

FINANCIAL SECTION

Chelan County January 1, 2017 through December 31, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Chelan County's discussion and analysis presents the readers of the County's annual financial report a narrative overview of the County's financial performance during the fiscal year that ended on December 31, 2017. We encourage readers to consider the information presented here in conjunction with the County's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The government-wide financial statements are comprised of the statement of net position (assets and deferred outflows, and liabilities and deferred inflows) and the statement of activities (revenues and expenses). These statements present the entire financial position of Chelan County. The government-wide financial statements use full accrual accounting, which reports both current and long-term liabilities and assets. The upper section of the statement of activities shows how general government activities do not support themselves based on charges for services. Rather the lower section of this statement shows the tax revenue that is required to support the general government functions.

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

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

The proprietary fund financial statements are prepared using the same basis of accounting as the government-wide financial statements. Chelan County's proprietary funds include only internal service funds, which support the county government by accounting for the accumulation of assets for vehicle/equipment replacement and insurance functions. Because these services predominately benefit governmental functions, they have been included with the governmental funds in the government-wide financial statements. Individual fund data for each of the internal service funds is provided in the form of combining statements after the notes to the financial statements.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Chelan County, assets exceeded liabilities by \$104,640,791 at the close of the most recent fiscal year. This increased by \$8,821,467 over the previous year. Property tax continues to grow with improvements in the economy and new construction. This improved overall economic condition is also reflected in real estate excise tax receipts, hotel/motel tax revenue and other miscellaneous taxes and fees that typically follow cyclical changes in the overall economy. Building permits continued to show strong signs of recovery. These continue to provide increased revenues and general county expenses have been

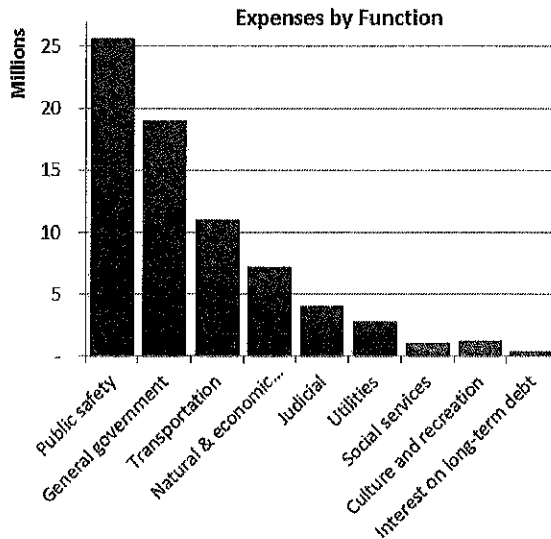
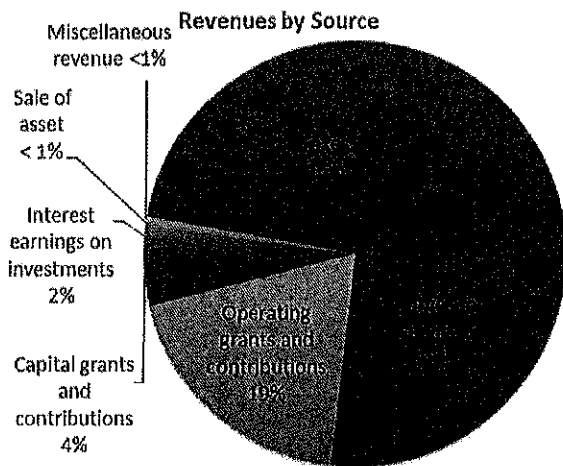
	2017	2016
Current & other assets	58,165,310	49,324,596
Capital assets (net of depr.)	84,240,842	83,624,757
Total assets	142,406,152	132,949,353
Deferred outflows of resources	2,918,099	4,578,442
Long-term liabilities	31,156,352	37,651,669
Other liabilities	5,092,129	6,779,685
Total liabilities	36,248,481	44,431,254
Deferred inflows of resources	4,434,980	775,033
Net position:		
Net investment in capital assets	74,200,842	72,699,757
Restricted	24,528,425	18,451,257
Unrestricted	5,911,524	1,170,494
Total net position	104,640,791	92,321,508

Revenues		
	2017	2016
Program revenues:		
Charges for services	22,980,021	17,716,797
Operating grants and contrib.	15,688,026	14,947,904
Capital grants and contributions	3,648,723	2,225,868
General revenues:		
Taxes	37,237,214	38,184,029
Interest earnings on invest.	1,302,994	960,556
Gain on sale of capital assets	238,144	188,278
Miscellaneous revenue	283,064	19,906
Total revenues	81,378,187	74,243,338
Program Expenses		
General government	18,992,273	18,833,204
Judicial	4,080,825	3,893,534
Public safety	25,700,682	25,017,130
Utilities	2,797,257	2,129,575
Transportation	11,067,036	10,779,600
Natural & economic environment	7,190,600	6,392,887
Social services	1,075,458	1,384,630
Culture and recreation	1,259,656	1,174,779
Interest on long term debt	392,933	475,604
Total expenses	72,556,720	70,080,943
Change in net position	8,821,467	4,162,395
Net position as of Jan 1	92,321,508	88,159,113
Prior period adjustment	3,497,816	-
Net position as of Dec 31	104,640,791	92,321,508

held low ever since the 2009 recession.

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

An additional portion of the County's net position (23%) represents resources that are subject to external restrictions on how they may be used. The resulting relatively small balance of unrestricted net position (6%) is due to the implementation of GASB 68 recognizing a large pension liability.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The General fund, County Roads, Regional Justice Center, Natural Resources and Distressed Counties Tax funds were the County's major governmental funds. Together these five funds account for 54% of total governmental fund balance.

The General fund is the chief operating fund of Chelan County. At the end of the current fiscal year, unassigned fund balance of the General fund was \$11,739,708, which represents 32% of total General fund expenditures. The fund balance of General fund decreased by \$615,577 during the current fiscal year, a smaller deficit than projected when the 2017 budget was adopted (\$812,760). Sales tax revenue for 2017 (\$7,288,971) was \$528,529 less than what was budgeted (\$7,817,500). This decline is the primary cause of the deficit in the County's General fund in 2017. Revenue from construction related activities was generally near budget or slightly more than budget. Other revenue sources were at or close to budget. While the economy has improved, any gains in sales tax have been offset by declines due to recent annexations. Construction driven revenue sources, although one-time in nature, continue to grow year-over-year as there are improvements in the overall economy of the region. The housing industry has also picked up and helped bring in more building permit revenue. These revenue increases combined with holding expenditures tight has built a healthy fund balance for the General fund. At the beginning of 2016, the City of Wenatchee annexed a portion of Chelan County, which is expected to decrease sales tax by \$1 million annually. This will certainly slow the growth of the past several years and may even decrease the fund balance over the coming years.

The fund balance of the County Roads special revenue fund increased by \$561,823 during the current fiscal year. The County has several major infrastructure updates in the works that it is accumulating resources for, and will soon be spending down its fund balance. However, the present infrastructure should reap benefits to future maintenance and future cost savings should grow the fund balance again. Because property taxes in this fund are collected for the explicit purpose of road construction and maintenance, these funds are restricted for that purpose.

The Regional Justice Center fund balance decreased by \$292,353, giving it a negative ending fund balance of (\$295,547). Fund balance has been reduced over the past few years due to fewer contracted inmates being housed, which reduces the revenue brought in by this fund as well as increased operating costs. Until the end of 2015, the Regional Justice Center had been borrowing from other funds to meet cash flow needs. It was determined that this fund would not be able to pay off the loans so the General fund transferred \$992,000 in 2015 to help the Regional Justice Center pay off its loans. Increased contributions by the General fund and increased contract rates should help the Regional Justice Center maintain a positive cash flow. Management is anticipating a review of costs and rates in the near future in order to address the deficit situation.

The Natural Resources fund balance decreased by \$47,434 during the current fiscal year. The majority of revenue and expenses relate to grant funded transactions of the department. The General Fund transferred \$60,000 to the Natural Resources fund in 2017 to help pay for administrative and program related expenses.

The Distressed Counties Tax fund balance increased by \$1,300,918 during the current fiscal year. Revenue of the fund comes from a portion of the state sales tax and must be used for public facilities and infrastructure which promote economic development. Resources are being accumulated in this fund for future debt and capital related expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Differences between the original and the final amended expenditure budget amounted to increases of \$427,478. The budget increase was to be funded out of available fund balance.

Commissioners	6,400	For increased salaries. From available fund balance.
Non-Departmental	90,000	For indigent defense. From available fund balance.
Non-Departmental	10,000	For Natural Resources operating expenses. From available fund balance.
District Court	11,060	For increased Extra Help expenditures. From available fund balance.
Non-Departmental	225,000	For indigent defense and capital outlay. From available fund balance.
Prosecuting Attorney	47,568	For increased salaries. From available fund balance.
Sheriff's Office	37,450	For small tools expenditures. From available fund balance.
Total	427,478	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Chelan County's investment in capital assets as of December 31, 2017, amounts to \$84,240,842 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. The County's investment in capital assets increased by 0.7%. The increase was due to investment in capital assets offset by depreciation of \$5.3 million on existing capital assets. There was also a transfer of \$6.3 million from construction in progress to infrastructure due to the completion of a number of projects throughout the County.

	2017	2016
Land	5,937,110	5,937,110
Construction in progress	1,506,569	3,132,227
Other improvements	511,719	549,951
Buildings	24,709,584	25,816,194
Equipment	6,276,009	6,261,282
Infrastructure	45,299,851	41,927,993
Total	84,240,842	83,624,757

Additional information on the County's capital assets can be found in Note 4.

