – 2012
Statement of Net Position – Proprietary Funds – 2012
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2012
Statement of Cash Flows – Proprietary Funds – 2012
Statement of Net Position – Fiduciary Funds – 2012
Statement of Changes in Net Position – Fiduciary Funds – 2012
Notes to Financial Statements – 2012

REQUIRED SUPPLEMENTARY INFORMATION

Fireman Pension Fund Information – 2012
Other Post Employment Benefits (OPEB) Information – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2012
Notes to the Schedule of Expenditures of Federal Awards – 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Wenatchee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Wenatchee for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City of Wenatchee exceeded its liabilities at the close of the most recent fiscal year by \$127,995,439. Of this amount, \$21,970,650 may be used to meet the government's ongoing obligations to citizens and creditors within the guidelines of the funds.
- The government's total net position increased by \$4,292,879
- This increase is due in large part to the following:
 - Wastewater Treatment Plant Odor and Visual Improvements \$7,351,069
 - South Wenatchee Ave Streets and Utility Improvements \$950,812
 - 5th Street Safety Improvements \$727,240
 - Multi use land purchase \$809,810
 - Worthen and Orondo Street and Utility Improvements \$1,183,266
 - Additional loans with the Washington State Public Works Trust Fund in \$1,867,344
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$7,461,283. Approximately 88% of the total amount, or \$6,556,911, is available for spending at the government's discretion within the designated funding sources guidelines.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$2,360,823, or 11% of total general fund expenditures and other financing uses of \$22,050,396.
- The City's total combined bond and state revolving loan related long-term debt decreased by \$727,637(2%) during the current fiscal year which was comprised of:
 - \$84,731 new debt issued for waterfront park assess construction
 - \$2,679,712, principal payments
 - \$1,867,344 new loans from Washington State Public Works Trust Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety

(including police and fire), transportation, culture and recreation and economic environment. The business-type activities of the City include water and sewer services, storm drain, solid waste services and a cemetery.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Wenatchee, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

During the fiscal year ended December 31, 2012, the City maintained 30 individual governmental funds. Information for the General Fund, Street Special Revenue Fund, Arterial Street Special Revenue Fund and Riverside Drive LID Debt Service Fund (each of which is considered to be a major fund) is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances, and data from the other 26 governmental funds are combined into a single, aggregated presentation.

The General Fund reflects an adjustment to the beginning fund balance due to a prior period correction. The correction is a result of a revised estimate due to the City Self Insurance Fund from the General Fund. See Note 15 of the Financial Statement for further discussion.

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

Proprietary funds. The City of Wenatchee maintains two different types of proprietary funds.

- *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer, Storm Drain, Regional Water, Solid Waste, Regional Decant Facility and Cemetery Funds.
- *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal services funds to account for the maintenance and replacement of its fleet of vehicles, the maintenance of facilities, the administration of property and liability insurance and its management information systems. Because all of these services predominantly benefit government rather than business-type functions, they have been included with the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the

Water/Sewer, Storm Drain and Regional Water operations (each of which is a major fund), and aggregate all other nonmajor proprietary funds of the City with a separate column for both the enterprise and internal service funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting principles used for fiduciary funds are much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Wenatchee, assets exceeded liabilities by \$127,995,439 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (\$98,136,988, or 77%) is comprised of its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities

City of Wenatchee's Net Position

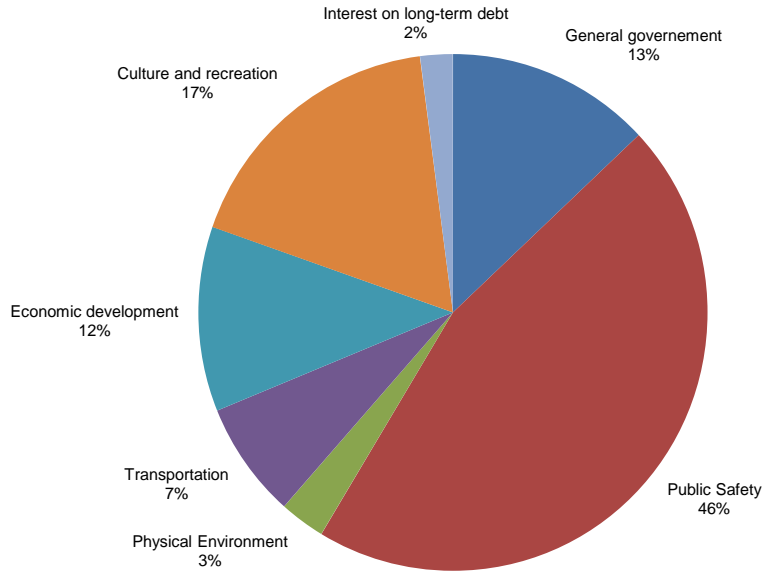
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 17,254,144	\$ 17,138,008	\$ 20,144,081	\$ 24,202,528	\$ 37,398,225	\$ 41,340,536
Capital assets	76,346,914	74,704,076	63,986,141	56,432,909	140,333,055	131,136,985
Total assets	<u>93,601,058</u>	<u>91,842,084</u>	<u>84,130,222</u>	<u>80,635,437</u>	<u>177,731,280</u>	<u>172,477,521</u>
Liabilities						
Long-term debt	13,163,604	14,330,961	29,032,463	28,592,746	42,196,067	42,923,707
Other liabilities	5,487,397	4,381,119	2,052,377	1,470,136	7,539,774	5,851,255
Total liabilities	<u>18,651,001</u>	<u>18,712,080</u>	<u>31,084,840</u>	<u>30,062,882</u>	<u>49,735,841</u>	<u>48,774,962</u>
Net Assets						
Invested in capital assets, net of related debt	63,183,310	60,373,115	34,953,678	27,840,163	98,136,988	88,213,278
Restricted	451,849	0	7,435,952	14,662,921	7,887,801	14,662,921
Unrestricted	11,314,898	12,756,889	10,655,752	8,069,471	21,970,650	20,826,360
Total net assets	<u>\$ 74,950,057</u>	<u>\$ 73,130,004</u>	<u>\$ 53,045,382</u>	<u>\$ 50,572,555</u>	<u>\$ 127,995,439</u>	<u>\$ 123,702,559</u>

City of Wenatchee's Changes in Net Position

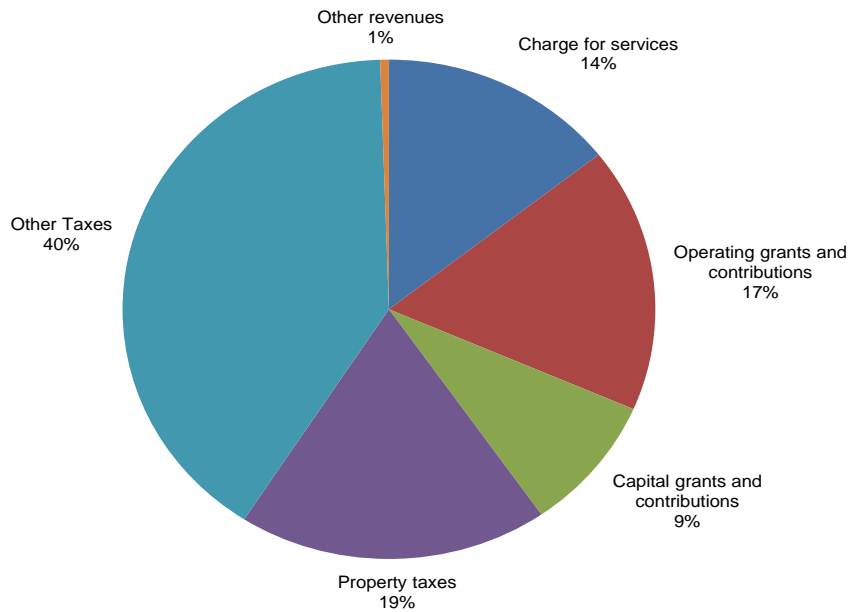
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charge for services	\$ 4,640,256	\$ 6,415,857	\$ 13,803,757	\$ 13,174,614	\$ 18,444,013	\$ 19,590,471
Operating grants and contributions	5,524,705	3,866,101	0	89,123	5,524,705	3,955,224
Capital grants and contributions	2,993,414	4,430,050	402,466	865,868	3,395,880	5,295,918
General revenues:						
Property taxes	6,064,446	5,961,641	0	0	6,064,446	5,961,641
Other Taxes	12,999,756	11,886,328	0	0	12,999,756	11,886,328
Other revenues	764,629	2,042,376	81,370	46,999	845,999	2,089,375
Total revenues	32,987,206	34,602,353	14,287,593	14,176,604	47,274,799	48,778,957
Expenses:						
General government	4,683,793	5,626,916	0	0	4,683,793	5,626,916
Public Safety	14,046,926	14,282,710	0	0	14,046,926	14,282,710
Physical Environment	885,532	895,179	0	0	885,532	895,179
Transportation	2,256,359	2,504,582	0	0	2,256,359	2,504,582
Economic development	3,559,928	1,836,692	0	0	3,559,928	1,836,692
Culture and recreation	5,403,354	3,621,751	0	0	5,403,354	3,621,751
Interest on long-term debt	637,821	487,440	0	0	637,821	487,440
Water/Sewer	0	0	7,607,844	7,500,204	7,607,844	7,500,204
Storm Drain	0	0	908,805	1,064,233	908,805	1,064,233
Regional Water	0	0	733,138	749,966	733,138	749,966
Regional Decan Facility	0	0	0	0	0	0
Solid Waste	0	0	1,983,409	1,987,767	1,983,409	1,987,767
Cemetery	0	0	275,011	254,623	275,011	254,623
Total expenses	31,473,713	29,255,270	11,508,207	11,556,793	42,981,920	40,812,063
Increase in net assets before transfers						
	1,513,493	5,347,083	2,779,386	2,619,811	4,292,879	7,966,894
Transfers	306,559	136,847	(306,559)	(136,847)	0	0
Increase in net assets	1,820,052	5,483,930	2,472,827	2,482,964	4,292,879	7,966,894
Accounting Change	0	0	0	0	0	0
Net assets January 1,	73,130,005	67,646,075	50,572,557	48,089,593	123,702,562	115,735,668
Net assets December 31,	\$ 74,950,057	\$ 73,130,005	\$ 53,045,384	\$ 50,572,557	\$ 127,995,441	\$ 123,702,562

Governmental Activities. Governmental activities increased the City of Wenatchee's net position by \$1,820,052, thereby increasing the City's net position by 42%.

Expenses – Governmental Activities

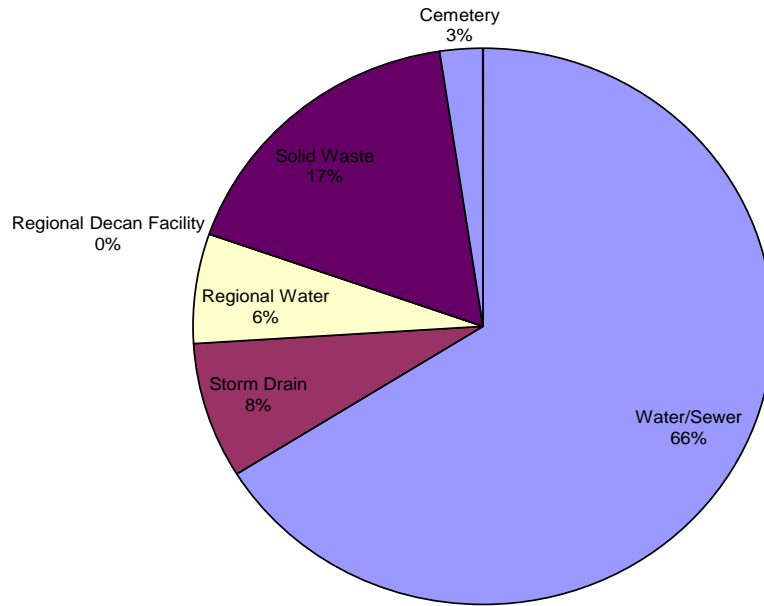


Revenues by Source – Governmental Activities

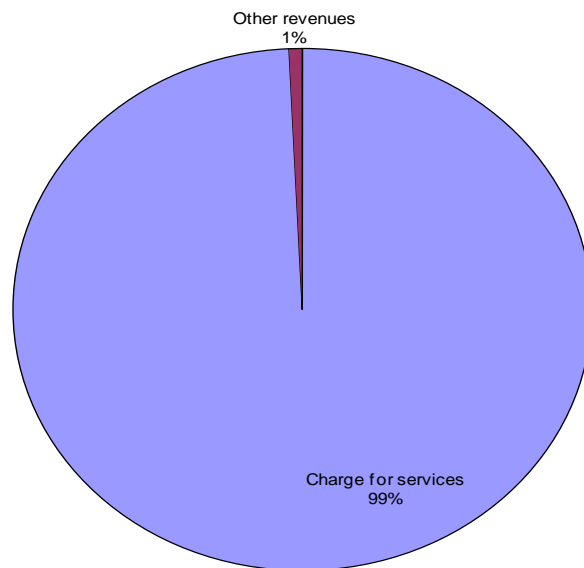


Business-type Activities. Business-type activities increased City of Wenatchee's net position by \$2,472,827, accounting for 57% of total growth in the government's net position.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The General Fund, Street Fund, Arterial Street Fund and Riverside Drive LID Fund made up the City's major funds during the most recent fiscal year. Together these four funds account for \$8,940,655 (or 65%) of total governmental fund assets of \$13,745,137 and \$4,599,583 (or 62%) of the total governmental fund's fund balance of \$7,461,283. Approximately 32% or \$2,360,823 of the total fund balance is unassigned in the General Fund.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,461,283. Of this figure, \$6,556,911 (or 88%) constitutes unassigned fund balance that is available for spending within the designated funds. The remaining fund balance of \$904,372 is reserved to indicate that it is not available for new spending because it has already been committed for other purposes.