Long-term Debt. At the end of the current fiscal year, Chelan County had total bonded debt outstanding of \$11,020,000. The total amount of this debt is backed by the full faith and credit of the government. Chelan County's total bonded debt decreased by \$885,000 (7.4%) during the current fiscal year. This was due to payment of scheduled debt service payments during the year. See Note 7 for further information about long term debt.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Chelan County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chelan County Auditor's Office, 350 Orondo Avenue, Suite 306, Wenatchee, WA 98801. Financial information requests can also be emailed to accounting@co.chelan.wa.us

CHELAN COUNTY, WASHINGTON

Statement of Net Position December 31, 2017

Assets

Cash and cash equivalents	27,610,957
Deposits with fiscal agents	248,218
Investments	14,213,853
Accounts receivable	294,164
Property tax receivable	695,126
Other taxes receivable	3,487,681
Court judgements receivable	1,336,477
Due from other governments	2,881,919
Inventory	1,031,945
Prepaid expenses	40,114
Equity interest in joint venture	3,719,074
Net pension asset	2,605,782
Capital assets not being depreciated:	
Land	5,937,110
Construction in progress	1,506,569
Capital assets, net of accumulated depreciation:	
Other improvements	511,719
Buildings	24,709,584
Equipment	6,276,009
Infrastructure	45,299,851
Total assets	<u>142,406,152</u>

Deferred Outflows of Resources

Deferred outflows related to pensions	<u>2,918,099</u>
Total deferred outflows of resources	<u>2,918,099</u>

Liabilities

Accounts payable	1,440,388
Due to other governments	143,504
Accrued payroll liabilities	3,480,019
Deposits payable	28,218
Noncurrent liabilities:	
Due within one year	1,519,776
Due in more than one year	29,636,576
Total liabilities	<u>36,248,481</u>

Deferred Inflows of Resources

Deferred inflows related to debt refunding	304,487
Deferred inflows related to pensions	<u>4,130,493</u>
Total deferred inflows of resources	<u>4,434,980</u>

Net Position

Net investment in capital assets	74,200,842
Restricted for:	
Capital projects	8,152,352
Transportation	3,146,560
Public safety	6,337,870
Natural & economic environment	5,664,237
General government technology	832,160
Judicial improvements	395,246
Unrestricted	<u>5,911,524</u>
Total net position	<u>104,640,791</u>

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

CHELAN COUNTY, WASHINGTON

Statement of Activities

For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
General government	18,992,273	2,100,407	5,724,771	-	(11,167,094)
Judicial	4,080,825	1,684,307	252,880	-	(2,143,638)
Public safety	25,700,682	11,874,680	1,879,999	-	(11,946,003)
Utilities	2,797,257	3,039,240	239,442	-	481,424
Transportation	11,067,036	249,445	3,459,930	3,648,723	(3,708,939)
Natural & economic environment	7,190,600	2,419,166	4,022,875	-	(748,558)
Social services	1,075,458	589,429	62,139	-	(423,890)
Culture and recreation	1,259,656	1,023,348	45,991	-	(190,318)
Interest on long-term debt	392,933	-	-	-	(392,933)
Total primary government	72,556,720	22,980,021	15,688,026	3,648,723	(30,239,949)

General revenues

Taxes:	
Property	20,505,421
Sales and use	10,199,537
Emergency communication tax	2,835,102
Other taxes	3,697,153
Interest and investment earnings	1,302,994
Gain on sale of capital assets	238,144
Miscellaneous revenue	283,064
Total general revenues	39,061,416
Change in net position	8,821,467
Net position - beginning	92,321,508
Prior period adjustment - Note 14	3,497,816
Net position - ending	104,640,791

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

CHELAN COUNTY, WASHINGTON

Balance Sheet
 Governmental Funds
 December 31, 2017

	General Fund	County Roads	Regional Justice Center	Natural Resources	Distressed Counties Tax	Nonmajor Governmental Funds	Total
Assets							
Cash and cash equivalents	11,372,251	2,655,998	132,597	48,613	-	8,146,324	22,355,783
Deposits with fiscal agents	-	-	-	180,000	-	28,218	208,218
Investments	657,686	-	-	-	4,490,932	6,780,387	11,929,004
Accounts receivable	33,519	-	147	-	-	260,498	294,164
Property tax receivable	380,214	283,412	-	-	-	31,500	695,126
Other taxes receivable	1,615,486	523,667	-	-	347,960	1,000,568	3,487,681
Court judgements receivable	1,336,477	-	-	-	-	-	1,336,477
Due from other funds	43,428	7,352	313	16,085	-	564	67,741
Interfund loan receivable	-	-	-	-	289,000	464,400	753,400
Due from other governments	652,774	1,287,412	193,512	533,146	-	215,075	2,881,919
Total assets	16,091,834	4,757,841	326,569	777,844	5,127,892	16,927,534	44,009,514
Liabilities							
Accounts payable	285,803	245,954	52,974	88,246	-	606,630	1,279,607
Due to other funds	85,243	392,459	3,479	1,269	-	26,555	509,004
Interfund loan payable	-	-	-	571,400	-	182,000	753,400
Due to other governments	34,801	7,082	2,874	19,409	-	11,539	75,705
Accrued payroll	2,229,589	448,443	562,789	56,742	-	97,558	3,395,121
Deposits payable	-	-	-	-	-	28,218	28,218
Total liabilities	2,635,436	1,093,937	622,115	737,067	-	952,500	6,041,056
Deferred Inflows of Resources							
Unavailable revenue - property tax	380,214	283,412	-	-	-	31,500	695,126
Unavailable revenue - court judgements	1,336,477	-	-	-	-	-	1,336,477
Total deferred inflows of resources	1,716,691	283,412	-	-	-	31,500	2,031,603
Fund Balances							
Restricted	-	3,380,491	-	40,777	5,127,892	13,837,367	22,386,528
Committed	-	-	-	-	-	2,106,167	2,106,167
Unassigned	11,739,708	-	(295,547)	-	-	-	11,444,161
Total fund balances	11,739,708	3,380,491	(295,547)	40,777	5,127,892	15,943,535	35,936,856
Total liabilities, fund balances, and deferred inflows of resources	16,091,834	4,757,841	326,569	777,844	5,127,892	16,927,534	44,009,514

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

CHELAN COUNTY, WASHINGTON

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position December 31, 2017

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

Fund balances of governmental funds:		35,936,856
Capital assets are not financial resources, and therefore not reported in the fund financial statements.		
Capital assets	163,795,007	
Depreciation	<u>(84,312,167)</u>	
Capital assets net of depreciation		79,482,839
Deferred inflows of resources that are not available to finance current liabilities are excluded from the government-wide statements.		
Property tax	695,126	
Court judgements	<u>1,336,477</u>	
Deferred inflows of resources		2,031,603
Assets that are not available financial resources are not reported in the fund financial statements.		
Equity interest in joint venture		3,719,074
Long-term liabilities that have not been included in governmental fund activity		
Bonds payable	(11,020,000)	
Plus: Deferred charge on refunding	(304,487)	
Compensated absences	(2,555,069)	
OPEB benefit for LEOFF	(3,168,644)	
Working capital loan for Substance Abuse	(110,394)	
Pension related debt (net)	<u>(12,305,885)</u>	
Long-term liabilities		(29,464,479)
Internal service funds are used by management to charge the cost of certain activities, such as equipment management and insurance to individual funds. These assets and liabilities of certain internal service funds are included in the statement of net position.		
Assets	13,852,758	
Deferred outflows of resources - pensions	67,191	
Liabilities	(852,199)	
Deferred inflows of resources - pensions	<u>(132,852)</u>	
Internal service net position		<u>12,934,898</u>
Net position		<u>104,640,791</u>

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

CHELAN COUNTY, WASHINGTON

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended December 31, 2017

	General Fund	County Roads	Regional Justice Center	Natural Resources	Distressed Counties Tax	Nonmajor Governmental Funds	Total
Revenues							
Taxes	19,229,529	7,769,845	-	-	1,902,783	8,342,811	37,244,968
Licenses and permits	1,293,820	67,133	40,602	-	-	-	1,401,556
Intergovernmental revenues	6,826,091	6,553,183	12,000	3,818,006	-	1,970,850	19,180,130
Charges for services	6,268,091	136,444	8,137,058	75,872	-	4,367,797	18,985,261
Fees and fines	1,369,102	-	4,322	-	-	22,708	1,396,132
Miscellaneous	1,239,317	7,616	3,768	241	43,058	1,393,427	2,687,427
Total revenues	<u>36,225,950</u>	<u>14,534,221</u>	<u>8,197,750</u>	<u>3,894,119</u>	<u>1,945,842</u>	<u>16,097,593</u>	<u>80,895,474</u>
Expenditures							
Current:							
General government	10,403,462	25,657	-	-	-	63,067	10,492,186
Judicial	3,896,573	-	-	-	-	142,080	4,038,653
Public safety	20,267,222	-	8,490,164	-	-	4,242,168	32,999,554
Utilities	-	-	-	-	-	2,839,907	2,839,907
Transportation	-	9,821,493	-	-	-	359,747	10,181,240
Natural and economic environment	1,454,279	-	-	3,985,120	14,858	2,069,750	7,524,006
Social services	300,290	-	-	-	-	785,839	1,086,128
Culture and recreation	333,172	-	-	-	-	868,577	1,201,750
Debt service:							
Principal	93,723	-	-	-	521,277	270,000	885,000
Interest and other charges	18,489	-	-	16,432	108,789	307,589	451,299
Capital outlay	104,948	4,491,907	-	-	-	1,979,457	6,576,312
Total expenditures	<u>36,872,158</u>	<u>14,339,056</u>	<u>8,490,164</u>	<u>4,001,552</u>	<u>644,924</u>	<u>13,928,181</u>	<u>78,276,035</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(646,209)</u>	<u>195,165</u>	<u>(292,413)</u>	<u>(107,434)</u>	<u>1,300,918</u>	<u>2,169,412</u>	<u>2,619,439</u>
Other Financing Sources (Uses)							
Sale of capital assets	631	86,658	60	-	-	41,254	128,603
Transfers in	120,000	400,000	-	60,000	-	30,000	610,000
Transfers out	(90,000)	(120,000)	-	-	-	(400,000)	(610,000)
Total other financing sources and uses	<u>30,631</u>	<u>366,658</u>	<u>60</u>	<u>60,000</u>	<u>-</u>	<u>(328,746)</u>	<u>128,603</u>
Net change in fund balances	(615,577)	561,823	(292,353)	(47,434)	1,300,918	1,840,666	2,748,042
Fund balances - beginning	10,619,553	2,388,576	(3,193)	88,211	3,477,359	13,152,119	29,722,624
Prior period adjustment - Note 14	1,735,732	430,093	-	-	349,615	950,750	3,466,190
Fund balances - ending	<u>11,739,708</u>	<u>3,380,491</u>	<u>(295,547)</u>	<u>40,777</u>	<u>5,127,892</u>	<u>15,943,535</u>	<u>35,936,856</u>

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

CHELAN COUNTY, WASHINGTON

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017

Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds 2,748,042

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

Capital outlay	4,927,116	
Disposition of capital assets	(21,948)	
Depreciation expense	<u>(4,486,513)</u>	
		418,654

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

Increases in governmental fund court judgements receivable	206,981	
Decreases in governmental fund taxes receivable	(7,754)	
Increase in intergovernmental revenue-pension special funding situation	156,606	
Increase in Rivercom joint venture equity interest	<u>1,467,894</u>	
		1,823,727

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

Decreases in governmental fund bonds payable	<u>885,000</u>	
		885,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Increase in liability for OPEB benefit for LEOFF	(610,850)	
Contributions toward OPEB benefit for LEOFF	238,941	
Increases in governmental fund compensated absences payable	(710,986)	
Decreases in governmental fund compensated absences payable	544,956	
Amortization of deferred charge on bond refunding	58,366	
Decrease in pension expense	<u>3,263,790</u>	
		2,784,217

The net revenue of certain activities of internal service funds is reported on the statement of activities

161,827

Change in net position

8,821,467

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

CHELAN COUNTY, WASHINGTON

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary and Actual For the Year Ended December 31, 2017

Revenues	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Assessor	1,170	1,170	5,374	4,204
Auditor	973,728	973,728	1,350,995	377,267
Community Development	1,793,600	1,793,600	1,844,269	50,669
Fire Prevention & Investigation	-	-	3,609	3,609
Clerk	678,550	678,550	830,882	152,332
Commissioners	13,033,586	13,033,586	12,568,498	(465,088)
Coroner	15,000	15,000	14,874	(126)
Information Technology	163,763	163,763	163,763	(0)
Facilities Maintenance	684,827	684,827	703,238	18,411
District Court	1,182,615	1,182,615	1,088,636	(93,979)
District Court Probation	424,600	424,600	439,287	14,687
Extension	30,500	30,500	32,064	1,564
Juvenile	680,652	680,652	720,964	40,312
Non-Departmental	429,705	429,705	323,340	(106,365)
Child Support Enforcement	410,447	410,447	378,749	(31,698)
Prosecuting Attorney	576,095	576,095	578,488	2,393
Sheriff	3,416,476	3,416,476	3,298,339	(118,137)
Superior Court	93,569	93,569	113,123	19,554
Treasurer	1,362,066	1,362,066	1,715,254	353,188
Taxes	11,912,617	11,912,617	11,748,511	(164,106)
Traffic Safety	154,770	154,770	206,255	51,485
Total revenues	38,018,336	38,018,336	38,128,660	110,324
Expenditures				
Assessor	1,340,937	1,340,937	1,268,190	(72,747)
Auditor	1,244,976	1,244,976	1,246,243	1,267
Community Development	2,020,080	1,950,970	1,792,236	(158,734)
Fire Prevention & Investigation	-	69,110	61,271	(7,839)
Human Resources	165,240	165,240	151,785	(13,455)
Clerk	1,262,758	1,262,758	1,263,884	1,126
Commissioners	698,282	704,682	685,846	(18,836)
Coroner	244,455	244,455	229,263	(15,192)
Information Technology	912,878	912,878	908,541	(4,337)
Facilities Maintenance	1,679,760	1,679,760	1,609,897	(69,863)
District Court	1,395,884	1,406,944	1,371,169	(35,775)
District Court Probation	520,193	520,193	505,846	(14,347)
Extension	353,528	353,528	322,316	(31,212)
Juvenile	2,979,106	2,979,106	2,923,070	(56,036)
Non-Departmental	8,882,817	9,207,817	9,115,813	(92,004)
Child Support Enforcement	367,679	367,679	350,330	(17,349)
Prosecuting Attorney	2,173,164	2,220,732	2,194,974	(25,759)
Sheriff	10,487,054	10,524,504	10,692,726	168,222
Superior Court	1,298,154	1,298,154	1,292,136	(6,018)
Treasurer	619,381	619,381	608,026	(11,355)
Taxes	30,000	30,000	30,000	-
Traffic Safety	121,176	121,176	120,676	(500)
Total expenditures	38,797,502	39,224,980	38,744,237	(480,743)
Excess (deficiency) of revenues over (under) expenditures	(779,166)	(1,206,644)	(615,577)	591,067
Fund balances - beginning	9,606,597	9,606,597	10,619,553	1,012,956
Prior period adjustment - Note 14	-	-	1,735,732	1,735,732
Fund balances - ending	8,827,431	8,399,953	11,739,708	3,339,755

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

CHELAN COUNTY, WASHINGTON

County Roads Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	7,365,000	7,365,000	7,769,845	404,845
Licenses & permits	-	-	67,133	67,133
Intergovernmental revenues	8,198,146	8,198,146	6,553,183	(1,644,963)
Charges for services	207,400	207,400	163,423	(43,977)
Miscellaneous	2,000	2,000	7,616	5,616
Total revenues	<u>15,772,546</u>	<u>15,772,546</u>	<u>14,561,200</u>	<u>(1,211,346)</u>
Expenditures				
Current:				
General government	38,000	38,000	25,657	(12,343)
Transportation	10,097,680	10,097,680	9,848,472	(249,208)
Capital outlay	6,534,500	6,534,500	4,491,907	(2,042,593)
Total expenditures	<u>16,670,180</u>	<u>16,670,180</u>	<u>14,366,036</u>	<u>(2,304,144)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(897,634)</u>	<u>(897,634)</u>	<u>195,165</u>	<u>1,092,799</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	86,658	86,658
Transfers in	400,000	400,000	400,000	-
Transfers out	(120,000)	(120,000)	(120,000)	-
Total other financing sources and uses	<u>280,000</u>	<u>280,000</u>	<u>366,658</u>	<u>86,658</u>
Net change in fund balances	(617,634)	(617,634)	561,823	1,179,457
Fund balances - beginning	2,791,875	2,791,875	2,388,576	(403,299)
Prior period adjustment - Note 14	-	-	430,093	430,093
Fund balances - ending	<u>2,174,241</u>	<u>2,174,241</u>	<u>3,380,491</u>	<u>1,292,908</u>

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

CHELAN COUNTY, WASHINGTON

Regional Justice Center Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses & permits	-	-	40,602	40,602
Intergovernmental revenues	40,000	40,000	12,000	(28,000)
Charges for services	8,228,443	8,228,443	8,137,058	(91,385)
Fees and fines	16,000	16,000	4,322	(11,678)
Miscellaneous	90,500	90,500	3,768	(86,732)
Total revenues	<u>8,374,943</u>	<u>8,374,943</u>	<u>8,197,750</u>	<u>(177,193)</u>
Expenditures				
Current:				
Public safety	<u>8,312,148</u>	<u>8,542,148</u>	<u>8,490,164</u>	<u>(51,984)</u>
Total expenditures	<u>8,312,148</u>	<u>8,542,148</u>	<u>8,490,164</u>	<u>(51,984)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>62,795</u>	<u>(167,205)</u>	<u>(292,413)</u>	<u>(125,208)</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	60	60
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>60</u>	<u>60</u>
Net change in fund balances	62,795	(167,205)	(292,353)	(125,148)
Fund balances - beginning	-	-	(3,193)	(3,193)
Fund balances - ending	<u>62,795</u>	<u>(167,205)</u>	<u>(295,547)</u>	<u>(128,342)</u>

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

CHELAN COUNTY, WASHINGTON

Natural Resources Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenues	4,411,313	4,411,313	3,818,006	(593,307)
Charges for services	104,000	104,000	75,872	(28,128)
Miscellaneous	-	-	241	241
Total revenues	<u>4,515,313</u>	<u>4,515,313</u>	<u>3,894,119</u>	<u>(621,195)</u>
Expenditures				
Current:				
Natural and economic environment	4,555,313	4,555,313	3,985,120	(570,193)
Debt service				
Interest and other charges	10,000	10,000	16,432	6,432
Total expenditures	<u>4,565,313</u>	<u>4,565,313</u>	<u>4,001,552</u>	<u>(563,761)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>(107,434)</u>	<u>(57,434)</u>
Other Financing Sources (Uses)				
Transfers in	50,000	50,000	60,000	10,000
Total other financing sources and uses	<u>50,000</u>	<u>50,000</u>	<u>60,000</u>	<u>10,000</u>
Net change in fund balances	-	-	(47,434)	(47,434)
Fund balances - beginning	-	-	88,211	88,211
Fund balances - ending	<u>-</u>	<u>-</u>	<u>40,777</u>	<u>40,777</u>

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

CHELAN COUNTY, WASHINGTON

Distressed Counties Tax Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	1,420,000	1,420,000	1,902,783	482,783
Miscellaneous	5,000	5,000	43,058	38,058
Total revenues	<u>1,425,000</u>	<u>1,425,000</u>	<u>1,945,842</u>	<u>520,842</u>
Expenditures				
Current:				
Natural environment	1,014,858	1,014,858	14,858	(1,000,000)
Debt service				
Principal	390,000	390,000	521,277	131,277
Interest and other charges	125,089	125,089	108,789	(16,300)
Total expenditures	<u>1,529,947</u>	<u>1,529,947</u>	<u>644,924</u>	<u>(885,023)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(104,947)</u>	<u>(104,947)</u>	<u>1,300,918</u>	<u>1,405,865</u>
Fund balances - beginning	2,800,000	2,800,000	3,477,359	677,359
Prior period adjustment - Note 14	-	-	349,615	349,615
Fund balances - ending	<u>2,695,053</u>	<u>2,695,053</u>	<u>5,127,892</u>	<u>2,432,839</u>

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

CHELAN COUNTY, WASHINGTON

Statement of Net Position
Proprietary Funds
December 31, 2017

	<u>Internal Service Funds</u>
Assets	
Current assets:	
Cash and cash equivalents	5,255,174
Deposits with fiscal agents	40,000
Investments	2,284,848
Due from other funds	442,674
Inventory	1,031,945
Prepaid expenses	40,114
Total current assets	<u>9,094,755</u>
Noncurrent assets:	
Capital assets: net of accumulated depreciation)	
Buildings	21,260
Equipment	4,736,743
Total noncurrent assets	<u>4,758,003</u>
Total assets	<u>13,852,758</u>
Deferred Outflows of Resources - Pensions	<u>67,191</u>
Liabilities	
Current liabilities:	
Accounts payable	160,781
Due to other funds	1,410
Due to other governments	67,799
Accrued payroll liability	84,898
Compensated absences	8,679
Total current liabilities	<u>323,567</u>
Noncurrent liabilities:	
Compensated absences	29,814
Claims reserve	246,466
Net pension liability	252,352
Total noncurrent liabilities	<u>528,632</u>
Total liabilities	<u>852,199</u>
Deferred Inflows of Resources - Pensions	<u>132,852</u>
Net Position	
Investment in capital assets	4,758,003
Unrestricted	8,176,895
Total net position	<u>12,934,898</u>

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

CHELAN COUNTY, WASHINGTON

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	<u>Internal Service Funds</u>
Operating Revenues	
Charges for services	11,427,069
Total operating revenues	<u>11,427,069</u>
Operating Expenses	
Salaries	712,590
Personnel benefits	385,361
Supplies	2,014,533
Other services & charges	7,315,757
Interfund payments for services	185,988
Depreciation	785,871
Total operating expenses	<u>11,400,099</u>
Operating income (loss)	<u>26,970</u>
Nonoperating Revenues (Expenses)	
Gain (loss) on disposal of capital assets	<u>134,857</u>
Total nonoperating revenues (expenses)	<u>134,857</u>
Change in net position	161,827
Net position - beginning	<u>12,756,719</u>
Prior period adjustment - Note 14	<u>16,352</u>
Net position - ending	<u><u>12,934,898</u></u>

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

CHELAN COUNTY, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

	<u>Internal Service Funds</u>
Cash Flows From Operating Activities:	
Cash received from customers and users	11,687,329
Cash payments to suppliers	(9,696,616)
Cash payments to employees and retirees	(1,013,897)
Net cash provided (used) by operating activities	<u>976,817</u>
Cash Flows From Capital Financing Activities	
Proceeds from sale of capital assets	134,857
Acquisition and construction of capital assets	(983,303)
Net cash provided (used) by capital financing activities	<u>(848,446)</u>
Cash Flows From Investing Activities	
Purchase of investments	(22,105)
Net cash provided (used) by investing activities	<u>(22,105)</u>
Net increase (decrease) in cash and cash equivalents	106,265
Cash and cash equivalents, January 1	<u>5,148,910</u>
Cash and cash equivalents, December 31	<u><u>5,255,174</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>26,970</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) operating activities:	
Depreciation	785,871
(Increase) decrease in due from other funds/gov	315,820
(Increase) decrease in inventory	(104,532)
(Increase) decrease in prepaid expenses	(40,114)
(Increase) decrease in pension related deferred outflows	32,439
Increase (decrease) in vouchers/contracts payable	(89,690)
Increase (decrease) in due to other funds/gov	48,629
Increase (decrease) in accrued payroll liabilities	(266)
Increase (decrease) in accrued employee leave benefits	1,690
Total adjustments	<u>949,847</u>
Net cash provided (used) by operating activities	<u><u>976,817</u></u>

The County did not have any material noncash transactions.