The general fund is the chief operating fund of the City of Wenatchee. At the end of the current fiscal year, the total fund balance of the General Fund was \$3,661,729, the unassigned fund balance is \$2,360,823 and \$1,057,796 is assigned to Pre-LEOFF and LEOFF 1 mandated health costs. As a measure of the general fund's liquidity, it may be useful to compare both the total fund balance and unassigned fund balance to the total of fund expenditures and other financing uses. As of December 31, 2012, the total fund balance represented 16% of total general fund expenditures and the unassigned fund balance represented 11% of total general fund expenditures. A recent history of reserve percentages is as follows:

Year	Total Fund Balance	Unreserved Fund Balance	Expenditures and other Financing Uses	Fund Balance as a % of Expenditures	
				Total	Unreserved
2012	3,661,729	2,360,823	22,050,396	16.61%	10.71%
2011	3,246,393	2,088,076	24,291,981	13.36%	8.60%
2010	3,180,608	3,137,779	22,601,753	14.07%	13.88%
2009	3,424,573	3,381,044	22,217,904	15.41%	15.22%
2008	3,617,349	3,573,820	23,283,905	15.54%	15.35%

The fund balance of City's amended General Fund budget was anticipated to decrease by \$806,798 in 2012 but actually decreased by \$42,513, a \$763,985 change from the budget.

The Street Fund budget was adopted and amended with the expectation that the fund balance would decrease by \$70,014 from \$443,666 at the end of 2011 to \$373,652 at the end of 2012. The actual fund balance at the end of 2012 was \$491,958 which was \$118,306 more than anticipated.

The Arterial Street Fund budget was adopted and amended with the expectation that the fund balance would decrease by \$279,283 from \$571,499 at the end of 2011 to \$292,216 at the end of 2012. The actual fund balance at the end of 2012 was \$445,896 which was \$153,680 more than anticipated. The change in fund balance is due to project construction not being completed as expected and as a result, intergovernmental revenues were less than anticipated.

Proprietary funds. The Water/Sewer Utility Fund, Storm Drain Utility Fund and the Regional Water Fund made up the City's major business-type funds during the most recent fiscal year. Together these three funds accounted for \$83,111,387 (98%) of total enterprise fund assets of \$84,384,331. These funds also accounted for \$52,079,810 (98%) of total enterprise fund net position of \$53,045,384. The City of Wenatchee's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water/Sewer Utility Fund at the end 2012 were \$6,073,695 as compared to \$4,811,232 at end of 2011 for a total increase of \$1,262,463.

Unrestricted net position of the Storm Drain Utility at the end of 2012 were \$1,244,877 as compared to \$566,173 at the end of 2011 for a total increase of \$678,704.

Unrestricted net position of the Regional Water Fund at the end of 2012 were \$3,090,704 as compared to \$2,440,945 at the end of 2011 for a total increase of \$649,759.

GENERAL FUND BUDGETARY HIGHLIGHTS

Appropriations (Expenses)

Through the course of the year General Fund appropriations were amended down from \$22,926,974 to \$22,710,382 for a total decrease of \$216,592. The decrease was due in part to a reduction in staffing in the Police, Fire and Museum Departments.

Revenue Estimates

General Fund revenues were amended down from \$22,572,796 to \$21,903,884 for a total decrease of \$668,912. The amendment was comprised, in part, of the following changes:

- A \$551,820 decrease in sales tax revenues representing the change in the economy.
- A \$309,959 increase in intergovernmental revenues that are the result of the receipt of grants and the one time increase in liquor profits.
- A \$305,930 decrease business taxes for telephone, water and gas taxes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. City of Wenatchee's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to \$140,333,050 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets. Major capital asset events during the current fiscal year included the following:

- Wastewater Treatment Plant Odor and Visual Improvements \$7,351,069
- South Wenatchee Ave Streets and Utility Improvements \$950,812
- 5th Street Safety Improvements \$727,240
- Multi use land purchase \$809,810
- Worthen and Orondo Street and Utility Improvements \$1,183,266

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 10,146,077	9,696,679	\$ 2,519,025	1,709,215	\$ 12,665,102	11,405,894
Buildings and system	22,646,427	22,883,739	50,428,452	51,911,560	73,074,879	74,795,299
Improvements other than buildings	2,129,104	2,162,359	12,938	14,509	2,142,042	2,176,868
Machinery and equipment	2,823,841	3,271,178	1,211,731	1,084,871	4,035,572	4,356,049
Infrastructure	38,406,432	36,600,675	0	0	38,406,432	36,600,675
Construction in progress	195,033	89,446	9,813,995	1,712,754	10,009,028	1,802,200
Total	\$ 76,346,914	\$ 74,704,076	\$ 63,986,141	\$ 56,432,909	\$ 140,333,055	\$ 131,136,985

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

Long-term Debt. At the end of the current fiscal year, the City of Wenatchee had bond and state revolving loan related long-term debt of \$42,588,568. Of this amount, \$10,780,000 is comprised of general obligation bonds issued by the City that are backed by the full faith and credit of the government, \$2,298,874 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment, \$21,570,000 represents revenue bonds secured solely by utility revenue sources, \$5,534,277 represents a Washington Department of Ecology State Revolving Fund (SRF) Loan that was used to renovate our wastewater treatment plant and \$1,928,186 Public Works Trust Fund (PWTF) Loan to provide funded for miscellaneous sewer improvements and \$84,731 loan to Chelan County PUD for waterfront access improvements. The SRF and PWTF loan will be repaid solely by utility revenue sources. The Chelan County PUD loan will be repaid from Local Revitalization Funds generated on the Waterfront. The City also has guaranteed debt issued by Chelan County for the bi-county emergency dispatch center RiverCom. The City has never paid on this guarantee.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	10,780,000	11,675,000	0	0	10,780,000	11,675,000
Loan Guaranty	392,500	423,750	0	0	392,500	423,750
Special assessment debt	2,298,874	2,655,961	0	0	2,298,874	2,655,961
Revenue bonds	0	0	21,570,000	22,645,001	21,570,000	22,645,001
Loans	84,731	0	7,462,463	5,947,745	7,547,194	5,947,745
Total	13,556,105	14,754,711	29,032,463	28,592,746	42,588,568	43,347,457

The City's total bond related long-term debt decreased by \$758,889 (2%) during the current fiscal year. The decrease is the result of:

- o \$84,731 new debt issued for waterfront park assess construction
- o \$2,679,713 principal payments
- o \$1,867,344 new loans from Washington State Public Works Trust Fund.

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

Bond Type	Moody's	Standard & Poor's
Revenue	Baa1	AA
Unlimited Tax General Obligation (UTGO)	Ba1	BBB
Limited Tax General Obligation (LTGO)	B1	BBB

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Wenatchee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, PO Box 519, Wenatchee, WA 98807-0519.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business Activities	Total	Public Facilities District
ASSETS				
Cash and cash equivalents	\$ 8,699,407	\$ 9,729,929	\$ 18,429,336	\$ 515,637
Cash with Fiscal Agent	5,000	0	5,000	0
Receivables (net)	8,018,434	1,769,877	9,788,311	897,138
Investments	345,515	653,966	999,481	0
Internal Balances	0	0	0	0
Inventories	45,659	278,990	324,649	0
Prepaid Expenses	0	0	0	13,320
Unamortized debt issue costs/premiums	31,379	275,326	306,705	241,426
Restricted assets				
Cash	108,750	7,435,993	7,544,743	4,798,598
Capital assets				
Land	10,146,077	2,519,025	12,665,102	1,706,915
Buildings and system (net)	22,646,427	50,428,452	73,074,879	40,844,783
Other improvements (net)	2,129,104	12,938	2,142,042	0
Machinery and equipment (net)	2,823,841	1,211,731	4,035,572	589,502
Infrastructure (net)	38,406,432		38,406,432	0
Construction in progress	195,033	9,813,995	10,009,028	0
Total assets	<u>93,601,058</u>	<u>84,130,222</u>	<u>177,731,280</u>	<u>49,607,319</u>
LIABILITIES				
Current payables	1,901,110	880,989	2,782,099	176,762
Claims and judgements payable	100,000	0	100,000	0
Custodial	54,394	72,409	126,803	0
Unearned Revenue	0	0	0	178,682
Accrued interest payable	0	105,336	105,336	587,688
Noncurrent liabilities				
Due within one year	930,000	1,115,000	2,045,000	706,951
Due in more than one year	12,148,873	20,455,000	32,603,873	52,525,705
Due to other gov't current	0	357,950	357,950	0
Due to other gov't long term	84,731	7,104,513	7,189,244	0
Net pension obligation	408,656	0	408,656	0
Net OPEB obligation	1,418,254	0	1,418,254	0
Unamortized debt premium/deferred	0	714,950	714,950	0
Compensated absences non-current	1,604,983	278,693	1,883,676	7,836
Total liabilities	<u>18,651,001</u>	<u>31,084,840</u>	<u>49,735,841</u>	<u>54,183,624</u>
FUND BALANCE/NET POSITION				
Invested in capital assets, net of related debt	63,183,310	34,953,678	98,136,988	(10,091,456)
Restricted				
Capital Projects	445,896	4,998,127	5,444,023	0
Debt Service	5,953	2,437,825	2,443,778	4,798,598
Unrestricted	11,314,898	10,655,752	21,970,650	716,553
Total net position	<u>\$ 74,950,057</u>	<u>\$ 53,045,382</u>	<u>\$ 127,995,439</u>	<u>\$ (4,576,305)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	GENERAL	STREET	ARTERIAL STREET	LID 2008-1	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS and OUTFLOWS of RESOURCES						
Cash and Cash Equivalents	\$ 2,006,606	\$ 476,354	\$ 0	\$ 0	\$ 1,715,029	\$ 4,197,989
Cash with Fiscal Agent	0	0	0	0	5,000	5,000
Investments	0	0	0	0	345,515	345,515
Receivables:						
Taxes	173,655	41,611	0	0	14,389	229,655
Accounts	512,340	239	0	2,170,452	827,719	3,510,750
Due from Other Funds	720,384	0	0	0	0	720,384
Intergovernmental	1,417,343	59,093	1,289,071	0	1,498,735	4,264,242
Restricted Assets:						
Cash	73,507	0	0	0	0	73,507
Inventory	0	0	0	0	27,104	27,104
Interfund Loans Receivable	0	0	0	0	370,991	370,991
TOTAL ASSETS and OUTFLOWS of RESOURCES	\$ 4,903,835	\$ 577,297	\$ 1,289,071	\$ 2,170,452	\$ 4,804,482	\$ 13,745,137
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCE						
Accounts Payable	444,949	43,881	49,604	0	1,099,659	1,638,093
Wages Payable	9,741	2,930	0	0	0	12,671
Due To Other Funds	0	0	639,815	0	80,569	720,384
Deposits Payable	47,043	0	0	0	6,818	53,861
Revenues Received In Advance	0	0	0	0	526	526
Deferred Revenues	262,202	38,528	74,293	2,170,452	755,210	3,300,685
Retainage Payable	0	0	79,463	0	0	79,463
Leasehold Excise Tax Payable	0	0	0	0	0	0
Interfund Loans Payable	478,171	0	0	0	0	478,171
TOTAL LIABILITIES	1,242,106	85,339	843,175	2,170,452	1,942,782	6,283,854
FUND BALANCE						
Nonspendable	0	0	0	0	904,372	904,372
Restricted	73,507	0	445,896	0	1,825,881	2,345,284
Committed	0	0	0	0	134,273	134,273
Assigned	1,227,399	491,958	0	0	45,585	1,764,942
Unassigned	2,360,823	0	0	0	(48,411)	2,312,412
TOTAL FUND BALANCES	3,661,729	491,958	445,896	0	2,861,700	7,461,283
TOTAL LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES	\$ 4,903,835	\$ 577,297	\$ 1,289,071	\$ 2,170,452	\$ 4,804,482	\$ 13,745,137

The accompanying notes are an integral part of this financial statement.