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

CHELAN COUNTY, WASHINGTON

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2017

	<u>Agency Funds</u>
Assets	
Cash	26,846,132
Investments	155,217,148
External trust deposits	1,830,666
Taxes receivable	2,661,192
Total assets	<u>186,555,138</u>
Liabilities	
Accounts payable	605,652
Other accrued liabilities	1,008,604
Custodial accounts	184,940,882
Total liabilities	<u>186,555,138</u>

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

CHELAN COUNTY, WASHINGTON

Notes to the Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Joint Venture – A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an on-going financial interest or an on-going financial responsibility. Chelan County participates in a joint venture with Douglas County, the City of Wenatchee and the City of East Wenatchee in the RiverCom 911 multi-jurisdictional public safety dispatch center. See Note 12 for additional information about the joint venture.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

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

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

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

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

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

available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Chelan County reports the following major governmental funds:

- The General fund (Current Expense) is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The County Roads special revenue fund accounts for the finance, design, construction, and maintenance of Chelan County roads. The majority of its funding comes from property taxes, motor vehicle fuel taxes, and state and federal grants.
- The Regional Justice Center fund accounts for the operation of the Chelan County regional correction facility. It receives its funding from providing Jail bed space to other entities as well as the Chelan County General fund.
- The Natural Resources fund accounts for resources from federal, state, and local grants to address environmental issues including water resources, timber, fish, wildlife, and agriculture within Chelan County.
- The Distressed Counties Tax fund accounts for funds to be used for public facilities and infrastructure which promote economic development. The revenue comes from a portion of the state sales tax that is distributed to rural counties.

Additionally, Chelan County reports the following fund types:

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

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

Prior to 2016, program expenses for the Judicial function were included with General Government program expenses. Because the judicial related expenses are accounted for separately from other general government type activities, consistent with State requirements, these amounts were reported separately beginning with the 2016 financial statements.

Prior to 2017, the County accounted for its ownership in the RiverComm 911 joint venture as a percentage (25%) of what was essentially fund balance calculated on a cash-basis of accounting. The joint venture is a cash-basis entity. For 2017, the County estimated the book value of capital assets, original capital cost less straight-line depreciation. This estimate of book value for capital assets, as well as the amount of the outstanding debt at year-end, were used to calculate what would be an estimate of net position as if the joint venture were on the accrual basis of accounting. This estimate of net position was used as the basis for valuing the County's share (25%) in the joint venture for 2017. See Note 12 for additional information on the County's interest in the RiverCom 911 joint venture.

Prior to 2017, the County eliminated in the government-wide Statement of Activities the General Fund payment to the Regional Justice Center internal service fund the cost of incarceration of County inmates. Management discontinued this elimination with the 2017 CAFR believing the change was a more accurate reflection of the cost of providing Public Safety services to County residents.

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. Operating expenses for 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.

D. Budgetary Data

1. Budgetary Basis of Accounting

Annual appropriated budgets are adopted for general, special revenue, debt service, capital project, and proprietary funds on the modified accrual basis of accounting. However, interfund activity is also budgeted and must be removed (see Note 1(D)(3) for a reconciliation to GAAP basis). These budgets are adopted at the fund and department levels. Appropriations for all budgeted funds lapse at year-end. Major capital projects are also included in the County's capital financing plan, which carries forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

2. Excess of Expenditures Over Appropriations

The County had no instances of expenditures exceeding appropriations in 2017.

3. Reconciliation of Budgetary and Actual Statements

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

	General Fund		County Roads	
	Revenues	Expenditures	Revenues	Expenditures
Budgetary basis	38,128,660	38,744,237	14,561,200	14,366,036
Interfund activity	(1,782,079)	(1,782,079)	(26,979)	(26,979)
Gain/loss on cap asset	(631)	-	-	-
Transfers	(120,000)	(90,000)	-	-
GAAP basis	36,225,950	36,872,158	14,534,221	14,339,057

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2017, the Treasurer was holding \$39,096,442 in residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the general fund.

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

2. Receivables

Taxes receivable consist of property taxes and related interest and penalties. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Court judgments receivable consist of fines and penalties assessed by the Superior and District Court Judges, as well as an estimate of year-end receivables for the District Court Probation office. Other taxes receivable include sales tax, lodging taxes, motor vehicle excise taxes and other miscellaneous taxes. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

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

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

4. Inventories

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial individual cost of more than \$5,000, or in the case of infrastructure assets with an initial cost of more than \$100,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

See Note 4 for additional information on capital assets.

6. Other Accrued Liabilities

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

7. Deferred Inflows of Resources

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

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Fund Balance Policies

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

When expenditures are incurred that could be paid from either restricted, committed, assigned, or unassigned resources the county's policy varies by fund type. In the General fund, the county uses restricted resources first, committed resources second, assigned resources third, and unassigned resources last. In the special revenue and capital projects funds, the county uses assigned resources first, committed resources second, and restricted resources last.

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

F. Revenues and Expenditures/Expense

1. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Property taxes are levied and become an enforceable lien against properties on January 1st. Tax bills are mailed on February 14th, and the first of two equal installment payments is due on April 30. Assessed value of property is established at 100% of market value for next year's levy on May 31. The second installment payment is due on October 31st.

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible tax 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 Washington State Constitution and Washington State law (RCW 84.55.010) allow counties to limit the rate of property taxes. A county may levy taxes at a maximum rate of \$1.80 per \$1,000 of assessed value against all real and personal property subject to taxation for general county purposes. This includes payment of principal and interest on bonds issued by the County without a vote of the people, including limited tax general bond obligations (RCW 84.52). The County's regular levy for 2017 was \$1.15 per \$1,000 on an assessed valuation of \$10.4 billion for a total regular tax levy of \$11,887,753.

The County is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The County's road levy for 2017 was \$1.34 per \$1,000 on assessed valuation of \$5.7 billion for a total road levy of \$7,621,829. The diverted road levy for 2017 was \$400,000, which equates to \$0.03862 per \$1,000 of assessed valuation on total valuation of \$10.4 billion.

The County assesses a mental health levy of \$0.025 per \$1,000 on assessed valuation of \$10.4 billion for a total tax levy of \$258,953. The County also assesses a flood control zone levy of \$0.065 per \$1,000 on assessed valuation of \$10.4 billion for a total tax levy of \$674,986.

A county may increase its levy from \$1.80 to \$2.475 for general county purposes if the total levies for both county and road purposes do not exceed \$4.05 per \$1,000 of assessed value and no other taxing district has had its levy reduced as a result of the increased county levy.

The \$1.80 per \$1,000 limitation on the general purposes levy is exclusive of certain regular property taxes: (i) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.069); (ii) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.105); and (iii) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 (authorized by RCW 84.34.230).

Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per \$1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050. Within the one percent limitation, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low-income households and acquiring conservation futures. If aggregate regular property tax levies exceed the one percent or \$5.90 per \$1,000 limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010), in order to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

2. Compensated Absences

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

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

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

3. Internal Service Expense Classification

Internal service charges to departments, which are eliminated from program expenses on the government wide financial statements to prevent double counting the same expense, were previously eliminated primarily from the general government program function prior to 2016. With the 2016 financial statements, specific functions were identified for elimination of internal service charges from program expenses. Management believes this gives a more accurate accounting of program expenses after the elimination of the internal service charges. See Note 14 for a discussion of changes to County payments from the General Fund to the Regional Justice Center.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Note 1.D.2 describes budgetary violations that occurred, if any, for the year ended December 31, 2017. It also addresses the action taken to cover the expenses.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand as of December 31, 2017 was \$14,202,924. The carrying amount of the County's deposits, including certificates of deposit, \$15,460,632, and the bank balances were \$15,635,806.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of failure of a depository financial institution, the County would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The County's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Foreign Currency Risk

Foreign currency risk for deposits is the risk that changes in exchange rate will adversely affect the deposit. The County's policy does not allow foreign deposits.

B. Investments

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the County may face should interest rate variances affect the fair value of investments. Through its investment policy, the County manages its exposure to the risk that the fair value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on

the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The policy is that the weighted average of the portfolio will have a maturity date of less than five years.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Corporate Bonds	1,007,330	-	1,007,330	-	-
Municipal Bonds	24,960,767	-	24,960,767	-	-
U.S. Agencies	25,730,478	-	25,730,478	-	-
Total Debt Securities	51,698,575	-	51,698,575	-	-
Other Securities					
Local Government Investment Pool (LGIP)	153,042,592				
Money Market	2,177,339				
Certificate of Deposit	1,257,707				
Total Investments	208,176,213				

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The state investment pool does not have a credit rating. Chelan County has a policy related to credit risk.

At December 31, 2017, the County's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA	AA+	AA	AA-	Aa1	A-	Unrated
Corporate Bonds	1,007,330	1,007,330	-	-	-	-	-	-
Municipal Bonds	24,960,767	4,470,210	11,855,756	4,149,739	3,655,950	333,097	496,015	-
US Treasuries & Agencies	25,730,478	-	21,735,742	3,994,736	-	-	-	-
Local Government Investment Pool (LGIP)	153,042,592	-	-	-	-	-	-	153,042,592
Money Market	2,177,339	-	-	-	-	-	-	2,177,339
Certificate of Deposits	1,257,707	-	-	-	-	-	-	1,257,707
Total	208,176,213	5,477,540	33,591,498	8,144,475	3,655,950	333,097	496,015	156,477,638

Sources: Moody's Investors Services, Standard & Poor's, Fitch Ratings.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty Chelan County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The County does not own any unregistered/uninsured securities.

Foreign Currency Risk: Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. Chelan County does not own any investments that are subject to foreign exchange rates.

Investments in Local Government Investment Pool (LGIP)

Chelan County is a participant in the Local Government Investment Pool as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the

maturity, quality, diversification and liquidity requirements set forth by GASBS 79 for external investment pools that elect to measure, for financial purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, WA 98504-0200, online at <http://www.tre.wa.gov>.

Investments Measured at Fair Value

The County measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;

Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2017 the County had the following investments measured at fair value:

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
County Investments:			
Investments by Fair Value Level			
U.S. agency	-	16,438,793	-
Corporate bonds	-	755,498	-
Municipal Bonds	-	12,646,220	-
Total investments measured at fair value	-	29,840,511	-
Investments measured at amortized cost			
State Local Government Investment Pool (LGIP)	-	21,659,192	-
Municipal money market	-	1,810,591	-
Total investments measured at amortized cost	-	23,469,783	-
Total County Investments	-	53,310,294	-
Investments held by County as agent for other local governments:			
Investments by Fair Value Level			
U.S. agency	-	9,291,684	-
Corporate bonds	-	251,833	-
Municipal Bonds	-	12,314,545	-
Total investments measured at fair value	-	21,858,062	-
Investments measured at amortized cost			
State Local Government Investment Pool (LGIP)	-	131,383,401	-
Certificate of deposit	-	1,257,707	-
Municipal money market	-	366,749	-
Total investments measured at amortized cost	-	133,007,857	-
Total Investments held by County as agent for other local governments	-	154,865,919	-
Total Investments in Statement of Net Position	-	208,176,213	-

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2017 was as follows:

	Beginning			Ending
	Balance	Increases	Decreases	Balance
	01/01/2017			12/31/2017
Capital assets, not being depreciated:				
Land	5,937,110	-	-	5,937,110
Construction in progress	3,132,227	4,705,662	6,331,321	1,506,569
Total capital assets, not being depreciated	9,069,338	4,705,662	6,331,321	7,443,679
Capital assets, being depreciated:				
Other improvements	2,211,433	-	-	2,211,433
Buildings and structures	54,802,281	12,899	-	54,815,181
Machinery and equipment	24,618,031	1,312,465	978,472	24,952,024
Infrastructure	87,072,992	6,331,321	-	93,404,313
Total capital assets being depreciated	168,704,737	7,656,685	978,472	175,382,950
Less accumulated depreciation for:				
Other improvements	1,661,482	38,232	-	1,699,714
Buildings and structures	28,986,088	1,119,508	-	30,105,596
Machinery and equipment	18,356,750	1,155,181	835,915	18,676,015
Infrastructure	45,144,999	2,959,463	-	48,104,461
Total accumulated depreciation	94,149,318	5,272,383	835,915	98,585,787
Total capital assets, being depreciated, net	74,555,419	2,384,302	142,557	76,797,164
Total capital assets, net	83,624,757	7,089,964	6,473,878	84,240,843

Depreciation expense was charged to functions as follows:

General Government	780,411
Judicial	42,171
Public Safety	620,130
Utilities	130,030
Transportation	3,495,714
Natural Environment	22,216
Economic environment	32,445
Culture and recreation	149,267
Total depreciation	5,272,383

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans state sponsored pension plans administered by the Washington State Department of Retirement Systems (DRS) subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Net Pension liabilities	\$ (14,017,286)
Net Pension assets	\$ 2,600,582
Deferred outflows of resources	\$ 2,918,099
Deferred inflows of resources	\$ (4,130,493)
Pension expense/expenditures	\$ (389,862)

As mentioned in Note 5(K), the County also recorded a net pension asset of \$5,200 for the Volunteer Fire Fighters and Reserve Officers' Relief and Pension Fund (VFFRPF), for a total net pension asset of \$2,605,782, as well as pension expense of \$26,456 for VFFRPF.

A. State Sponsored Pension Plans

Substantially all Chelan County's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by DRS under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98540-8380

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

B. Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The County's actual PERS plan contributions were \$67,568 for PERS Plan 1 and \$1,305,429 to PERS Plan 2/3 for the year ended December 31, 2017.

C. Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. In addition to the regular change in contribution rates on July 1, 2017, PSERS contribution rates changed again September 1, 2017 due to HB 1709, which allows

PERS members meeting specific criteria to transfer service credit into PSERS as long as they and their employer pay the difference between the PERS and PSERS contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2017 were as follows:

PSERS Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2017:		
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.54%	6.59%
July – August 2017:		
PSERS Plan 2	6.73%	6.73%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	11.94%	6.73%
September – December 2017		
PSERS Plan 2	6.74%	6.74%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	11.95%	6.74%

The County's actual plan contributions, not including funding of the PERS Plan 1 UAAL, were \$1,123,867 to PSERS Plan 2 for the year ended December 31, 2017.

D. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The 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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50,

the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The County’s actual contributions to the plan were \$273,440 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the County as its proportionate share of this amount is \$156,606.

E. Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 and TRS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the County's proportionate share* of net pension liability of employers calculated using the discount rate of 7.50% as well as what employers' net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 9,478,662	\$ 7,780,931	\$ 6,310,333
PERS 2/3	\$ 16,469,823	\$ 6,113,282	\$ (2,372,366)
PSERS 2	\$ 826,380	\$ 123,072	\$ (428,363)
LEOFF 1	\$ (355,948)	\$ (479,866)	\$ (586,284)
LEOFF 2	\$ 458,920	\$ (2,120,716)	\$ (4,222,495)

* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

F. Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

G. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the County reported a total pension liability of \$14,017,286 and total pension asset of \$2,600,582 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 7,780,931
PERS 2/3	\$ 6,113,282
PSERS 2	\$ 123,072
LEOFF 1	\$ (479,866)
LEOFF 2	\$ (2,120,716)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the County. The amount recognized by the County as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the County were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (479,866)	\$ (2,120,716)
State's proportionate share of the net pension asset associated with the employer	\$(3,245,804)	\$ (1,375,669)
TOTAL	\$(3,725,670)	\$ (3,496,385)

At June 30, the County's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.199006%	0.163979%	(0.035027%)
PERS 2/3	0.209821%	0.175946%	(0.033875%)
PSERS 2	0.729392%	0.628144%	(0.101248%)
LEOFF 1	0.031184%	0.031628%	0.000444%
LEOFF 2	0.178758%	0.152825%	(0.025933%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

H. Pension Expense

For the year ended December 31, 2017, the County recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (1,360,791)
PERS 2/3	\$ 803,759
PSERS 2	\$ 170,402
LEOFF 1	\$ (81,333)
LEOFF 2	\$ 78,101
TOTAL	\$ (389,862)

I. Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (290,363)
Contributions subsequent to the measurement date	\$ 584,561	\$ -
TOTAL	\$ 584,561	\$ (290,363)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 619,420	\$ (201,055)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,629,654)
Changes of assumptions	\$ 64,935	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 332,208	\$ (1,246,813)

Contributions subsequent to the measurement date	\$ 715,068	\$ -
TOTAL	\$ 1,731,630	\$ (3,077,523)

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 72,789	\$ (8,744)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (86,320)
Changes of assumptions	\$ 1,043	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 5,005	\$ (17,913)
Contributions subsequent to the measurement date	\$ 77,639	\$ -
TOTAL	\$ 156,476	\$ (112,976)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (44,591)
TOTAL	\$ -	\$ (44,591)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 93,209	\$ (80,421)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (476,116)
Changes of assumptions	\$ 2,554	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 204,926	\$ (48,505)
Contributions subsequent to the measurement date	\$ 144,743	\$ -
TOTAL	\$ 445,432	\$ (605,041)

Total-All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 785,418	\$ (290,220)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (2,527,042)
Changes of assumptions	\$ 68,531	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 542,139	\$ (1,313,231)
Contributions subsequent to the measurement date	\$ 1,522,011	\$ -
TOTAL	\$ 2,918,099	\$ (4,130,493)

Deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Differences Between Projected and Actual Earnings on Plan Investments					
Year ended December 31:	PERS 1	PERS 2/3	PSERS	LEOFF 1	LEOFF 2
2018	(196,266)	(838,928)	(35,836)	(27,984)	(241,039)
2019	61,964	103,551	(1,910)	7,547	27,224
2020	(14,388)	(183,749)	(13,134)	(3,014)	(54,989)
2021	(141,673)	(710,528)	(35,440)	(21,140)	(207,312)
Total	(290,363)	(1,629,654)	(86,320)	(44,591)	(476,116)

Differences Between Expected and Actual Experience						
Year ended December 31:	PERS 2/3 Inflows	PERS 2/3 Outflows	PSERS 2 Inflows	PSERS 2 Outflows	LEOFF 2 Inflows	LEOFF 2 Outflows
2018	(91,390)	251,193	(760)	18,153	(8,376)	28,592
2019	(91,388)	133,262	(760)	18,147	(8,376)	28,592
2020	(18,277)	54,642	(760)	18,147	(8,376)	28,592
2021	-	54,644	(760)	18,147	(8,376)	7,433
2022	-	54,644	(760)	195	(8,376)	-
Thereafter	-	71,036	(4,943)	-	(38,538)	-
Total	(201,055)	619,420	(8,744)	72,789	(80,421)	93,209

Change of Assumptions						
Year ended December 31:	PERS 2/3 Inflows	PERS 2/3 Outflows	PSERS 2 Inflows	PSERS 2 Outflows	LEOFF 2 Inflows	LEOFF 2 Outflows
2018	-	29,793	-	220	-	798
2019	-	28,005	-	214	-	798
2020	-	5,708	-	214	-	798
2021	-	433	-	214	-	160
2022	-	433	-	82	-	-
Thereafter	-	563	-	101	-	-
Total	-	64,935	-	1,043	-	2,554

Employer's Changes in Proportionate Share						
Year ended December 31:	PERS 2/3 Inflows	PERS 2/3 Outflows	PSERS 2 Inflows	PSERS 2 Outflows	LEOFF 2 Inflows	LEOFF 2 Outflows

2018	(197,907)	171,212	(1,579)	1,043	(14,768)	21,346
2019	(197,907)	137,868	(1,578)	1,043	(14,768)	21,346
2020	(197,907)	23,128	(1,578)	1,043	(14,768)	21,346
2021	(197,907)	-	(1,578)	1,043	(4,201)	21,346
2022	(197,907)	-	(1,546)	834	-	21,346
Thereafter	(257,279)	-	(10,052)	-	-	98,193
Total	(1,246,813)	332,208	(17,913)	5,005	(48,505)	204,926

TOTALS (excluding contributions subsequent to the measurement date)					
Year ended December 31:	PERS 1 Yearly Amortization	PERS 2/3 Yearly Amortization	PSERS 2 Yearly Amortization	LEOFF 1 Yearly Amortization	LEOFF 2 Yearly Amortization
2018	(196,266)	(676,027)	(18,759)	(27,984)	(213,447)
2019	61,964	113,391	15,155	7,547	54,816
2020	(14,388)	(316,456)	3,930	(3,014)	(27,398)
2021	(141,673)	(853,359)	(18,375)	(21,140)	(190,949)
2022	-	(142,831)	(1,196)	-	12,969
Thereafter	-	(185,679)	(14,895)	-	59,656
Total	(290,363)	(2,060,960)	(34,139)	(44,591)	(304,353)

The following plan is not administered by DRS. Individual municipalities' proportionate share of the net pension liability/(asset) is available at www.bvff.wa.gov. The following disclosures should be combined with those above in a manner that avoids unnecessary duplication.

K. Volunteer Fire Fighters and Reserve Officers' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 450 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes 40 percent of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

The VFFRPF plan does not issue a stand-alone financial report, but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at www.ofm.wa.gov.

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

Contributions

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the Office of the State Actuary. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates for 2017 were as follows:

VFFRPF	Firefighters	EMSD and Reserve Officers
Municipality fee	\$30	\$105
Member fee	\$30	\$30

The County's actual contributions to the plan were \$30 for the year ended December 31, 2017.

In accordance with Chapter 41.24 RCW, the state contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2017, the fire insurance premium tax contribution was \$6.6 million.

Actuarial Assumptions

The total pension asset for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2016, and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 2.75%
- Salary increases: N/A
- Investment rate of return: 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2016 valuation report.

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Discount Rate

The discount rate used to measure the total VFFRPF pension asset was 7 percent. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included as assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL

The following presents the County’s proportionate share of the VFFRPF net pension asset calculated using the discount rate of 7 percent, as well as what the County’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
VFFRPF	\$(1,948)	\$(5,200)	\$(8,014)

Pension Plan Fiduciary Net Position

Detailed information about the VFFRPF plan’s fiduciary net position is available in the separately issued State of Washington CAFR.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the County reported an asset of \$5,200 for its proportionate share of the VFFRPF plan’s net pension asset. The County’s proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2017, the County’s proportion was 0.01402%.