**CITY OF WENATCHEE, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Total Fund Balance Governmental Funds	\$	7,461,283
The amounts for the governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not reported in the funds.		73,863,423
Long term liabilities such as bonded debt is not reported in the governmental funds.		(14,618,372)
Net OPEB Obligation		(1,826,910)
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		3,300,685
The Internal Service Funds' assets and liabilities are reported in the governmental funds.		6,769,948
Net position of governmental activities	<u>\$</u>	<u>74,950,057</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	GENERAL	STREET	ARTERIAL STREET	LID 2008-1	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	\$ 16,770,760	\$ 1,096,172	\$ 0	\$ 0	\$ 3,105,031	\$ 20,971,963
Licenses and Permits	613,870	0	0	0	0	613,870
Intergovernmental	953,443	372,368	2,585,903	0	2,585,517	6,497,231
Charges for services	1,819,616	270,939	0	0	1,233,713	3,324,268
Fines and Forfeits	1,066,089	0	0	0	0	1,066,089
Investment earnings	7,629	726	839	0	40,616	49,810
Special Assessment Payments	0	0	0	489,228	15,404	504,632
Miscellaneous	84,161	22,485	13,747	0	129,609	250,002
Total Revenues	21,315,568	1,762,690	2,600,489	489,228	7,109,890	33,277,865
EXPENDITURES						
Current:						
General Government	4,555,587	0	0	0	404	4,555,991
Security of Persons & Property	13,385,049	0	0	0	0	13,385,049
Physical Environment	872,019	0	0	0	0	872,019
Transportation	0	1,762,018	6,757	0	51,983	1,820,758
Economic Environment	976,448	0	0	0	2,704,178	3,680,626
Mental & Physical Health	0	0	0	0	0	0
Culture & Recreation	1,875,961	0	0	0	3,009,853	4,885,814
Capital Outlay						
Culture & Recreation	15,793	0	86,409	0	0	102,202
Highway/streets	0	0	2,717,657	0	18,708	2,736,365
Debt Service						
Principal Retirement	0	0	0	347,417	904,671	1,252,088
Interest and other charges	20,499	0	0	141,811	475,511	637,821
Debt Issue Costs	0	0	0	0	0	0
Total Expenditures	21,701,356	1,762,018	2,810,823	489,228	7,165,308	33,928,733
Excess (Deficiency) of Revenue Over (Under) Expenditures	(385,788)	672	(210,334)	0	(55,418)	(650,868)

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	GENERAL	STREET	ARTERIAL STREET	LID 2008-1	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES)						
Capital Asset Disposition	100,000	0	0	0	0	100,000
Transfers In	539,497	0	0	0	1,267,673	1,807,170
Debt Issuance Proceeds	0	0	84,731	0	0	84,731
Reissuance of Debt	0	0	0	0	0	0
Insurance Recoveries	0	47,620	0	0	0	47,620
Transfers Out	(349,040)	0	0	0	(1,020,706)	(1,369,746)
Total Other Financing Sources (Uses)	<u>290,457</u>	<u>47,620</u>	<u>84,731</u>	<u>0</u>	<u>246,967</u>	<u>669,775</u>
CHANGE IN FUND BALANCE	(95,331)	48,292	(125,603)	0	191,549	18,907
FUND BALANCE JANUARY 1	3,246,393	443,666	571,499	0	2,670,151	6,931,709
Prior Period Adjustment	510,667	0	0	0	0	510,667
FUND BALANCE DECEMBER 31	<u>\$ 3,661,729</u>	<u>\$ 491,958</u>	<u>\$ 445,896</u>	<u>\$ 0</u>	<u>\$ 2,861,700</u>	<u>\$ 7,461,283</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF WENATCHEE, WASHINGTON
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCE
OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balance - total governmental funds	\$	18,907
The amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures and sales of capital assets as revenue. However in the Statement of Activities the cost of those assets is instead allocated over their estimated useful lives and reported as depreciation expense. The sale of assets on the Statement of Activities will only report a profit or loss if the proceeds of the sale are more or less than the net value of the asset. This is the amount by which capital outlays exceeded depreciation in the current period and the net effect of the sale of capital assets and donations.		
		1,898,961
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(650,943)
The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.		
		1,162,965
The Internal Service funds are used to support governmental activities. The net revenue (expense) of these funds are reported in governmental activities.		
		(294,870)
OPEB Cost		(335,210)
Compensated Absences		20,242
Change in net position of governmental activities.	<u>\$</u>	<u>1,820,052</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Taxes:				
Property	\$ 4,590,200	\$ 4,590,200	\$ 4,573,206	\$ (16,994)
Sales	6,706,700	6,154,880	6,242,686	87,806
Hotel Motel	77,860	77,860	67,775	(10,085)
Business	6,119,840	5,813,910	5,851,894	37,984
Other	32,000	32,000	35,199	3,199
Licenses & Permits	602,500	594,300	613,870	19,570
Intergovernmental	749,135	1,059,094	953,443	(105,651)
Charges for Services	1,821,500	1,768,050	1,819,616	51,566
Fines & Forfeits	1,263,600	1,180,200	1,066,089	(114,111)
Interest Earnings	10,000	10,000	5,507	(4,493)
Rentals	41,130	41,130	36,636	(4,494)
Miscellaneous	30,500	42,764	47,525	4,761
Total Revenues	<u>22,044,965</u>	<u>21,364,388</u>	<u>21,313,446</u>	<u>(50,942)</u>
EXPENDITURES				
Current:				
General Government Services:				
Legislative	2,577,681	2,042,678	1,873,035	169,643
Judicial	699,500	699,500	635,690	63,810
Financial	1,001,075	1,001,075	982,320	18,755
Legal	342,200	342,200	370,470	(28,270)
Personnel	133,640	136,140	126,568	9,572
Employee Benefits Program	0	0	0	0
Facility Maintenance	567,500	567,500	567,504	(4)
Total General Government Services	<u>5,321,596</u>	<u>4,789,093</u>	<u>4,555,587</u>	<u>233,506</u>
Security of Persons & Property:				
Police	8,986,985	9,034,848	9,027,785	7,063
Fire	3,764,160	3,758,897	3,712,525	46,372
Total Security of Persons & Property	<u>12,751,145</u>	<u>12,793,745</u>	<u>12,740,310</u>	<u>53,435</u>
Physical Environment	888,715	888,715	872,019	16,696
Economic Environment	1,003,697	1,031,303	976,448	54,855
Mental & Physical Health	0	0	0	0
Culture & Recreation	1,892,012	1,886,480	1,875,961	10,519
Capital Outlay	22,500	22,500	15,793	6,707
Debt Service:				
Principal Retirement	57,066	57,066	0	57,066
Interest and Fiscal Charges	14,443	14,443	20,499	(6,056)
Total Expenditures	<u>21,951,174</u>	<u>21,483,345</u>	<u>21,056,617</u>	<u>426,728</u>
Excess (Deficiency) of Revenues				

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Over (Under) Expenditures	93,791	(118,957)	256,829	375,786
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	0	0	100,000	100,000
Insurance Proceeds	0	0	0	0
Transfers In	527,831	539,496	539,497	1
Transfers Out	(975,800)	(1,227,037)	(938,839)	288,198
Total Other Financing Sources (Uses)	<u>(447,969)</u>	<u>(687,541)</u>	<u>(299,342)</u>	<u>388,199</u>
Excess (Deficiency) of Revenues and Other Sources over (Under) Expenditures and Other Uses				
	(354,178)	(806,498)	(42,513)	763,985
FUND BALANCE JANUARY 1,	3,246,393	3,246,393	3,246,393	0
Prior Period Correction	0	0	510,667	(510,667)
FUND BALANCE DECEMBER 31,	<u>\$ 2,892,215</u>	<u>\$ 2,439,895</u>	<u>\$ 3,714,547</u>	<u>\$ 253,318</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 1,031,250	\$ 1,100,000	\$ 1,096,172	\$ (3,828)
Intergovernmental Revenues	377,100	377,100	372,369	(4,731)
Charges for Services	320,260	251,510	270,938	19,428
Interest	1,300	1,300	726	(574)
Miscellaneous	24,589	24,589	22,485	(2,104)
Total Revenues	<u>1,754,499</u>	<u>1,754,499</u>	<u>1,762,690</u>	<u>8,191</u>
EXPENDITURES				
Current:				
Transportation	1,907,613	1,824,513	1,762,018	62,495
Capital Outlay	0	0	0	0
Debt Service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total Expenditures	<u>1,907,613</u>	<u>1,824,513</u>	<u>1,762,018</u>	<u>62,495</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(153,114)</u>	<u>(70,014)</u>	<u>672</u>	<u>70,686</u>
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	0	0	47,620	47,620
Transfers In	0	0	0	0
Transfers (Out)	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>47,620</u>	<u>47,620</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(153,114)</u>	<u>(70,014)</u>	<u>48,292</u>	<u>118,306</u>
FUND BALANCE JANUARY 1,	433,666	443,666	443,666	0
FUND BALANCE DECEMBER 31,	<u>\$ 280,552</u>	<u>\$ 373,652</u>	<u>\$ 491,958</u>	<u>\$ 118,306</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ARTERIAL STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental Revenues	4,694,225	3,555,255	2,585,903	(969,352)
Charges for Services	0	0	0	0
Interest	500	500	839	339
Miscellaneous	222,353	237,600	13,747	(223,853)
Total Revenues	<u>4,917,078</u>	<u>3,793,355</u>	<u>2,600,489</u>	<u>(1,192,866)</u>
EXPENDITURES				
Current:				
Transportation	0	0	4,693	(4,693)
Capital Outlay	5,780,166	4,072,638	2,806,130	1,266,508
Debt Service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total Expenditures	<u>5,780,166</u>	<u>4,072,638</u>	<u>2,810,823</u>	<u>1,261,815</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(863,088)</u>	<u>(279,283)</u>	<u>(210,334)</u>	<u>68,949</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	0	0	0	0
Loan Proceeds	0	0	84,731	84,731
Transfers (Out)	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>84,731</u>	<u>84,731</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(863,088)</u>	<u>(279,283)</u>	<u>(125,603)</u>	<u>153,680</u>
FUND BALANCE JANUARY 1, Prior Period Adjustment	571,499 0	571,499 0	571,499 0	0 0
FUND BALANCE DECEMBER 31,	<u>\$ (291,589)</u>	<u>\$ 292,216</u>	<u>\$ 445,896</u>	<u>\$ 153,680</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF WENATCHEE, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
ASSETS						
Current Assets						
Cash & Cash Equivalents	\$ 5,545,246	\$ 978,468	\$ 3,092,153	\$ 114,062	\$ 9,729,929	\$ 4,501,418
Receivables (net of allowance for uncollectibles):						
Accounts	716,418	112,661	0	183,136	1,012,215	13,787
Intergovernmental	411,690	46,009	43,354	256,609	757,662	0
Due from other funds	0	254,109	0	0	254,109	0
Restricted Cash	3,931,153	1,066,974	0	0	4,998,127	35,243
Inventory of Material and Supplies	278,990	0	0	0	278,990	18,555
Total current assets	<u>10,883,497</u>	<u>2,458,221</u>	<u>3,135,507</u>	<u>553,807</u>	<u>17,031,032</u>	<u>4,569,003</u>
Noncurrent assets						
Unamortized debt issue costs	219,104	56,222	0	0	275,326	0
Investments	653,966	0	0	0	653,966	0
Restricted Assets:						
Cash-Revenue Bond Debt Service	2,012,455	425,411	0	0	2,437,866	0
Due from other funds	0	0	0	0	0	107,180
Capital Assets (Net)	50,969,495	6,919,479	5,378,030	719,137	63,986,141	2,483,492
Total noncurrent assets	<u>53,855,020</u>	<u>7,401,112</u>	<u>5,378,030</u>	<u>719,137</u>	<u>67,353,299</u>	<u>2,590,672</u>
Total Assets	<u>64,738,517</u>	<u>9,859,333</u>	<u>8,513,537</u>	<u>1,272,944</u>	<u>84,384,331</u>	<u>7,159,675</u>