The VFFRPF collective net pension asset was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

For the year ended December 31, 2017, the County recognized pension expense of \$26,456. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

NOTE 6 - RISK MANAGEMENT

A. Liability Insurance - Risk Pool

Chelan County is a participating member of the Washington Counties Risk Pool (WCRP). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to join together 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 Pool was formed in August of 1988 when 15 counties 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, 2017, 26 counties participate in the WCRP.

The Pool allows members to jointly establish a plan of self-insurance, and provides related services, such as risk management and claims administration. Members enjoy occurrence-based, jointly purchased and/or jointly self-insured liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits are \$20 million per occurrence and each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. For losses occurring in 2017, Chelan County selects a per-occurrence deductible of \$100,000.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance for further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions ("SIRs") equal to the greater of the deductible for the member with the claim or \$100,000. More recent years' reinsurance programs have included "corridor deductibles" with aggregated stop losses which have the effect of increasing the Pool's SIR. For 2016-17, the "corridor" increased the SIR to \$2 million, with an aggregated stop loss of \$4.35 million. Other reinsurance agreements respond up to the applicable policy limits. Those reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer). Since the Pool is a cooperative program, there is a joint liability among the participating members.

New members may be asked to pay modest fees to cover the costs to analyze their loss data and risk profiles, and for their proportional shares of the entry year's assessments. New members contract under the Interlocal Agreement to remain in the Pool for at least five years. Following its initial 60-month term, any member may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files the required advance written notice. Otherwise, the Interlocal Agreement and membership automatically renews for another year. Even after termination, former members remain responsible for reassessments by the Pool for the members' proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

The Pool is fully funded by its member participants. Claims are filed directly with the Pool by members and adjusted by one of the six staff members responsible for evaluating each claim for coverage, establishing reserves, and investigating for any risk-shared liability. The Pool does not contract with any third party administrators for claims adjustment or loss prevention services.

During 2016-17, Chelan County was also one of twenty-six (26) counties which participated in the Washington Counties Property Program (WCPP). Property losses are covered under the WCPP to the participating counties' buildings and contents, vehicles, mobile/contractor equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes 'All Other Perils ("AOP")' coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Each participating county is solely responsible for paying their selected deductible, ranging between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

Chelan County also participates in the jointly purchased cyber risk and security coverage from a highly-rated commercial insurer.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. The Board of Directors generally meets three-times each year with the Annual Meeting of the Pool being held in summer. The Board approves the extent of risk-sharing, approves the Pool's self-insuring coverage documents, approves the selection of reinsurance and excess agreements, and approves the Pool's annual operating budget.

An 11-member executive committee is elected by and from the WCRP Board for staggered, 3-year terms. Authority has been delegated to the Committee by the Board of Directors to, a) approve all disbursements and reviews the Pool's financial health, b) approve case settlements exceeding the applicable member's deductible by at least \$50,000, c) review all claims with incurred loss estimates exceeding \$100,000, and d) evaluate the Pool's operations,

program deliverables, and the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board to consider and act upon.

During 2016-17, the WCRP's assets remained stable at \$46.8 million while its liabilities decreased slightly to \$28.6 million. The Pool's net position increased slightly from \$17.9 million to \$18.1 million. The Pool more than satisfies the State Risk Manager's solvency requirements (WAC 200.100.03001). The Pool is a cooperative program with joint liability amongst its participating members.

Deficits of the Pool resulting from any fiscal year are financed by reassessments of the deficient year's membership in proportion with the initially levied and collected deposit assessments. The Pool's reassessments receivable balance as of December 31, 2017 was zero (\$0). As such, there were no known contingent liabilities at that time for disclosure by the member counties.

B. Self-Insurance

1. Unemployment Compensation

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

<u>Unemployment Compensation</u>	
Claims liability at 12/31/2015	\$ 0
Claims incurred	\$ 51,050
Claims paid	\$ (51,050)
Claims liability at 12/31/2016	\$ 0
Claims incurred	\$ 53,820
Claims paid	\$ (53,820)
Claims liability at 12/31/2017	\$ 0

2. Workers Compensation

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

<u>Workers Compensation</u>	
Claims liability at 12/31/2015	\$ 225,754
Claims incurred	\$ 108,519
Claims paid	\$ (175,956)
Claims adjustments	\$ 105,201
Claims liability at 12/31/2016	\$ 263,518
Claims incurred	\$ 86,574
Claims paid	\$ (342,873)
Claims adjustments	\$ 239,247
Claims liability at 12/31/2017	\$ 246,466

3. Medical Insurance

Chelan County is self-insured for medical insurance. Premera provides the administration of the medical insurance claims for the County. The County has a \$110,000 stop-loss policy to mitigate risk of large individual claims. It also maintained an annual aggregate claims limit of \$5,107,064. Per the Washington Administrative Code, the County must maintain a reserve equal to 16 weeks of program expenses. Based on 2017's average weekly medical plan costs, this amount equals \$1,120,564. As of 12/31/2017, the Health Insurance fund was adequately funded with an ending net position of \$3,425,780.

<u>Medical Insurance</u>	
Claims liability at 12/31/2015	\$ 0
Claims incurred	\$ 4,017,964
Claims paid	\$ (4,017,964)
Claims liability at 12/31/2016	\$ 0
Claims incurred	\$ 3,641,833
Claims paid	\$ (3,641,833)
Claims liability at 12/31/2017	\$ 0

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt

The County issues general obligation bonds to finance the purchase and construction of buildings and other capital assets. Bonded indebtedness has also been entered into to advance refund general obligation bonds. General obligation bonds have been issued for general government activities and are being repaid from the General, Criminal Justice Sales Tax, Distressed Counties Tax funds. These bonds are set to mature between 2022 and 2036. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount Outstanding
2007 LTGO and refunding bonds to advance refund the county's 1998 and 2000 G.O. bonds and \$1,200,000 for technology projects, original issue \$5,735,000	4.0% - 5.0%	1,555,000
2009 LTGO bonds for the law and justice facility renovation, original issue \$8,150,000	2.0% - 5.0%	1,210,000
2016 Refunding bonds to advance refund the county's 2002 and 2003A bonds and partially refund the 2009 G.O. bonds, original issue \$8,955,000	2.0% - 5.0%	8,255,000
Total		11,020,000

The annual debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2018	935,000	399,467
2019	750,000	366,454
2020	765,000	340,693
2021	795,000	313,967
2022	825,000	289,886
2023-2027	2,070,000	1,148,750
2028-2032	2,505,000	767,600
2033-2036	2,375,000	242,200
Total	11,020,000	3,869,017

B. Refunded Debt

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

The reacquisition price was less than the carrying amount of the old debt by \$715,000. This difference has been classified as a deferred inflow of resources on the Statement of Net Position and is being amortized as a component of interest expense over the remaining life of the refunding debt.

In 2016 Chelan County issued the 2016 LTGO refunding bonds to defease the 2002 and 2003A G.O bonds, as well as partially refunding the outstanding 2009 G.O. bonds. The proceeds of the new bonds were placed in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the county's financial statements.

The reacquisition price was less than the carrying amount of the old debt by \$120,000. This difference has been classified as a deferred inflow of resources on the Statement of Net Position and is being amortized as a component of interest expense over the remaining life of the refunding debt.

NOTE 8 – CHANGES IN LONG TERM LIABILITIES

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/17	Additions	Reductions	Ending Balance 12/31/17	Due Within One Year
Bonds payable	11,905,000	-	885,000	11,020,000	935,000
Net pension liability	21,561,858	-	7,544,572	14,017,286	-
OPEB benefit for LEOFF	2,796,735	610,850	238,941	3,168,644	-
DSHS Working capital advance	110,394	-	-	110,394	-
Claims reserve	263,518	86,574	103,626	246,466	-
Compensated absences	2,434,720	714,217	555,375	2,593,562	584,776
Long-term liabilities:	39,072,225	1,411,641	9,327,514	31,156,352	1,519,776

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals. At year end, \$38,493 of internal service funds compensated absences are included in the above amounts. The majority of the compensated absences above are liquidated by the General, County Roads, and Regional Justice Center funds. The OPEB benefit for LEOFF is liquidated by the General fund. The net pension liability will be liquidated by funds that have personnel costs, which are predominately the major governmental funds.

NOTE 9 – CONTINGENCIES AND LITIGATIONS

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

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

During 2008 and 2009, Chelan County received a loan of \$773,203 from the Department of Community, Trade and Economic Development (CTED) for the express purpose of the construction of restroom, shower, and laundry facilities for the Monitor Park temporary farm worker camp. Repayment of the non-interest bearing loan principal has been deferred until the change of use, noncompliance with agreement, or until it is fully forgiven on December 31, 2017, whichever occurs first. During 2013, the loan agreement was modified to forgive the loan at a rate of 1/15th per year over the first 5 year period, and a rate of 2/15th per year over the second 5 year period. Upon completion of the deferral period, the entire loan will be forgiven. Since the probability of repayment is remote, loan proceeds were recorded as a capital grant in 2008 and 2009. The remaining balance on the loan was forgiven as of 12/31/2017.

NOTE 10 – FUND BALANCE

A. Minimum Fund Balance Policy

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

The General fund shall maintain a minimum year-end unassigned fund balance of 8% of its annual expenditures. In the event the fund balance is not at that level, the county shall create a plan to restore the fund balance to 8% within two years. The General fund's long-term fund balance target is a year-end unassigned fund balance of 15% of annual expenditures.

B. Detailed Fund Balance Constraints

	Special Revenue Funds							Total
	General Fund	County Roads	Regional Justice Center	Natural Resources	Distressed Counties Tax	Nonmajor Special Revenue Funds	Nonmajor Capital Projects	
Fund Balances:								
Restricted for:								
Roads & transportation	-	3,380,491	-	-	-	109,298	-	3,489,789
Drug enforcement	-	-	-	-	-	284,800	-	284,800
Law enforcement	-	-	-	-	-	3,447,287	-	3,447,287
Archiving	-	-	-	-	-	412,808	-	412,808
Housing	-	-	-	-	-	412,904	-	412,904
Pest control	-	-	-	-	-	4,226	-	4,226
Technology	-	-	-	-	-	273,292	-	273,292
Weed control	-	-	-	-	-	68,309	-	68,309
Courts	-	-	-	-	-	395,246	-	395,246
Veterans	-	-	-	-	-	57,578	-	57,578
Foreclosure costs	-	-	-	-	-	146,060	-	146,060
Tourism	-	-	-	-	-	2,163,330	-	2,163,330
Natural resources	-	-	-	40,777	-	11,872	-	52,650
Flood control	-	-	-	-	-	3,017,401	-	3,017,401
Substance abuse	-	-	-	-	-	8,494	-	8,494
Capital projects	-	-	-	-	5,127,892	-	3,024,460	8,152,352
Committed to:								
Drug enforcement	-	-	-	-	-	8,605	-	8,605
Prison	-	-	-	-	-	92,176	-	92,176
Parks & recreation	-	-	-	-	-	969,090	-	969,090
Education	-	-	-	-	-	114,397	-	114,397
Airport	-	-	-	-	-	66,329	-	66,329
Utilities	-	-	-	-	-	790,306	-	790,306
Elections	-	-	-	-	-	65,265	-	65,265
Unassigned	11,739,708	-	(295,547)	-	-	-	-	11,444,161
	<u>11,739,708</u>	<u>3,380,491</u>	<u>(295,547)</u>	<u>40,777</u>	<u>5,127,892</u>	<u>12,919,074</u>	<u>3,024,460</u>	<u>35,936,856</u>

NOTE 11 - INTERFUND BALANCES AND TRANSFERS

A. Due To/From Other Funds

"Due from other funds" and "due to other funds" are created from interfund transactions which usually involve the exchange of goods or services in a normal business relationship. The majority of these are due to interfund billing of equipment rental and motor pool charges. Due from other funds and due to other funds as of December 31, 2017 are as follows:

Due To	Due From						Total
	General Fund	County Roads	Regional Justice Center	Natural Resources	Nonmajor governmental	Internal service	
General Fund	-	7,352	223	-	50	77,618	85,243
County Roads	32,188	-	90	-	314	359,867	392,459
Regional Justice Center	2,981	-	-	-	-	498	3,479
Natural Resources	-	-	-	-	-	1,269	1,269
Nonmajor governmental	8,259	-	-	16,085	200	2,011	26,555
Internal service	-	-	-	-	-	1,410	1,410
Total	43,428	7,352	313	16,085	564	442,674	510,415

B. Interfund Loans Payable/Receivable

Interfund loans have arisen from certain funds requiring cash flow to manage their operations. The following table displays interfund loan activity during 2017:

Fund	Fund	1/1/2017	New Loans	Repayments	12/31/2017
Horticulture, Pest & Disease	General Fund	-	4,800	4,800	-
Horticulture, Pest & Disease	Distressed Counties Tax	-	17,000	17,000	-
Cashmere Dryden Airport	Distressed Counties Tax	-	182,000	-	182,000
Natural Resources	REET I	540,000	786,400	862,000	464,400
Natural Resources	Distressed Counties Tax	-	257,000	150,000	107,000
Total		540,000	1,247,200	1,033,800	753,400

C. Interfund Transfers

During 2017, interfund transfers were used to move General fund property tax revenue to support the Law Library and Natural Resources operations. REET funds were transferred to County Roads so that an equal portion of the road property tax levy could be shifted to the General fund. County Roads transferred funds to the General fund to support county road traffic safety initiatives by the Sheriff. The following table displays interfund transfers during 2017:

Transfers In	Transfers Out			Total
	General	County Roads	Nonmajor governmental	
General	-	120,000	-	120,000
County Roads	-	-	400,000	400,000
Natural Resources	60,000	-	-	60,000
Nonmajor governmental	30,000	-	-	30,000
Total transfers	90,000	120,000	400,000	610,000

NOTE 12 – JOINT VENTURES

A. Rivercom

Chelan County participates in Rivercom, a joint venture, which was created with an interlocal agreement to build and operate a regional 911 communications center. The other participants in this venture include: Douglas County, the City of East Wenatchee and the City of Wenatchee. Rivercom charges the participants a fee based on the volume of calls generated by each participant. The fees are designed to cover Rivercom's costs. In addition to the fees, the participants provide their 911 tax revenues to the organization. Based on the interlocal agreement, Chelan County has a 25% equity interest in Rivercom. During 2017, Rivercom reported total revenues and other increases in fund resources of \$7,123,120 and incurred total expenditures and other decreases in fund resources of \$5,989,943 resulting in an increase in cash and investment of \$1,133,177, and ending fund balance of \$10,137,897.

As mentioned in Note 1(C), the County for 2017 estimated the net book value of capital assets at year-end and included that amount as well as outstanding general obligation debt in order to estimate net position at year-end for Rivercom. This is a departure from 2016 and prior when the County reported its proportionate share of fund balance as investment in the joint venture. The change in calculation equates to \$1,184,600, which is the difference between the previous calculation method of 25% of fund balance (\$2,534,474) versus 25% of the new estimated net position (\$3,719,074).

Rivercom produces financial statements using a cash basis of accounting. One-quarter of revenues, expenses, and fund balance are included in the full accrual government-wide financial statements. A copy of Rivercom's financial statements can be obtained from Rivercom at: PO Box 3344, Wenatchee, WA 98807 or (509) 662-4650.

NOTE 13 – RELATED ORGANIZATIONS

A. Mosquito Districts

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

B. Water Conservation Board

The Chelan County Board of Commissioners appoint the majority of board members for the Chelan County Water Conservation Board. After appointment, the district is not accountable to Chelan County. Their combined financial information is included with the agency fund combining financial statements.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

As mentioned in Note 5(K) the County participates in the Volunteer Fire Fighters and Reserve Officers' Relief and Pension Fund (VFFRPF) which is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. At the end of 2016 the County failed to record its share of the net pension asset of the plan (\$31,626). A prior period adjustment is included in the government-wide Statement of Net Activities accounting for the increase to beginning net position for this omission.

During 2016 the County recorded the transfer of certain capital assets between the County Roads fund, a Special Revenue Fund, and the Equipment Rental & Revolving and Motor Pool funds, internal service funds. Not all of the asset costs were included when the transfer was initially recorded in 2016. Remaining asset costs to be transferred included an original cost of \$86,061 and accumulated depreciation of \$69,709, for a net book value of \$16,352. This omission was recorded as a prior period adjustment in 2017 in the Internal Service Funds. Because the offsetting adjustment is to capital assets of governmental funds, the individual fund financial statement for the County Roads fund is not adjusted as they do not include capital assets, and the impact of recording this omission has no net effect on the government-wide financial statements as the internal service funds are combined with the governmental funds, resulting in no net impact on the government-wide financial statements of recording the prior period adjustment.

The County in 2017 began recording the accrual of sales tax, lodging taxes, emergency communication (911) taxes, motor vehicle excise taxes and other miscellaneous taxes. Prior to 2017, these taxes were recognized in the financial statements as received. In 2017, the County change to recognizing the taxes in the period in which they were collected from taxpayers, which in some cases could be a two-month lag between taxpayer collection and remittance to the County. This change in recognition required a prior period adjustment for the 2016 taxes receivable that would have been recognized if the County's new recognition method had applied to years prior to 2017. The prior period adjustment for 2016 taxes receivable that would have been recognized under the new method was \$1,735,732 for the General Fund, \$430,093 for the County Roads fund, and \$349,615 for the Distressed Counties Tax fund. The change for non-major governmental funds included \$1,935 for the REET Technology fund, \$508,515 for the 911 Communications fund, \$255,274 for the Tourist & Convention fund, and \$185,026 for the Criminal Justice Sales Tax fund for a total prior period adjustment of \$3,466,190.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

A. Plan Description

In addition to the pension benefits described in Note 5, the County provides single-employer defined benefit health insurance for retired public safety employees who are vested in LEOFF 1. All the County's LEOFF 1 employees retired and became eligible for these benefits when they reached normal retirement age while working for the County. There are 20 participants eligible to receive these benefits. The benefits are 100 percent provided by the County in order to meet state statutory requirements under the LEOFF 1 system whereby the County pays for their medical and dental premiums and out-of-pocket medical costs for life.

B. Funding Policy

The County has the authority to establish and amend OPEB contribution policy. The County funds its OPEB obligation on a pay-as-you-go basis, i.e. from the General fund. For the fiscal year ending December 31, 2017, the County's combined plan contributions were \$238,941.

C. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on an annual required contribution of the employer, an amount actuarially determined in accordance within the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB costs for the fiscal year ending December 31, 2017, the amount actually contributed to the plans, and changes in the County's net OPEB obligation:

Annual required contribution	750,522
Interest on net OPEB contribution	111,869
Adjustments to the annual required contribution	<u>(251,541)</u>
Annual OPEB cost/expense	610,850
Contributions made	<u>(238,941)</u>
Increase in the net OPEB obligation	371,909
Net OPEB obligation, beginning of year	<u>2,796,735</u>
Net OPEB obligation, end of year	3,168,644

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Actual Plan Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$610,850	\$238,941	39%	\$3,168,644
12/31/2016	\$727,967	\$281,482	39%	\$2,796,735
12/31/2015	\$726,468	\$293,814	40%	\$2,350,250

D. Funding Status and Funding Progress

The funded status of the plan as of December 31, 2017, was as follows:

Actuarial accrued liability (AAL)	8,344,594
Actuarial value of plan assets	0
Unfunded actuarial accrued liability	8,344,594
Funded ratio (actuarial value of plan assets / AAL)	0%

E. Methods and Assumptions

Due to the size of the plan (less than 100 participants) the County used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

CHELAN COUNTY, WASHINGTON

Required Supplementary Information

Schedule of Funding Progress

December 31, 2017

LEOFF 1 Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2017	0	8,344,594	8,344,594	0%	0	N/A
12/31/2016	0	9,398,828	9,398,828	0%	0	N/A
12/31/2015	0	9,141,925	9,141,925	0%	0	N/A
12/31/2014	0	7,601,327	7,601,327	0%	0	N/A
12/31/2013	0	7,874,055	7,874,055	0%	0	N/A
12/31/2012	0	5,690,805	5,690,805	0%	0	N/A
12/31/2011	0	6,428,952	6,428,952	0%	0	N/A
12/31/2010	0	6,227,653	6,227,653	0%	0	N/A
12/31/2009	0	6,472,713	6,472,713	0%	0	N/A
12/31/2008	0	6,844,736	6,844,736	0%	0	N/A

CHELAN COUNTY, WASHINGTON
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
June 30, 2017

PERS 1	2017	2016	2015	2014
County's proportion of the net pension liability	0.163979%	0.199006%	0.186394%	0.180347%
County's proportionate share of the net pension liability	7,780,931	10,687,560	9,750,140	9,085,065
County's covered employee payroll	20,005,834	22,928,349	20,369,507	19,175,010
County's proportionate share of the net pension liability as a percentage of covered employee payroll	38.89%	46.61%	47.87%	47.38%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%	61.19%
PERS 2/3	2017	2016	2015	2014
County's proportion of the net pension liability	0.175946%	0.209821%	0.198093%	0.192221%
County's proportionate share of the net pension liability	6,113,282	10,564,322	7,077,976	3,885,480
County's covered employee payroll	17,257,094	19,752,838	17,600,742	16,606,855
County's proportionate share of the net pension liability as a percentage of covered employee payroll	35.42%	53.48%	40.21%	23.40%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%	93.29%
PSERS	2017	2016	2015	2014
County's proportion of the net pension liability	0.628144%	0.729392%	0.659134%	0.662335%
County's proportionate share of the net pension liability	123,072	309,977	120,305	(95,913)
County's covered employee payroll	2,223,405	2,368,244	1,929,680	1,785,782
County's proportionate share of the net pension liability as a percentage of covered employee payroll	5.54%	13.09%	6.23%	-5.37%
Plan fiduciary net position as a percentage of the total pension liability	96.26%	90.41%	95.08%	105.01%
LEOFF 1	2017	2016	2015	2014
County's proportion of the net pension liability (asset)	0.031628%	0.031184%	0.031844%	0.034190%
County's proportionate share of the net pension liability (asset)	(479,866)	(321,284)	(383,791)	(414,653)
State's proportionate share of the net pension liability (asset) associated with the county	(3,245,804)	(2,173,160)	(2,595,950)	(2,804,704)
Total proportionate share of the net pension liability (asset)	(3,725,670)	(2,494,444)	(2,979,740)	(3,219,357)
County's covered employee payroll	-	-	-	-
County's proportionate share of the net pension asset as a percentage of covered employee payroll	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	135.96%	123.74%	127.36%	126.91%
LEOFF 2	2017	2016	2015	2014
County's proportion of the net pension liability (asset)	0.152825%	0.178758%	0.177599%	0.164498%
County's proportionate share of the net pension liability (asset)	(2,120,716)	(1,039,710)	(1,825,362)	(2,182,959)
State's proportionate share of the net pension liability (asset) associated with the county	(1,375,669)	(677,815)	(1,206,930)	(1,426,307)
Total proportionate share of the net pension liability (asset)	(3,496,385)	(1,717,526)	(3,032,292)	(3,609,266)
County's covered employee payroll	4,781,084	5,415,332	5,155,068	4,576,780
County's proportionate share of the net pension asset as a percentage of covered employee payroll	-44.36%	-19.20%	-35.41%	-47.70%
Plan fiduciary net position as a percentage of the total pension liability	113.36%	106.04%	111.67%	116.75%

Notes: GASB 68 was implemented for the 2015 financial statements so only four years of data is available.