**CITY OF WENATCHEE, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES						
Current liabilities						
Accounts Payable	796,309	25,910	16,067	13,570	851,856	170,882
Wages and Benefits Payable	1,942	0	0	0	1,942	89
Deposits Payable	53,700	0	0	0	53,700	0
Retainage Payable	23,951	0	3,256	0	27,207	0
Claims and Judgements Payable	0	0	0	0	0	100,000
Custodial	18,691	0	0	0	18,691	0
Due to Other Funds	0	0	0	254,109	254,109	0
Total current liabilities	<u>894,593</u>	<u>25,910</u>	<u>19,323</u>	<u>267,679</u>	<u>1,207,505</u>	<u>270,971</u>
Current liabilities payable from restricted assets						
Due to Other Governments	357,950	0	0	0	357,950	0
Accrued Interest Payable	93,882	11,454	0	0	105,336	0
Revenue Bonds Payable - Current	931,220	183,780	0	0	1,115,000	0
Total current liabilities payable from restricted assets	<u>1,383,052</u>	<u>195,234</u>	<u>0</u>	<u>0</u>	<u>1,578,286</u>	<u>0</u>
Noncurrent liabilities						
Due to other Governments	7,104,513	0	0	0	7,104,513	0
Unamortized Debt Premium	530,495	135,588	0	0	666,083	0
Deferred amount on debt refunding	19,227	29,640	0	0	48,867	0
Revenue Bonds Payable	17,109,183	3,345,817	0	0	20,455,000	0
Compensated Absences	213,522	0	25,480	39,691	278,693	118,756
Total Non-current Liabilities	<u>24,976,940</u>	<u>3,511,045</u>	<u>25,480</u>	<u>39,691</u>	<u>28,553,156</u>	<u>118,756</u>
Total Liabilities	<u>27,254,585</u>	<u>3,732,189</u>	<u>44,803</u>	<u>307,370</u>	<u>31,338,947</u>	<u>389,727</u>
NET POSITION						
Invested in Capital Assets						
Net of Related Debt	25,466,629	3,389,882	5,378,030	719,137	34,953,678	2,483,492
Restricted	5,943,608	1,492,385	0	0	7,435,993	35,243
Unrestricted	6,073,695	1,244,877	3,090,704	246,437	10,655,713	4,251,213
Total Net Position	<u>\$ 37,483,932</u>	<u>\$ 6,127,144</u>	<u>\$ 8,468,734</u>	<u>\$ 965,574</u>	<u>\$ 53,045,384</u>	<u>\$ 6,769,948</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE PERIOD ENDED DECEMBER 31, 2012

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:						
Taxes	0	0	0	0	0	29,376
Residential Utility Sales	4,563,172	626,021	0	2,006,478	7,195,671	0
Commercial/Industrial Utility Sales	4,068,510	787,994	1,267,114	0	6,123,618	0
Connection Fees	67,871	0	0	0	67,871	0
Charges for Services	159,297	1,317	0	188,168	348,782	3,503,375
Intergovernmental	0	108,687	0	254,109	362,796	135,000
Miscellaneous	62,163	115	91	(2,415)	59,954	2,585
Total Operating Revenues	<u>8,921,013</u>	<u>1,524,134</u>	<u>1,267,205</u>	<u>2,446,340</u>	<u>14,158,692</u>	<u>3,670,336</u>
OPERATING EXPENSES:						
Operations and Maintenance	3,281,108	586,372	493,406	1,941,476	6,302,362	2,490,263
Contracted Operations	0	0	0	41,500	41,500	0
Payment of Premiums	0	0	0	0	0	936,742
General Administration	1,807,694	0	0	269,471	2,077,165	27,193
Depreciation/Amortization	1,734,980	161,401	239,731	5,972	2,142,084	443,978
Total Operating Expenses	<u>6,823,782</u>	<u>747,773</u>	<u>733,137</u>	<u>2,258,419</u>	<u>10,563,111</u>	<u>3,898,176</u>
OPERATING INCOME (LOSS)	<u>2,097,231</u>	<u>776,361</u>	<u>534,068</u>	<u>187,921</u>	<u>3,595,581</u>	<u>(227,840)</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest Income	69,935	5,532	5,389	514	81,370	13,605
Interest Expense & Related Charges	(804,368)	(161,229)	0	0	(965,597)	0
Capital Contributions	15,400	0	0	24,270	39,670	13,107
Amortization of Debt Discount/ Premium,						
Issue Costs and Deferred Refunding	20,305	197	0	0	20,502	0
Insurance Recoveries	7,862	0	0	0	7,862	36,167
Gain (Loss) on sale of Capital Assets	0	0	0	0	0	(6,469)
Non-Operating Revenues Net of Expense	<u>(690,866)</u>	<u>(155,500)</u>	<u>5,389</u>	<u>24,784</u>	<u>(816,193)</u>	<u>56,410</u>
Net Income Before Transfers	<u>1,406,365</u>	<u>620,861</u>	<u>539,457</u>	<u>212,705</u>	<u>2,779,388</u>	<u>(171,430)</u>
Transfers in (Out)	<u>(318,448)</u>	<u>(111,428)</u>	<u>(9,260)</u>	<u>132,577</u>	<u>(306,559)</u>	<u>(130,863)</u>
CHANGE IN NET POSITION	<u>1,087,917</u>	<u>509,433</u>	<u>530,197</u>	<u>345,282</u>	<u>2,472,829</u>	<u>(302,293)</u>
NET POSITION JANUARY 1	<u>36,396,015</u>	<u>5,617,711</u>	<u>7,938,537</u>	<u>620,292</u>	<u>50,572,555</u>	<u>7,582,908</u>
Prior Period Adjustment						<u>(510,667)</u>
NET POSITION DECEMBER 31	<u>\$ 37,483,932</u>	<u>\$ 6,127,144</u>	<u>\$ 8,468,734</u>	<u>\$ 965,574</u>	<u>\$ 53,045,384</u>	<u>\$ 6,769,948</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE PERIOD ENDED DECEMBER 31, 2012

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:						
Cash received from customers	8,831,252	1,278,420	1,270,263	2,233,888	13,613,823	3,521,347
Cash payments to vendors	(2,635,315)	(367,606)	(346,508)	(1,817,528)	(5,166,957)	(2,691,448)
Cash payments to employees	(1,830,115)	(204,743)	(150,670)	(175,469)	(2,360,997)	(894,131)
Other operating revenues	62,163	115	91	(2,415)	59,954	137,585
Net cash provided by operating activities	4,427,985	706,186	773,176	238,476	6,145,823	73,353
Cash Flows From Noncapital Financing Activities:						
Repayment of Loans (to) from other funds	0	0	0	0	0	300,000
Transfers	(318,448)	(111,428)	(9,260)	56,492	(382,644)	(139,740)
Net cash provided by noncapital financing activities	(318,448)	(111,428)	(9,260)	56,492	(382,644)	160,260
Cash Flows From Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(8,749,193)	(424,612)	(120,169)	(330,194)	(9,624,168)	(185,447)
Principal repayment on revenue bonds	(906,307)	(168,693)	0	0	(1,075,000)	0
Interest and related costs paid on revenue bonds	(905,841)	(51,337)	0	0	(957,178)	0
Proceeds of construction loans	1,477,986	0	0	0	1,477,986	0
Repayment of construction loans	(361,287)	0	0	0	(361,287)	0
Interest and related costs on construction loans	(85,502)	0	0	0	(85,502)	0
Insurance Recoveries	7,862	0	0	0	7,862	36,167
Capital contributed by customers	0	0	0	76,085	76,085	13,107
Net cash used for capital and related financing activities	(9,522,282)	(644,642)	(120,169)	(254,109)	(10,541,202)	(136,173)
Cash Flows From Investing Activities:						
Proceeds from maturities of investment	93,285	0	0	0	93,285	0
Interest on investments	69,935	5,532	5,389	514	81,370	7,547
Net cash provided(used) in investing activities	163,220	5,532	5,389	514	174,655	7,547
Net increase (decrease) in cash and cash equivalents	(5,249,525)	(44,352)	649,136	41,373	(4,603,368)	104,987
Cash and cash equivalents at beginning of year	16,738,377	2,515,205	2,443,017	72,689	21,769,288	4,431,674
Cash and cash equivalents at end of year	11,488,852	2,470,853	3,092,153	114,062	17,165,920	4,536,661

CITY OF WENATCHEE, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE PERIOD ENDED DECEMBER 31, 2012

	WATER SEWER	STORM DRAIN	REGIONAL WATER	OTHER PROPRIETARY	TOTAL	INTERNAL SERVICE FUNDS
Operating Income (Loss)	\$ 2,097,231	\$ 776,361	\$ 534,068	\$ 187,921	\$ 3,595,581	\$ (227,840)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	1,734,980	161,401	239,731	5,972	2,142,084	443,978
Change in assets and liabilities:						
(Increase) Decrease Accounts Receivable	(30,443)	(10,175)	3,148	4,451	(33,019)	(11,746)
(Increase) Decrease Due From Other Funds	0	(235,424)	0	0	(235,424)	0
(Increase) Decrease Due From Other Governments	0	0	0	34,791	34,791	0
(Increase) Decrease Inventory	21,484	0	0	0	21,484	0
Increase (Decrease) Accounts Payable	586,651	22,811	(8,816)	7,237	607,883	(141,902)
Increase (Decrease) Payroll Taxes Payable	1,749	0	(87)	0	1,662	89
Increase (Decrease) Retainage Payable	15,476	(8,788)	3,256	0	9,944	0
Increase (Decrease) Customer Deposits Payable	2,845	0	0	0	2,845	0
Increase (Decrease) Due to Other Funds	0	0	0	(3,251)	(3,251)	0
Increase (Decrease) Due to Other Gov't	(8,662)	0	0	0	(8,662)	0
Increase (Decrease) Accrued Employee Leave	6,673	0	1,876	1,355	9,904	10,774
Total Adjustments	2,330,753	(70,175)	239,108	50,555	2,550,241	301,193
Net Cash Provided by Operating Activities	<u>\$ 4,427,984</u>	<u>\$ 706,186</u>	<u>\$ 773,176</u>	<u>\$ 238,476</u>	<u>\$ 6,145,822</u>	<u>\$ 73,353</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WA
 STATEMENT OF NET POSITION
 FIDUCIARY FUNDS
 DECEMBER 31, 2012

FIREMEN'S PENSION TRUST FUND

ASSETS

Cash	\$	781,445
Investments		1,295,681
Receivables:		
Taxes		0
Accounts		0
Interest on Investments		0
Intergovernmental		0
TOTAL ASSETS		2,077,126

LIABILITIES

Accounts Payable		0
Deferred Revenues		0
TOTAL LIABILITIES		0

NET POSITION

Assets held in trust	\$	2,077,126
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The accompanying notes are an integral part of this financial statement.

CITY OF WENATCHEE, WA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	FIREMEN'S PENSION TRUST FUND
ADDITIONS	
Property Taxes	\$ 0
Fire Insurance Premiums	25,282
Interest Income	84,605
Total additions	109,887
DEDUCTIONS	
Retirement Benefits	160,188
General Administration	0
Transfers Out	0
Total deductions	160,188
Change in net position	(50,301)
NET POSITION January 1,	2,127,427
NET POSITION December 31,	\$ 2,077,126

The accompanying notes are an integral part of this financial statement.

**CITY OF WENATCHEE, WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

Blended Component Unit

The Wenatchee City Council adopted Ordinance 2011-60 as allowed by RCW 36.73 to create the Wenatchee Transportation Benefit District (The District). The District was formed for the purposes of acquiring, constructing, improving, providing and funding transportation improvements within the District. The District's boundaries are the City limits of the City of Wenatchee and the Wenatchee City Council constitutes the governing body of the District. To fund the street improvements The District imposed a twenty dollar license tab fee as allowed in RCW 82.80.140.

Discretely Presented Component Unit

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

The PFD is included in the City of Wenatchee's reporting entity as a discretely presented component unit because of the financial commitment of the .2% additional sales and use tax the City imposed in 2012 to assist the PFD to refinance their outstanding debt. Additional information on the City's relationship with the PFD is discussed in Note 10 and Note 12.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Government-wide Financial Statements

The *Statement of Net Position and Statement of Activities* report information about the City as a whole. These statements report the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been eliminated to avoid “doubling up” revenues and expenses. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the government is financially accountable.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operation or capital requirements or a particular function or segment. Taxes and other items properly included among program revenues are reported instead as general revenues.

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

2. Fund Financial Statements

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

The City of Wenatchee reports the following major governmental funds for 2012:

- The **general fund** is the City of Wenatchee’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **street fund** accounts for all activities pertaining to street maintenance including street cleaning, maintenance of sidewalks, maintenance of street lighting systems and traffic signal systems and snow plowing. The street fund is accounted for as a special revenue fund.
- The **arterial street fund** accounts for the revenues and expenditures related to the construction and rehabilitation of major streets throughout the City. The arterial street fund is accounted for as a special revenue fund.
- The **riverside drive lid fund** accounts for the annual repayment by the property owners that benefited from the street improvement as well as the payment to the bonds holders that provided long term financing of this project.

The City of Wenatchee reports the following major proprietary funds for 2012:

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

- The **regional water fund** accounts for the activities surrounding the delivery of water to the City of Wenatchee's water/sewer fund, Chelan County Public Utility District No. 1 and the East Wenatchee Water District. Activities include monitoring and maintaining pumps, wells, transmission lines and chlorination systems.