Up to ten years of history will be presented over time as the data is generated.

CHELAN COUNTY, WASHINGTONRequired Supplementary Information
Schedule of Employer Contributions
December 31, 2017

PERS 1	2017	2016	2015	2014
Statutorily or contractually required contributions	1,123,867	1,062,903	876,552	905,944
Contributions in relation to the statutorily or contractually required contributions	1,123,867	1,062,903	876,552	905,944
Contribution deficiency (excess)	-	-	-	-
Covered County payroll	22,232,305	21,413,272	19,282,248	21,360,389
Contributions as a percentage of covered County payroll	5.06%	4.96%	4.55%	4.24%
PERS 2/3	2017	2016	2015	2014
Statutorily or contractually required contributions	1,305,429	1,146,892	927,123	921,038
Contributions in relation to the statutorily or contractually required contributions	1,305,429	1,146,892	927,123	921,038
Contribution deficiency (excess)	-	-	-	-
Covered County payroll	19,302,297	18,417,336	16,654,601	18,437,888
Contributions as a percentage of covered County payroll	6.76%	6.23%	5.57%	5.00%
PSERS	2017	2016	2015	2014
Statutorily or contractually required contributions	156,300	152,798	122,821	128,742
Contributions in relation to the statutorily or contractually required contributions	156,300	152,798	122,821	128,742
Contribution deficiency (excess)	-	-	-	-
Covered County payroll	2,350,698	2,318,543	1,898,929	2,031,092
Contributions as a percentage of covered County payroll	6.65%	6.59%	6.47%	6.34%
LEOFF 1	2017	2016	2015	2014
Statutorily or contractually required contributions	-	-	-	-
Contributions in relation to the statutorily or contractually required contributions	-	-	-	-
Contribution deficiency (excess)	-	-	-	-
Covered County payroll	-	-	-	-
Contributions as a percentage of covered County payroll	-	-	-	-
LEOFF 2	2017	2016	2015	2014
Statutorily or contractually required contributions	273,440	253,572	238,152	272,999
Contributions in relation to the statutorily or contractually required contributions	273,440	253,572	238,152	272,999
Contribution deficiency (excess)	-	-	-	-
Covered County payroll	5,327,535	5,021,262	4,716,403	5,405,815
Contributions as a percentage of covered County payroll	5.13%	5.05%	5.05%	5.05%

Notes: GASB 68 was implemented for the 2015 financial statements so only two years of data is available.

Up to ten years of history will be presented over time as the data is generated.

**Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Child Nutrition Cluster								
Food And Nutrition Service, Department Of Agriculture (via Office of the Superintendent of Public Instruction)	School Breakfast Program	10.553	04-246-9777	7,430	-	7,430	-	
Food And Nutrition Service, Department Of Agriculture (via Office of the Superintendent of Public Instruction)	National School Lunch Program	10.555	04-246-9777	1,965	-	1,965	-	
Food And Nutrition Service, Department Of Agriculture (via Office of the Superintendent of Public Instruction)	National School Lunch Program	10.555	04-246-9777	12,925	-	12,925	-	
Total CFDA 10.555:				14,890	-	14,890	-	
Total Child Nutrition Cluster:				22,320	-	22,320	-	
Forest Service, Department Of Agriculture	Cooperative Forestry Assistance	10.664	14-LE- 11061720-013	-	73,370	73,370	-	
Forest Service Schools and Roads Cluster								
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	N/A	-	89,675	89,675	-	3
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	N/A	-	83,898	83,898	-	3
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	16-PA- 11061700-105	-	5,000	5,000	-	
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	14-CS- 11061707-069 SW0860	-	8,359	8,359	-	
Total Forest Service Schools and Roads Cluster:				-	186,931	186,931	-	

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Forest Service, Department Of Agriculture	Partnership Agreements	10.699	17-PA- 11061700-032	-	5,409	5,409	-	
Forest Service, Department Of Agriculture	Partnership Agreements	10.699	17-PA- 11061700-007	-	19,053	19,053	-	
			Total CFDA 10.699:	-	24,462	24,462	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation and Conservation Office)	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	14-1732P	1,632	-	1,632	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via Upper Columbia Salmon Recovery Board)	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	N/A	30,369	-	30,369	-	3
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	15-1209P	-	15,934	15,934	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	16-1787P	-	32,323	32,323	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	16-1780P	-	84,707	84,707	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	16-1783M	-	18,819	18,819	-	
			Total CFDA 11.438:	32,001	151,783	183,784	-	

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**Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Office Of Community Planning And Development, Department Of Housing And Urban Development (Via WA State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	16-62210-003 & 17-62210-003	51,073	-	51,073	51,073	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R14AC00013	-	63,839	63,839	-	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R17AC00118	-	109	109	-	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R17AC00090	-	5,601	5,601	-	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R14AC00014	-	207,066	207,066	-	
Bureau Of Reclamation, Department Of The Interior	Fish and Wildlife Coordination Act	15.517	R16AC00083	-	942,939	942,939	-	
			Total CFDA 15.517:	-	1,219,554	1,219,554	-	
National Park Service, Department Of The Interior	Rivers, Trails and Conservation Assistance	15.921	L6016	-	37,333	37,333	-	
Violence Against Women Office, Department Of Justice (Via WA State Department of Commerce)	Violence Against Women Formula Grants	16.588	F15-31103-042	17,286	-	17,286	-	
Violence Against Women Office, Department Of Justice (Via WA State Department of Commerce)	Violence Against Women Formula Grants	16.588	F16-31440-003	17,420	-	17,420	7,839	
			Total CFDA 16.588:	34,706	-	34,706	7,839	

The accompanying notes are an integral part of this schedule.

Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015BUBX1508 0100	-	6,863	6,863	-	
Bureau Of Justice Assistance, Department Of Justice (via WA State Department of Commerce)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F16-31440-003	95,931	-	95,931	50,155	
Total CFDA 16.738:				95,931	6,863	102,794	50,155	
Federal Aviation Administration (faa), Department Of Transportation (via WA State Department of Transportation)	Airport Improvement Program	20.106	3-53-0011-003- 2017	319,641	-	319,641	-	
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	WA Chelan 933 (1)	291,276	-	291,276	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-5851 (001) LA-8997	19,290	-	19,290	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-5851 (001) LA-8997	5,624	-	5,624	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	BRS-F045(001) LA-8712	527,826	-	527,826	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-00S(398) LA-8625	30,539	-	30,539	-	

The accompanying notes are an integral part of this schedule.

**Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	HSJP-A042 (005) LA-8621	183,927	-	183,927	-
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	HLP-SR15(006) LA-8784	96,277	-	96,277	-
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-5868 (001), LA-9047	8,685	-	8,685	-
Total Highway Planning and Construction Cluster:				1,163,444	-	1,163,444	-
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	4,990	-	4,990	3
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	6,706	-	6,706	3
Total Highway Safety Cluster:				11,696	-	11,696	-
Pipeline And Hazardous Materials Safety Administration, Department Of Transportation (via WA Military Department)	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	E17-197	3,966	-	3,966	-
Office Of Water, Environmental Protection Agency (via WA Dept of Ecology)	Nonpoint Source Implementation Grants	66.460	WQC-2016- ChCoNR-00298	4,759	-	4,759	-

The accompanying notes are an integral part of this schedule.

**Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Drinking Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency (via WA Dept of Health)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	N22688	28,414	-	28,414	-	
Total Drinking Water State Revolving Fund Cluster:				28,414	-	28,414	-	
U.S. Department of Energy	BPA-Yakama Nations	81.5666 2	56662	-	800	800	-	5
U.S. Department of Energy	BPA - Division of Fish & Wildlife/Entiat LW Procurement	81.6971 6	69716	-	407	407	-	5
U.S. Department of Energy	BPA - Nason Creek RM 4.6 side channel	81.7662 9	76629	-	16,716	16,716	-	5
U.S. Department of Energy (via Upper Columbia Salmon Recovery Board)	BPA - USCRB/Yakama nation	81.999	N/A	19,506	-	19,506	-	3,5
Administration For Children And Families, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Child Support Enforcement	93.563	2110-80333	150,633	-	150,633	-	
Administration For Children And Families, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Child Support Enforcement	93.563	1663-67389	18,629	-	18,629	-	
Administration For Children And Families, Department Of Health And Human Services (via WA Dept of Social and Health Services)	Child Support Enforcement	93.563	2110-80333	231,218	-	231,218	-	

The accompanying notes are an integral part of this schedule.

**Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
			Total CFDA 93.563:	400,480	-	400,480		
United States Coast Guard (uscg), Department Of Homeland Security (via Washington State Parks & Recreation Commission)	Boating Safety Financial Assistance	97.012	3317FAS17015 3	15,059	-	15,059	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Hazard Mitigation Grant	97.039	D16-019	2,989	-	2,989	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Hazard Mitigation Grant	97.039	D16-032	10,308	-	10,308	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Hazard Mitigation Grant	97.039	D17-005	3,623	-	3,623	-	
			Total CFDA 97.039:	16,920	-	16,920		
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Emergency Management Performance Grants	97.042	E17-157	10,439	-	10,439	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Grant County Dept of Emergency Management)	Homeland Security Grant Program	97.067	E15-104	34,379	-	34,379	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA Military Department)	Homeland Security Grant Program	97.067	E16-065	12,628	-	12,628	-	

The accompanying notes are an integral part of this schedule.

**Chelan County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
				47,008	-	47,008		
			Total CFDA 97.067:	2,277,362	1,718,220	3,995,581	109,067	
			Total Federal Awards Expended:					

The accompanying notes are an integral part of this schedule.

CHELAN COUNTY, WASHINGTON

Notes to the Schedule of Expenditures of Federal Awards
January 1, 2017 Through December 31, 2017

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the County's financial statements. The County uses the accrual basis of accounting for all funds except the governmental fund types, which use the modified accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the County's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - NOT APPLICABLE (N/A)

The County was unable to obtain other identification number.

NOTE 4 - INDIRECT COST RATE

The County has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 5 - NO CFDA NUMBER

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