Additionally, the City reports the following fund types:

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

3. Fund Accounting

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

a. Governmental Funds

All governmental funds are accounted for on a "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements focus on measuring changes in financial position, rather than net income. They present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. In addition to the General Fund, the City reports the following fund types:

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

b. Proprietary Funds

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

c. Fiduciary Funds

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Wenatchee considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available when cash is received by the City of Wenatchee.

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water/sewer fund, storm drain fund and regional water fund are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. BUDGETARY INFORMATION

1. Scope of Budget

Annual appropriated budgets are adopted for the governmental funds on the modified accrual basis of accounting. Proprietary funds are also budgeted at a fund level but on a working capital basis. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue

or project and for fiscal periods that correspond to the lives of debt issues or projects. Other budgets are adopted at the level of the fund, except in the general fund where expenditures may not exceed appropriations at the departmental level and the budget constitute the legal authority for expenditures at that level.

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

2. Amending the Budget

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

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority (5 of 7 councilors) after holding a public hearing. During 2012 the budget was amended twice and the budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

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

3. Excess of Expenditures Over Appropriations

No major fund exceeded its budget authority.

4. Deficit Fund Equity

- The CDBG Entitlement Fund (a special revenue fund) has a deficit fund balance of \$245 at December 31, 2012. The deficit was the result of the City expending money on grant financed projects that were not reimbursed until after yearend. The City has subsequently recovered the monies expended through a reimbursement request.
- The Police Station Bond debt service fund has a deficit fund balance of \$14,299 at December 31, 2012. This is a \$17,149 decrease over the December 31, 2011 deficit of \$31,448. The deficit is a result of delinquencies on property tax collections that support debt service payments on the underlying unlimited tax general obligation bonds. The fund balance is expected to become positive through future collections of delinquent property tax payments by the Chelan County Treasurer.
- The Governmental Capital Projects Fund has a deficit fund balance of \$33,867 at December 31, 2012. The deficit was a result of the City expending money on grant financed projects that were not reimbursed until after yearend. The City has subsequently recovered the monies expended through a reimbursement request.

E. ASSETS, LIABILITIES, FUND BLANCES, NET POSITION

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposit accounts as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the government to invest in obligations of the U.S. Treasury, State Treasurer's Investment Pool, banker's acceptances, or deposits with Washington State banks and savings and loan institutions. It is the City's policy to invest all temporary cash surpluses and the interest on these investments is prorated to the various funds.

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

2. Receivables and Payables

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

- Property Taxes

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

- Accounts Receivable

Customer account receivable consist of amounts owned by private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

- Special Assessments

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2012, special assessments receivable totaled \$2,264,408, \$29,394 of which was delinquent at yearend.

- Unrecorded and Uncollectable Receivable

The City entered into a Contingent Loan Agreement (CLA), November 2008, with the Greater Wenatchee Regional Events Center Public Facilities District (PFD) to help the PFD issue three year Revenue Notes to finance the purchase of the Event Center. The PFD drew on the CLA beginning 2009 and continued through 2011. As part of the refinancing package of the Notes the PFD issued a Subordinate Note to the City to reimburse the City the amounts loaned and other costs the City incurred as part of the PFD's 2008 Notes refinancing. The total amount of the Subordinate Note is \$5,584,762. The repayment of the Subordinate Note is undetermined at this time and may not occur for twenty or more years. See Note 12 for further discussion.

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

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

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

4. Amounts Due to and from Other Governments

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

5. Inventories and Prepaid Items

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

6. Restricted Assets and Liabilities

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

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

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

8. Compensated Absences

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

It is the City's policy to permit employees to accumulate earned but unused vacation leave up to a maximum of 400 hours, but at the point of termination will allow a cash-out of no more than 240 hours. Sick leave accumulation is unlimited and is payable at the point of termination at a rate of 25% up to a maximum of 240 hours. The cash-out of sick leave is offered to only those employees that voluntarily terminate service to the City after at least five-years of service.

9. Long-term Obligations

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

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

10. Deferred Outflows/Inflows of Resources/Deferred Revenues

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The government does not have any reportable deferred inflows or outflows.

Deferred revenue accounts included amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

11. Fund Equity

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No 54. Statement No 54 addresses the usefulness of fund balance information by providing a clearer fund balance classifications based on constraints imposed by the government itself or by external legislation or agreements providing the funding sources. Statement 54 classifies fund balances in the following categories:

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

Following is a description of the restrictions placed on the various fund balances in 2012:

	General	Street	Arterial Streets	Non-Major Funds
Unspendable				
Cemetery Endowment	\$ 0	\$ 0	\$ 0	\$ 904,372
Restricted				
Fine/forfeitures/donations	73,507			
Public art				68,978
Street, sidewalk, path, capital motor vehicle fuel tax & grants			445,896	211,566
Hotel/motel & convention				509,451
Low income assistance programs				481,688
Community Center				189,017
Local improvement debt service				5,953
REET				359,228
	<u>\$ 73,507</u>	<u>0</u>	<u>445,896</u>	<u>1,825,881</u>
Committed				
Local revitalization funding				1,346
LID Guarantee				132,927
	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>134,273</u>
Assigned				
LEOFF retiree health	1,057,796			
Potential refund of utility taxes	169,603			
Street maintenance		491,958		
LTGO debt				45,585
	<u>\$ 1,227,399</u>	<u>491,958</u>	<u>0</u>	<u>45,585</u>
Unassigned				
	2,360,823			(48,411)
Total fund balance	<u><u>\$ 3,661,729</u></u>	<u><u>\$ 491,958</u></u>	<u><u>\$ 445,896</u></u>	<u><u>\$ 2,861,700</u></u>

The City adopted a financial policy in 2012, which established fund balance goals for City funds as indicated below:

- General Fund operating reserve – 15% of recurring expenditures,
- General Fund rainy day reserve - \$1 million to be funded from one-time revenues, excess operating reserves or budgetary action,
- Other governmental operating funds – 17% of recurring expenditures

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

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

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

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

Value of governmental assets	\$ 87,535,404
Less accumulated depreciation	<u>(13,671,981)</u>
Adjustment for governmental fixed assets	<u>\$ 73,863,423</u>

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

Councilmanic Bonds Payable	\$ (8,150,000)
UTGO Bonds Payable	(2,630,000)
LID Bonds Payable	(2,298,873)
Unamortized Debt issue items	31,379
Chelan County PUD loan	(84,561)
Employee Leave Benefits	<u>(1,486,227)</u>
Adjustment for long term liabilities	<u>\$(14,618,372)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government - wide statement of activities.

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

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

Capital outlay	\$ 2,838,567
Less depreciation expense	(1,382,526)
Cost of assets sold/retired	(1,000)
Donated capital assets	<u>443,920</u>
Adjustment for capital outlay	<u>\$ 1,898,961</u>

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

Debt Proceeds (net of expenses)	\$(84,731)
Amortization of debt issue costs	(4,392)
Debt Retired	<u>1,252,088</u>
Adjustment for debt transactions	<u>\$ 1,162,965</u>

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

Property Taxes	\$ (3,139)
Rehab Loans Receivable	57,385
Special Assessments Receivable	(391,491)
Miscellaneous Account Receivable	<u>(313,698)</u>
Adjustment for revenues	<u>\$ (650,943)</u>

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits:

The City's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As of December 31, 2012 the carrying amount of the City's cash balances was \$1,771,731 which consisted of bank deposits and petty cash.

Investments:

As of December 31, 2012 the City had \$24,983,793 invested in the Washington State Investment Pool and investments in City managed Special Assessment Districts: \$2,203,137 Riverside Drive LID bonds and \$92,025 Poplar Sewer LID bonds. Credit ratings are not available for these investments.

Custodial risk is the risk that in event of failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's \$24,983,793 in the Washington State Investment Pool, nothing is exposed to custodial credit risk.

The investments in the Special Assessment bonds are bonds issued by City managed Special Assessment's or Local Improvement Districts (LID). The property owners benefited by the improvement are billed equal annual installments, with interest, for the term of the LID. If an assessment is not paid for two consecutive years as of January 1 the City will begin foreclosure proceedings on the property. In the event of nonpayment of assessments the City of Wenatchee is obligated to make interest payments of the Special Assessment Bonds and would do so to the extent funds are available in the LID Guaranty Fund. Delinquent principal payments would be made from the receipt of proceeds from the foreclosure and sale of property upon which the delinquency occurred. A description of the LID bonds and the funds invested as of December 31, 2012, is below:

LID Name	Term	Interest Rate	Water/Sewer Fund	Cemetery Endowment Fund	Fireman's Pension Fund	Total Investment
Riverside Dr LID	20 Years	5.56%	\$ 561,941	345,515	1,295,681	\$ 2,203,137
Poplar Sewer LID	10 Years	4.38%	92,025	0	0	92,025
Total by fund			<u>\$ 653,966</u>	<u>345,515</u>	<u>1,295,681</u>	<u>\$ 2,295,162</u>

The City did not record a decrease or increase in fair value for the LID investments in 2012.

NOTE 5. PROPERTY TAXES

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

Property Tax Calendar

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

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

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

The City's regular levy for 2012 was \$2.46480 per \$1,000 on an assessed valuation of \$2,314,624,543 for a total levy of \$5,705,089.

In addition to the regular levy, the City has a bond levy that was approved by the voters in September 2001 for the construction of a police station. The 2012 levy was \$.16964 per \$1,000 on an assessed valuation of \$2,273,682,565 for a total levy of \$385,719.

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

Tax Collection Year	Regular Levy Rate	UTGO Bond Rate	Amount of Regular Taxes Levied	Amount of Taxes Levied for UTGO Bonds	Assessed Value Regular Levy Purposed	Assessed Value Bond Levy Purposes
2012	\$ 2.46480	\$ 0.16964	\$ 5,705,089	\$ 385,719	\$ 2,314,624,543	\$ 2,273,682,565
2011	2.34562	0.15716	5,554,701	366,543	2,368,109,827	2,332,323,230
2010	2.45870	0.16823	5,422,852	365,653	2,205,578,539	2,173,576,037
2009	2.71722	0.18736	5,380,695	365,653	1,980,222,931	1,951,591,560
2008	2.70205	0.19453	5,119,836	363,160	1,894,796,901	1,866,856,148
2007	2.67510	0.20016	4,945,003	365,464	1,848,530,303	1,825,861,330

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 9,696,679	\$ 450,398	\$ (1,000)	\$ 10,146,077
Construction in progress	89,446	161,136	(55,549)	195,033
Total capital assets not being depreciated	<u>9,786,124</u>	<u>611,534</u>	<u>(56,549)</u>	<u>10,341,109</u>
Capital assets being depreciated:				
Buildings	29,716,218	398,920	0	30,115,138
Improvements other than buildings	3,104,227	86,410	0	3,190,637
Machinery and equipment	9,193,253	225,691	(45,052)	9,373,891
Infrastructure	40,250,696	2,209,806	0	42,460,502
Total capital assets being depreciated	<u>82,264,394</u>	<u>2,920,827</u>	<u>(45,052)</u>	<u>85,140,168</u>
Less accumulated depreciation for:				
Buildings	6,832,479	636,231	0	7,468,710
Improvements other than buildings	941,868	119,665	0	1,061,533
Machinery and equipment	5,922,075	666,559	(38,584)	6,550,050
Infrastructure	3,650,021	404,049	0	4,054,070
Total accumulated depreciation	<u>17,346,443</u>	<u>1,826,504</u>	<u>(38,584)</u>	<u>19,134,363</u>
Total capital assets being depreciated, net	<u>64,917,951</u>	<u>1,094,323</u>	<u>(6,469)</u>	<u>66,005,805</u>
Governmental activities capital assets, net	<u>\$ 74,704,076</u>	<u>\$ 1,705,857</u>	<u>\$ (63,018)</u>	<u>\$ 76,346,915</u>

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

General government	257,738
Public Safety	166,999
Culture and recreation	551,901
Infrastructure	<u>405,889</u>
Total depreciation expense	<u>1,382,526</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 1,709,215	\$ 809,810	\$ 0	\$ 2,519,025
Construction in progress	1,712,754	8,101,242	0	9,813,995
Total capital assets not being depreciated	3,421,969	8,911,051	0	12,333,020
Capital assets being depreciated:				
Buildings	82,843,654	756,990	0	83,600,643
Improvements other than buildings	22,572	0	0	22,572
Machinery and equipment	2,977,527	27,278	0	3,004,805
Infrastructure	0	0	0	0
Total capital assets being depreciated	85,843,753	784,268	0	86,628,020
Less accumulated depreciation for:				
Buildings	31,287,023	1,885,168	0	33,172,191
Improvements other than buildings	8,849	786	0	9,634
Machinery and equipment	1,536,944	256,131	0	1,793,074
Infrastructure	0	0	0	0
Total accumulated depreciation	32,832,815	2,142,084	0	34,974,899
Total capital assets being depreciated, net	53,010,938	(1,357,816)	0	51,653,121
Business-type activities capital assets, net	\$ 56,432,906	\$ 7,553,235	\$ 0	\$ 63,986,141

Depreciation was charged against business-type activities as follows:

Water/Sewer	1,734,980
Storm Drain	161,401
Regional Water	239,731
Cemetery	5,972
Total depreciation expense business activities	<u>2,142,084</u>

NOTE 7. PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

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

Plan Description

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

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

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

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

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

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

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

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

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

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

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

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

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

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

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

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

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

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

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

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective

July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

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

Funding Policy

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

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

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

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

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

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

*** Plan 3 defined benefit portion only.

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

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$18,042	\$412,465	\$48,806
2011	\$16,070	\$362,942	\$41,205
2010	\$17,801	\$317,707	\$34,845

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

Plan Description

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

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

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

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

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

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

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

The final average salary (FAS) is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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

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

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

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. A cost-of living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

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

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

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

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

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

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

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

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

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

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

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

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

Funding Policy

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

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

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2012	\$129	\$285,023
2011	\$127	\$289,680
2010	\$65	\$296,243

Firemen's Pension

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

responsible for all or part of pension benefits for employees hired prior to March 1, 1970, as discussed later. The plan is a closed plan that provides pension benefits, some of which can be in excess of LEOFF benefits.

As of December 31, 2012, there were a total of 24 retirees or beneficiaries eligible for retirement benefits. Of these 25, the State of Washington pays 6, the City pays 3, and the City and State share the cost of the remaining 15.

Benefit Provisions

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

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

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

Summary of Significant Accounting Policies

The Firemen's Pension system is reported as a trust fund in the financial statements of the City. The financial statements are prepared using the accrual basis of accounting where revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City follows GASB Statement No. 25 "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures*" and GASB Statement No. 27, "*Accounting for Pensions by State and Local Governmental Employers.*"

As of December 31, 2012, the Firemen's Pension Fund had an investment portfolio with a fair value of \$2,077,126 that was composed of \$35,757 in bank deposits, \$745,688 held in the Washington State Treasurer Local Government Investment Pool (the State Investment Pool) and \$1,295,681 held in investments. The State Investment Pool is a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. Therefore, this portion of the Firemen's Pension fund is valued at cost. Investments are reported at fair value.

Contributions and Reserves

Funding for the Firemen's Pension Fund has historically come from property taxes diverted from the General Fund and distributions from the State from fire insurance premium collections. Milliman, Inc. completed an actuarial study of the fund as of January 1, 2008, January 1, 2010 and January 1, 2012. The General Fund is responsible for the costs of administering the plan. Obligations for medical expenses are funded primarily through group insurance. There have been no required employee contributions to the plans since March 1, 1970. As of December 31, 2012, the Firemen's Pension Fund reported net position reserved for payment of future claims of \$2,077,126.

Annual Pension Cost and Net Pension Obligation

1	Amortization of Unfunded Actuarial Accrued Liability (UAAL)	\$ (20,655)
2	Interest to December 31, 2012	(826)
3	Annual Required Contribution (ARC) at December 31, 2012	(21,481)
4	Interest on Net Pension Obligation (NPO)	18,454
5	Adjustment to Annual Required Contribution (ARC)	38,070
6	Annual Pension Cost (APC)	(41,097)
7	Employer Contributions	11,599
8	Change in Net Pension Obligation (NPO)	(52,696)
9	Net Pension Obligation (NPO) at January 1, 2012	461,352
10	Net Pension Obligation (NPO) at December 31, 2012	<u>\$ 408,656</u>

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Employer Contributions	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2009	\$ (124,590)	\$ (331,006)	N/A	\$ 56,820
December 31, 2010	(78,713)	(276,040)	N/A	254,147
December 31, 2011	(86,591)	(293,796)	N/A	461,352
December 31, 2012	(41,097)	11,599	N/A	408,656

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

Actuarial Assumptions

The actuarial assumptions used in the January 1, 2012 pension actuarial valuation includes techniques that are designed to estimate the future experience of the members, reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Assumptions were as follow:

Actuarial Assumptions

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

* Under the Firemen's Pension funds requirement of State law, most adjustments are based on the change in salary for the rank of the members held at retirement based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

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

ASSETS	
Cash	\$ 781,445
Investments	1,295,681
Receivables:	
Taxes	0
Accounts	0
Interest on Investments	0
Intergovernmental	0
TOTAL ASSETS	<u>2,077,126</u>
LIABILITIES	
Accounts Payable	0
Deferred Revenues	0
TOTAL LIABILITIES	<u>0</u>
NET ASSETS	
Assets held in trust	<u>\$ 2,077,126</u>

ADDITIONS

Property Taxes	\$	0
Fire Insurance Premiums		25,282
Interest Income		84,606
Total additions		<u>109,887</u>

DEDUCTIONS

Retirement Benefits		146,506
General Administration		13,683
Transfers out		<u>0</u>
Total deductions		<u>160,188</u>

Change in net assets (50,301)

NET ASSETS January 1, 2,127,427

NET ASSETS December 31, \$ 2,077,126

NOTE 8. RISK MANAGEMENT**Property & Casualty Coverage:**

The City of Wenatchee is exposed to risks of loss related to a number of sources including tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City protects itself against potential loss by employing a two-tier risk management approach. First, the City shares risk of losses through membership in the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Second, the City reserves the right to utilize the provisions of RCW 35A.31.060-070 to fund catastrophic or uninsured losses. This State statute allows cities to levy a non-voted property tax increase to pay for uninsured claims.

The City of Wenatchee is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2012, 91 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Lexington with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. Since AWC RMSA is a cooperative program, there is a joint liability among the participating members.

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

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The City has also established a liability for outstanding property/casualty claims as of December 31, 2010.

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

Claims Payable and Settlements:

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

As of December 31, 2012, the City had accrued the following amounts for outstanding claims:

	Incurred/ Reported	Incurred but not Reported	Total Claims Payable
Total	\$ 12,810	\$ 100,000	\$ 112,810

The following schedule presents changes in claims liabilities for 2012:

	Property & Casualty	
	2012	2011
Claims liabilities, January 1	\$ 352,242	\$ 117,737
Claims and operating expenses:		
Incurred during current year	963,935	925,226
Changes in estimate of claims from prior periods	0	0
Paid	(1,203,368)	(690,721)
Claims liabilities, December 31	\$ 112,810	\$ 352,242

NOTE 9. SHORT-TERM DEBT

The City had no short-term debt as of December 31, 2012.

NOTE 10. LONG-TERM DEBT

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

1) General Obligations Bonds

- Limited Tax General Obligation (LTGO) Bonds – Consist of five issues of non-voted general obligation bonds. Each of these issues represents a direct obligation of the City and the full faith and credit of the City has been irrevocably pledged to satisfy related debt service requirements. The LTGO issues currently outstanding are:
 - Bonds issued in 1998 for the purpose of completing overlays over roughly 40 miles of City streets. These bonds were refinance May, 2013, see note 16 for further discussion.
 - Bonds issued in 2007 for the purpose of financing a portion of the construction cost of a public works building, renovating a portion of the city hall building, and renovating a portion of the convention center facility.

- Bonds issued in 2007 to refund bonds initially issued in 1997 for the purpose of renovating the convention center. The refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the remaining fourteen years (2008 through 2021) of \$276,466 for a net present value savings of \$214,274.
- Bond anticipation notes (BAN) issued in 2008 to complete a public service building. This three year Note matured December 2011. The City partially paid this note down, \$666,629, and rolled the remaining \$2,400,000 over for another three year term maturing August 1, 2014. This note was refinanced May 2013, see note 16 for further discussion.
- Unlimited Tax General Obligation (UTGO) Bonds – Consist of one issue of voter approved general obligation bonds that were issued in 2001 for the construction of a new police station. The bonds are a direct obligation of the City and the full faith and credit of the government has been irrevocably pledged to satisfy related debt service requirements. For as long as the bonds are outstanding, the City irrevocably pledges to levy taxes annually without limitation as to rate or amount on all taxable property within the City in an amount sufficient, together with other money legally available and to be used therefore, to pay the principal of and interest on the Bonds when due. These bonds were refinanced May 2013, see note 16 for further discussion.

2) Revenue Bonds and Loans

- Revenue Bonds – Two separate series of revenue bonds are currently outstanding and were issued to finance water, sewer, storm drain and regional water system construction projects. The bonds are being repaid by operating revenues of the individual proprietary funds that benefited from the related capital assets.
- Washington Department of Ecology – State Revolving Fund (SRF) Loan – The City was the recipient of a low interest loan (1.5% over 20 years) from the State Department of Ecology in 2007 whose proceeds were used for an upgrade of a wastewater treatment plant that is part of the City's Water/Sewer enterprise fund. The loan will be repaid by future operating revenues of the fund.
- Washington Department of Commerce - Public Works Trust Fund Loan (PWTF) – The City entered into two loan agreements with the Public Works Board for a low interest loan (.5% over 20 years) to finance the two sewer improvement projects. The City has 60 months to complete the construction and the repayment period the ends June 1, 2032.

3) Special Assessment or Local Improvement District (LID) Bonds have been issued to finance construction projects for sewers, sidewalks, etc. that have been requested by citizens and benefit specific locations within our community. These bonds are repaid with the proceeds of annual billings assessed against the property owners that benefited from the improvements. In the event of nonpayment of assessments the City of Wenatchee is obligated to make the payment of principal and interest of the Special Assessment Bonds and would do so to the extent funds are available in the LID Guaranty Fund and through the receipt of proceeds from the foreclosure and sale of property upon which the delinquency occurred. At December 31, 2012 the LID Guaranty Fund had an unassigned fund balance of \$132,053. In 2011 the City completed two LID projects Poplar Sewer Improvements \$96,696 and Riverside Drive Street Improvements \$2,550,555. The City's Water Sewer, Cemetery Endowment and Firemen's Pension Funds purchased these bonds.

4) Employee leave benefits (otherwise known as compensated absences) that account for the underlying liability related to the accumulation of accrued vacation and sick leave.

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

As a part of the bond issuance process, for each bond issued since 1997 the City has met with representatives of Moody's and Standard and Poor's in order to make rating presentations and ultimately receive a rating. These ratings are periodically reviewed and updated by each rating agency. On December 2, 2012, S&P downgraded the long-term rating and underlying rating of the City's general obligation debt from A- to BBB (stable outlook). On January 23, 2013 Standard & Poor's affirmed the City's rating. A summary of the ratings the City currently carries on each of the bond issue types (UTGO, LTGO and Revenue) at December 31, 2012 follows:

<u>Bond Type</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
Revenue Bonds	Baa1	AA
UTGO Bonds	Ba1	BBB
LTGO Bonds	B1	BBB

The following table depicts debt outstanding as of December 31, 2012:

Item	Interest		Outstanding				Outstanding 12/31/2012
	Rates	Maturity	Authorized	1/1/2012	Additions	Reductions	
General Obligation Bonds:							
1993 L.T.G.O.	3.25-5.75%	12/1/2008	800,000	5,000	0	0	5,000
1998 L.T.G.O.	3.85-5.05%	12/1/2014	4,085,000	1,010,000	0	320,000	690,000
2007 L.T.G.O.	4.00-4.30%	12/1/2027	4,045,000	3,420,000	0	175,000	3,245,000
2007 L.T.G.O.	4.15%	12/1/2021	2,560,000	1,975,000	0	165,000	1,810,000
2008 L.T.G.O.	75% of prime	12/9/2011	3,100,000	0	0	0	0
2011 L.T.G.O.	92% of prime	8/1/2014	2,400,000	2,400,000	0	0	2,400,000
2012 Chelan Co PUD	5.28%	1/15/2020	84,731	0	84,731	0	84,731
2001 U.T.G.O.	2.10-4.90%	12/1/2021	4,800,000	2,865,000	0	235,000	2,630,000
Total General Obligation Bonds			\$ 21,874,731	\$ 11,675,000	\$ 84,731	\$ 895,000	\$ 10,864,731
Revenue Bonds and Loans:							
1998 Water/Sewer	3.90-5.05%	12/1/2013	2,720,000	0	0	0	0
1998 Storm Drain	3.90-5.05%	12/1/2013	3,190,000	0	0	0	0
2004 Water/Sewer	2.50-3.50%	12/1/2011	8,205,000	0	0	0	0
2007 SRF Loan	1.50%	7/30/2026	7,391,665	5,886,902	0	352,625	5,534,277
2007 Water/Sewer	4.00-4.30%	12/1/2027	5,225,000	4,490,000	0	205,000	4,285,000
2011 Water/Sewer	3.72%	12/1/2030	15,078,100	14,634,745	0	879,342	13,755,403
2011 Storm Drain	3.72%	12/1/2030	3,626,900	3,520,255	178,036	168,693	3,529,597
2011 PW Trust Fund I	0.50%	6/1/2032	765,000	21,806	36,380	0	58,186
2011 PW Trust Fund L	0.50%	6/1/2032	1,870,000	39,036	1,830,964	0	1,870,000
Total Revenue Bonds			\$ 48,071,665	\$ 28,592,744	\$ 2,045,380	\$ 1,605,660	\$ 29,032,463
LID Bonds							
324	4.22%	6/1/2016	103,711	8,711	0	5,000	3,711
Riverside Drive	5.56%	10/1/2031	2,738,629	2,550,555	0	347,417	2,203,138
2010 Poplar LID	3.88%	6/1/2021	96,696	96,696	0	4,671	92,025
Total LID Bonds			\$ 2,939,036	\$ 2,655,962	\$ 0	\$ 357,088	\$ 2,298,874
Employee Leave Benefit Obligations (Compensated Absences):							
Governmental Funds (governmental activities)				\$ 1,506,469	\$ 0	\$ 20,242	\$ 1,486,227
Internal Service Funds (governmental activities)				107,982	10,773	0	118,755
Enterprise Funds (business-type activities)				268,789	9,905	0	278,694
Total Employee Leave Benefits				\$ 1,883,240	\$ 20,678	\$ 20,242	\$ 1,883,676

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

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2013	930,000	422,781	127,997	126,222
2014	3,385,318	386,091	128,073	119,301
2015-2019	3,590,362	1,123,746	630,898	493,449
2020-2024	2,304,050	357,333	600,223	323,544
2025-2029	650,000	56,545	579,773	161,177
	\$ 10,859,731	\$ 2,346,496	\$ 2,066,964	\$ 1,223,693

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

Year Ending December 31	Revenue Bonds		State Revolving Fund Loan		Public Works Trust Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	1,115,000	850,022	357,950	81,933	101,483.48	9,641
2014	1,140,000	814,422	363,357	76,526	98,421.00	9,133.51
2015-2019	6,015,000	3,566,234	1,900,781	298,634	492,105.00	38,285.99
2020-2024	6,145,000	2,438,645	2,048,725	150,690	492,105.00	25,983.37
2025-2029	6,025,000	1,077,389	863,464	16,302	744,071.79	34,743.06
	<u>\$ 20,440,000</u>	<u>\$ 8,746,711</u>	<u>\$ 5,534,277</u>	<u>\$ 624,085</u>	<u>\$ 1,928,186</u>	<u>\$ 117,787</u>

Changes in Long-Term Liabilities

During the year ended December 31, 2012, the following changes in long-term liabilities occurred:

	Outstanding 1/1/2012			Outstanding 12/31/2012		Due Within One Year
		Additions	Reductions			
Governmental Activities						
Bonds Payable						
U.T.G.O. bonds	2,865,000	84,731	235,000	2,714,731	245,000	
L.T.G.O. bonds	8,810,000	0	660,000	8,150,000	685,000	
Special assessment debt	2,655,962	0	357,088	2,298,874	127,997	
Total bonds payable	<u>14,330,962</u>	<u>84,731</u>	<u>1,252,088</u>	<u>13,163,605</u>	<u>1,057,997</u>	
Net OPEB obligation	1,030,348	387,906	0	1,418,254	0	
Compensated absences	1,614,451	10,773	20,242	1,604,982	0	
Government activity long-term debt	<u>16,975,761</u>	<u>483,410</u>	<u>1,272,330</u>	<u>16,186,841</u>	<u>1,057,997</u>	
Business-Type Activities						
Bonds and Loans Payable						
Revenue bonds	22,645,000	0	1,075,000	21,570,000	1,115,000	
SRF Loan	5,886,902	0	352,625	5,534,277	357,950	
PWTF Loans	60,842	1,867,344	0	1,928,186	98,421	
Total bonds and loans payable	<u>28,592,744</u>	<u>1,867,344</u>	<u>1,427,625</u>	<u>29,032,463</u>	<u>1,571,371</u>	
Compensated absences	268,789	9,904	0	278,693	0	
Business-type activity long-term debt	<u>28,861,533</u>	<u>1,877,249</u>	<u>1,427,625</u>	<u>29,311,157</u>	<u>1,571,371</u>	
Total Governmental and Business-Type	<u>45,837,294</u>	<u>2,360,658</u>	<u>2,699,955</u>	<u>45,497,997</u>	<u>2,629,368</u>	

Statement of Net Assets	Gov	Bus	Total
Noncurrent Liabilities			
Due within one year	1,057,997	1,115,000	2,172,997
Due in more than one year	12,105,608	20,455,000	32,560,608
Due to other govts-current	0	357,950	357,950
Due to other govts-noncurrent	0	7,104,513	7,104,513
Net OPEB obligation	1,418,254	0	1,418,254
Compensated absences	1,604,982	278,693	1,883,675
	<u>16,186,841</u>	<u>29,311,157</u>	<u>45,497,997</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$118,755 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

Public Works Trust Fund Loans

The city entered into two construction loans with the Department of Commerce Public Works Board in 2012:

- o Squilchuck Lift Station Replacement: maximum loan amount \$765,000, \$135,000 matching requirement, construction must be completed within 60 months of the agreement signing which was October 31, 2011. Additional fund were drawn in 2012 but the project was not completed in 2012. The first principal payment will begin June 2013 on the outstanding balance at that time.
- o WWTP Headworks Improvements: maximum loan amount \$1,870,000, \$330,000 matching requirement, construction was completed in 2012. The City drew \$1,870,000 on the loan; the first principal payment is due June 2013.

General Obligation Debt

- o The City entered into an agreement with Chelan County PUD to finance an additional connection to the waterfront. The project cost \$84,731 and will be repaid with Local Revitalization funds (LRF) received from the State. This is a 7 year loan with principal payments beginning 2014.

Debt Limit Capacities for General Obligation Bonds

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

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

At December 31, 2012, the debt limits for the City were as follows:

	2.5% General Purpose		With a Public Vote		Total
	Without a Public Vote 1.50%	With a Public Vote 1.00%	Utility Purpose 2.50%	Open Space, Park, and Capital Facilities 2.50%	
Legal Limit*	33,141,280	22,094,187	55,235,467	55,235,467	165,706,401
Outstanding Indebtedness	(8,229,731)	(2,630,000)	0	0	(10,859,731)
Loan Guarantees	(4,392,500)				(4,392,500)
Margin Available	<u>20,519,049</u>	<u>19,464,187</u>	<u>55,235,467</u>	<u>55,235,467</u>	<u>150,454,170</u>
* Based upon the Chelan County Assessors 2011 assessment of property values for 2012 property taxes					\$2,209,418,665

NOTE 11. LEASES

Operating Leases

The City leases equipment and property under noncancelable operating leases. The total cost for such leases was \$82,126 for the year ended December 31, 2012 including \$46,926 for equipment and \$35,200 for property. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Equipment	Property	Total
2013	39,040	35,921	74,961
2014	13,955	2,812	16,767
2015	13,343	0	13,343
2016	5,719	0	5,719
2017-2021	1,749	0	1,749

Capital Leases

The City has no capital leases as of December 31, 2012.

NOTE 12. CONTINGENCIES AND LITIGATIONS

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

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

- A. In November 2008 the Greater Wenatchee Regional Events Center Public Facilities District (the "District") referenced in Note 1.A. of this report, issued its Limited Sales Tax Bond Anticipation Notes, Series 2008 in the principal amount of \$5,135,000 (the "Sales Tax Notes") and its Revenue and Special Tax Bond Anticipation Notes, Series 2008A and 2008B (Taxable) in the principal amount of \$36,635,000 (the "Revenue Notes" and collectively with the Sales Tax Notes, the "BANs"), to purchase an event center facility in the latter part of 2008. The BANs matured on December 1, 2011. Prior to the issuance of the BANs the City entered into a contingent loan agreement (the "CLA") with the District that committed the City to lend the District money for the purpose of ensuring the payment of interest on the Revenue Notes.

The District did not generate revenues sufficient to pay interest on the Revenue Notes and the City lent money to the District pursuant to the CLA from 2009 through 2011 totaling \$3,584,988. In an attempt to refinance the BANs prior to their maturity, the District presented the City with a new proposed contingent loan agreement in June 2011 (the "2011 CLA"). On July 11, 2011, the City commenced a bond validation proceeding to confirm the validity of the 2011 CLA. The matter was heard by Judge Bridges in the Chelan County Superior Court. On September 8, 2011, Judge Bridges ruled, in part, that the City was without the power and authority to enter into the 2011 CLA, as such agreement would cause the City to exceed its constitutional and statutory debt capacity. The District appealed Judge Bridges' decision to the Washington State Supreme Court on October 11, 2011, which heard oral argument on January 10, 2012. On October 12, 2012, the Washington State Supreme Court held that the City's obligation under the 2011 CLA is essentially a guaranty and therefore would create indebtedness within the meaning of the Washington constitution. *In re Bond Issuance of Greater Wenatchee Regional Events Center* (Wash. Sup. Ct. October 25, 2012) The

Court stated that the City could enter into the 2011 CLA if approved by a vote of the people, but not without a vote, as the City's obligation under the 2011 CLA would cause it to exceed its nonvoted debt capacity.

Based on such Court actions, the City was legally unable to enter into the 2011 CLA. As a result, the District was unable to issue bonds to redeem the BANs December 2011.

The District and the City took the following actions to generate revenues to refinance the District's BAN's:

1. February 2012 the nine jurisdictions creating the District entered into an Amendment to the Interlocal Agreement forming the District which provided, among other things, that if the State Legislature and Governor authorized the City to impose a 0.2% sales tax increase, and the City imposes the 0.2% sales tax increase, then the other member jurisdictions would consent to the District submitting a district-wide sales tax increase not to exceed 0.1% for voter approval.
2. Effective March 1, 2012, the Governor signed into law Substitute Senate Bill No. 5984, which authorized the City, as an "Anchor Jurisdiction" of a "Distressed Public Facilities District," to impose, by council action, an additional sales and use tax at the rate of 0.2%, for the purpose of paying costs associated with the financing, refinancing, design, acquisition, construction, equipping, operating, maintaining, remodeling, repairing, and reequipping of the public facilities of the District; and for certain other costs and expenses incurred by the City. Pursuant to the authority granted by the State legislation, the City adopted an ordinance on March 1, 2012, imposing a sales and use tax at the rate of 0.2% (the "City Tax").
3. The District proposed a 0.1% sales and use tax (district wide) to the qualified voters on March 2, 2012 for the April 17, 2012 special election (the "District 0.1% Tax"). The proposition was approved and certified April 27, 2012. The District Board approved a resolution to impose the District 0.1% Tax on May 3, 2012.

In May of 2012 the District submitted a deficiency notice to the City requesting funds to pay the June 1, 2012 interest payment on the defaulted Revenue Notes. On May 10, 2012, the City Council unanimously determined not to loan the District money sufficient to pay interest on the Revenue Notes.

On September 28, 2012, the District issued its Limited Sales Tax Bonds, Series 2012A and Series 2012B (Taxable) (the "2012 Bonds") to redeem the BANs, to fund a debt service reserve fund, to fund capitalized interest, to partially fund an operating reserve account and to pay costs of issuance for the 2012 Bonds. The 2012 Bonds are secured by and payable solely from revenues from the District 0.1% Tax, the City Tax and a tax on each retail sale within the boundaries of the District of 0.033% of the selling price, which had been imposed by the District beginning July 5, 2006 (the "Sales Tax Credit"). All tax revenues are deposited directly into an escrow account and all debt service payments will be made from such account.

In connection with the issuance of the 2012 Bonds, the District and the City entered into an Amended and Restated Third Amendment to Interlocal Agreement for the Greater Wenatchee Regional Events Center Public Facilities District, which, among other things, eliminated the City's obligation to provide security for the District's bonds and provided that if the 0.1% District Tax and the City Tax are not enough to cover debt service on the 2012 Bonds, and the District has to use Sales Tax Credit revenue to pay debt service, then the City has committed to loan the District up to \$200,000 per year, until 2031. These loans are zero interest loans. The City reserved \$4 million in debt capacity for this potential obligation to the District. The City does not have any obligation to holders of the 2012 Bonds or to pay costs of the maintenance and operation of the District's regional events center.

- B. The City received a letter dated December 7, 2011 from the Division of Enforcement of the United States Securities and Exchange Commission initiating an informal investigation into bond anticipation notes issued by the Greater Wenatchee Regional Events Center Public Facilities District in 2008. The City cooperated with the SEC and provided the requested documents in the spring of 2012. The investigation has since been elevated to a formal investigation. The City does not know when the SEC will complete the investigation or if the SEC will take any action as a result of the investigation.
- C. City of Wenatchee v. Chelan County Public Utility District No. 1, Court of Appeals No. 311953. The Chelan County Public Utility District No. 1 (“the District”) sought a declaratory judgment challenging the business and occupation tax levied by the City of Wenatchee (“the City”) on the sale of domestic water the District provides to its paying customers located within the City. The District asserted that the City did not have express statutory authority to levy the tax on the District’s water revenues and that the governmental immunity doctrine is irrelevant to the determination of whether a municipality must have express legislative authority to tax another municipality. The City asserted that by virtue of selling domestic water to residents of the City the District is acting in a proprietary capacity and is therefore subject to the business and occupation tax as is any other private business. The trial court ruled in favor of the District and ordered the City to cease charging the District taxes on the District’s water system. The case is currently on appeal in the Washington State Court of Appeals, Division III. A date for oral argument has not been set at this time. No monetary damages are sought by the District in the litigation. The City has received 97 claims for refunds totaling \$37,530 from the District’s customers. The City has denied each of the claims for refunds asserting that the City believes it has reasonable defenses to the claims.

NOTE 13. INTERFUND BALANCES AND TRANSFERS

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

Interfund Balances

Due to/from other funds represent receivables and payables between funds for goods issued, work performed or services rendered for the benefit of another fund within the City. This category also includes City Council approved temporary lending of cash from the General Fund to other funds in order to correct negative cash balances that are typically a result of the funds incurring grant related expenditures that are subsequently recovered through reimbursement requests. Due to/from balances at December 31, 2012 are as follows:

Due To/From Other Funds		
Receivable Fund	Payable Fund	Amount
General Fund	Arterial Street Fund	639,815
General Fund	CDBG Entitlement	10,177
General Fund	UTGO Bonds	15,006
General Fund	Capital Improvements	53,206
General Fund	Gov't Fund - Cap Proj	1,874
General Fund	Pybus Market	306
Storm Drain Fund	Decant Facility Fund	254,109
Total		\$ 974,494

Interfund receivables and payables represent loans between funds that have been approved by a City Council resolution and are supported with a specific repayment plan. At December 31, 2012 the loans outstanding are as follows:

Interfund Receivable/Payable			
Receivable Fund	Payable Fund	Total	To be Repaid in 2012
Insurance Fund	General Fund	107,180	0
Cemetery Endowment	General Fund	428,057	57,066
Total		\$ 535,237	\$ 57,066

Interfund Transfers

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

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

During 2012 the following transfers in/out occurred:

Transfer From:	Transfer To:										
	Major Funds						Other Funds				Total
	Governmental			Business Type			Nonmajor Governmental	Nonmajor Business	Debt Service	Internal Service	
General	Street	Arterial Street	Water/Sewer	Storm Drain	Regional Water						
Major Funds											
Governmental											
General	0	0	0	0	0	0	601,907	91,000	245,932	0	938,840
Street	0	0	0	0	0	0	0	0	0	0	0
Arterial street	0	0	0	0	0	0	0	0	0	0	0
Business Type											
Water/Sewer	194,700	0	0	0	0	0	0	0	0	163,708	358,408
Storm drain	21,701	0	0	0	0	0	0	76,085	0	13,642	111,428
Regional water	0	0	0	0	0	0	0	0	0	11,369	11,369
Nonmajor governmental	11,667	0	0	0	0	0	293,852	0	715,189	0	1,020,707
Nonmajor business type	0	0	0	0	0	0	0	0	0	38,653	38,653
Internal service	311,429	0	0	39,960	0	2,109	593	4,145	0	766,390	1,124,626
Permanent	0	0	0	0	0	0	0	0	0	0	0
Pension trust fund	0	0	0	0	0	0	0	0	0	0	0
Total	539,497	0	0	39,960	0	2,109	896,352	171,230	961,121	993,762	3,604,031

Significant transfers that occurred during 2012 include:

- An ongoing transfer from the General Fund to the LEOFF 1 Long-Term Care Fund (a nonmajor governmental fund) totaling \$45,800 that is intended to pay for long-term care costs for eligible retirees.
- An ongoing transfer from the General Fund to the LEOFF 1 Health Care Fund (a nonmajor governmental fund) totaling \$544,000 that is intended to pay for health care costs for eligible retirees.
- An ongoing transfer from the General Fund to the Councilmanic Bond Fund (a debt service fund) that will in-part help to make debt service payments on limited tax general obligation bonds. The transfer in 2012 amounted to \$245,932.
- An ongoing transfer from the Convention Center Fund (a nonmajor governmental fund) to the Councilmanic Bond Fund (a debt service fund) that will in-part help to make debt service payments on limited tax general obligation bonds. The transfer in 2012 amounted to \$309,558.
- An ongoing transfer from the Real Estate Excise Tax Fund (a nonmajor governmental fund) to the Councilmanic Bond Fund (a debt service fund) that will in-part help to make debt service payments on limited tax general obligation bonds. The transfer in 2012 amounted to \$405,631.

- An ongoing transfer from the Hotel/Motel Tax-Capital Fund (a nonmajor governmental fund) to the Convention Center Fund (a nonmajor governmental fund) intended to partially offset the cost of annual bond payments. In 2012 this transfer amounted to \$204,252.
- An ongoing transfer from the Water/Sewer Fund (a major business type fund) to the General Fund in the amount of \$194,700 that is a payment-in-lieu of tax (PILOT).
- An ongoing transfer from the Storm Drain Fund (a major business type fund) to the General Fund in the amount of \$21,701 that is a payment-in-lieu of tax (PILOT).
- An ongoing transfer from the General Fund to the Cemetery Operations Fund (a non-major business type fund) in the amount of \$91,000 to cover operating costs.
- A transfer of \$130,000 from the Equipment Maintenance Fund's fire equipment reserve (a non-major internal service fund) to the General Fund to support Fire Department operations.
- A transfer of \$230,242 from the Equipment Maintenance Fund (a non-major internal service fund) to all contributing funds the excess cash balance in the fund.
- A transfer of equipment and cash, \$764,384, from the Equipment Maintenance Fund (a non-major internal service fund) to the Equipment Rental and Replacement fund to move the fire equipment assets.

NOTE 14. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

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

Membership

LEOFF 1 employees (those police officers and firefighters hired prior to October 1, 1977) become eligible for these benefits at the point they retire from City employment. As of December 31, 2012, the number of individuals eligible for this benefit is as follows:

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

Funding Policy

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

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

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

Employer contributions are financed on a pay-as-you-go basis and expenditures for postretirement health and long-term care in 2012 were \$644,741.

Annual OPEB Costs and Net OPEB Obligation

The City first had an actuarial valuation performed for the plans as of January 1, 2008 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC). The second actuarial valuation was performed for the plans as of January 1, 2012. The resulting OPEB calculation is depicted in the table below:

Amortization of Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,005,819
Interest to December 31, 2011	40,233
Annual Required Contribution (ARC) at December 31, 2012	<u>1,046,052</u>
Interest on Net OPEB Obligation	41,214
Adjustment to Annual Required Contribution (ARC)	<u>61,987</u>
Annual OPEB Cost	1,025,279
Employer Contributions	<u>637,373</u>
Change in Net OPEB Obligation	387,906
Net OPEB Obligation at January 1, 2012	<u>1,030,348</u>
Net OPEB Obligation at December 31, 2012	<u><u>\$ 1,418,254</u></u>

Trend Information

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 787,141	\$ 589,397	74.88%	\$ 429,212
December 31, 2010	933,936	631,473	67.61%	731,675
December 31, 2011	927,720	629,047	67.81%	1,030,348
December 31, 2012	1,025,279	637,373	62.17%	1,418,254

Funding Status and Funding Progress

The funded status of the plan as of December 31, 2012, was as follows:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	\$ 0	\$ 12,146	\$ 12,146	0%	\$ n/a	n/a%
1/1/2010	\$ 0	\$ 15,689	\$ 15,689	0%	\$ n/a	n/a%
1/1/2012	\$ 0	\$ 16,719	\$ 16,719	0%	\$ n/a	n/a%

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, service retirement disability, mortality and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in Part 6 of this annual report document presents the results of OPEB

valuations as of January 1, 2012 and looking forward, the schedule of funding progress will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Assumptions

The actuarial assumptions used in the January 1, 2012 OPEB actuarial valuations include techniques that are designed to estimate the future experience of the members, reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Assumptions were as follow:

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

NOTE 15. PRIOR PERIOD CORRECTION

The Prior Period Correction in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is a revision of the 2011 interfund loan between the Self Insurance Fund and the General Fund. In 2011 the City used the fund balance in the Self Insurance Fund to pay for legal fees associated with the local public facilities district. The amount of the loan was adjusted to be the amount of the restricted portion of the of the Self Insurance Fund's fund balance. The restricted amount is the portion of the fund balance provided by the utility funds and the special revenue funds. The portion of the fund balance provided by the General Fund and other non-restricted funds does not need to be repaid.

NOTE 16. SUBSEQUENT EVENTS

The City refinanced the 1998 LTGO Bonds \$690,000 and the 2008 LTGO BAN \$2,400,000 outstanding balances May 2013. The estimated savings for the 1998 LTGO is \$17,302 and the LTGO BAN's maturity was extended to 2021. The City also refinanced the 2001 UTGO \$2,630,000 bonds for an estimated savings \$313,804. Funds to call the 1998 LTGO and the 2001 UTGO bonds in full were placed in escrow May 8, 2013. Payment to the bond holders is schedule for June 7, 2013.

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

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

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

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

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

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

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

Firemen's Pension Fund Actuarial Assumptions

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

* Under the Firemen's Pension funds requirement of State law, most adjustments are based on the change in salary for the rank of the members held at retirement based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

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

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	\$ 0	\$ 12,146	\$ 12,146	0%	\$ n/a	n/a%
1/1/2010	\$ 0	\$ 15,689	\$ 15,689	0%	\$ n/a	n/a%
1/1/2012	\$ 0	\$ 16,719	\$ 16,719	0%	\$ n/a	n/a%

* January 1, 2008 was the first year of OPEB implementation and corresponded with the first actuarial valuation of OPEB. Actuarial studies will be conducted biennially with the next scheduled to be as of 1/1/2014. In future years, annual funding progress will be reported.

OPEB Actuarial Assumptions

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

CITY OF WENATCHEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

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

Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures			Foot Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
US Dept of Justice (DOJ)	Bullet Proof Vest	16.592			2,719		2
	JAG	16.738	2010-DJ-BX-0212		898		2
	JAG	16.738	2011-DJ-BX-2803		7,082		2
	ARRA JAG	16.738	2009-SB-B9-2654		16,560		2,5
	SCAAP	16.606	2009-AP-BX-0253		19,616	46,875	2
US DOJ / Wa St Dept of Commerce	Gang Surveillance	16.609	F11-34023-003	7,345		7,345	2
US DOT / Wa St DOT	Federal	20.205	STPUS-5825(005)	537			
	Transportation Planning & Construction	20.205	STPUS-5863(001)	413,402			
		20.205	HLP-SR09(013)	17,636			
		20.205	STPUS-5825(007)	41,277		472,852	2,4b
US DOT / Wa State Traffic Safety Commission	Occupant Protection Incentives	20.602		4,462			2
	State & Highway	20.600		51,508		55,970	2
US DOT / Wa Assoc of Sheriffs & Police Chiefs	State & Community Highway Safety	20.600		799		799	2
US DOE/Wa State Dept of Commerce	EECBG Smaller Cities	81.128	F10-52110-055	135,000		135,000	2
Homeland Security / FEMA	Assistance to Firefighters	97.044			52,915	52,915	2
Dept of Housing & Urban Development	CPD, EDI, Special Projects	14.251	B-10SP-WA-0157		1,367,065		2,4,6 b
	Community Development Block Grant	14.218			269,768	1,636,833	2,3,4 a, 6a
Total Federal Awards Expended					<u>671,966</u>	<u>1,736,623</u>	<u>2,408,589</u>

CITY OF WENATCHEE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 – Basis of Accounting

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

Note 2 – Program Costs

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

Note 3 – Revolving Loan – Program Income

The City has a revolving loan program for low income housing renovation. Under this federal program, repayments to the city are considered program revenue (income) and loans of such funds to eligible recipients are considered expenditures. The amount of the loan funds disbursed to program participants for the year was \$ 79,942 and is presented in this schedule. The amount of principal received in loan repayments for the year was \$ 0.00.

Note 4 – Indirect Cost Rate

- a. The amount expended includes \$ 45,295 claimed as an indirect cost recovery using an approved indirect cost rate of 1.42 percent.
- b. The amount expended includes \$52,691 claimed as an indirect cost recovery using an approved indirect cost rate of 1.2 percent.

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

Expenditures for this program were funded by ARRA.

Note 6 – Amounts awarded to subrecipients

- a. Included in the total amount expended for this program is \$ 45,960 that was passed through to a subrecipient that administered its own program.
- b. Included in the total amount expended for this programs is \$1,360,000



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

State Auditor
Chief of Staff
Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

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Doug Cochran
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