



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Walla Walla

Walla Walla County

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

Published July 2, 2015

Report No. 1014549





Washington State Auditor's Office

July 2, 2015

Mayor and City Council
City of Walla Walla
Walla Walla, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

City of Walla Walla Walla Walla County January 1, 2014 through December 31, 2014

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

Financial Statements

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

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

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

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

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

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

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

City of Walla Walla Walla Walla County January 1, 2014 through December 31, 2014

2014-001 The City's Public Works Department did not have adequate internal controls to ensure compliance with suspension and debarment requirements.

CFDA Number and Title:	66.468 Capitalization Grants for Drinking Water State Revolving Funds
Federal Grantor Name:	U.S. Environmental Protection Agency
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington Department of Commerce
Pass-through Award/Contract Number:	DM13-952-183
Questioned Cost Amount:	\$0

Background

The City's Public Works Department spent \$1,392,622 of Capitalization Grants for Drinking Water State Revolving Funds during fiscal year 2014. The funding was used for a water treatment plant upgrade to meet the required U.S. Environmental Protection Agency's (EPA) Long Term 2 Enhanced Surface Water Treatment Rule. The planning and development phase started in 2009 and at that time the project was expected to be reimbursed by State Public Works Trust Funds. In 2014, the funding source changed to federal funds.

Description of Condition

Federal requirements prohibit grant recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the Public Works Department must ensure the vendor or subrecipient is not suspended or debarred. The Department could obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, Department personnel may review the federal Excluded Parties List issued by the U.S. General Service Administration. Our audit found the Public Works Department's internal controls were ineffective

in ensuring vendors paid more than \$25,000 in federal funds were not suspended or debarred.

The Department had already entered into contracts with two vendors prior to receiving federal awards. However, the Department paid these two vendors \$808,572 with federal awards for the period May 6, 2014 through December 31, 2014 without verifying or communicating federal suspension and debarment requirements prior to submitting these costs for reimbursement. According to a representative of the EPA, suspension and debarment requirements should have been followed prior to the first federal award expenditures in May of 2014. The Department did not have a process in place to ensure this federal requirement was met when the funding source for the project changed.

We consider this deficiency in internal controls to be a material weakness.

Cause of Condition

Based on past audit procedures, it appears the Department is aware of the suspension and debarment requirements; however, the payments were expected to be funded from state resources which do not require suspension and debarment verification. When the project funding changed to a federal source, Department employees continued to treat the project as state or locally funded and did not adjust its controls processes to address federal funding requirements.

Effect of Condition and Questioned Costs

Without proper internal controls, there is an increased risk of awarding funds to vendors and subrecipients that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party would be unallowable subject to recovery by the funding agency. Failure to comply with federal requirements could jeopardize the Department's eligibility for future federal assistance. We were able to verify the vendors had not been suspended or debarred; therefore we are not questioning costs for these payments.

Recommendation

We recommend the City's Public Works Department strengthen internal controls to ensure vendors paid with federal resources are not suspended or debarred and are properly informed of their responsibilities to monitor suspension and debarment requirements of subrecipients.

City's Response

The City selected the consultant per state rules before it was determined the funding was federal. Per state rules, debarment and suspension verifications are

not required. Since the contract was signed prior to receiving federal funds, it was an oversight by the City to not go back and check for debarment and suspension as is normally done during the selection and contractual process. The City's contract award process has been updated to require debarment and suspension checks as part of the contract approval.

Auditor's Remarks

We thank the Department for its cooperation during the audit and look forward to reviewing the corrective action taken during our next audit.

Applicable Laws and Regulations

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

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

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

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

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

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur.

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Title 2, Code of Federal Regulations, Section 180.220, states in part, Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a non-procurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed \$25,000

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

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

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

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

**City of Walla Walla
Walla Walla County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Walla Walla
Walla Walla, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of the City of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 10, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

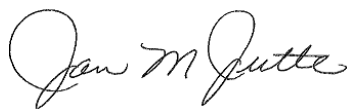
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 10, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**City of Walla Walla
Walla Walla County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Walla Walla
Walla Walla, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Walla Walla, Walla Walla County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

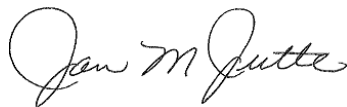
combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

City's Response to Findings

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

June 10, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Walla Walla Walla Walla County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Walla Walla
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of the City of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of the City of Walla Walla, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 10, 2015

FINANCIAL SECTION

**City of Walla Walla
Walla Walla County
January 1, 2014 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual
– General Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Statement of Changes in Net Position – Fiduciary Funds – 2014

Notes to the Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

CITY OF WALLA WALLA
Management's Discussion and Analysis
December 31, 2014

As management of the City of Walla Walla, we offer readers of the City of Walla Walla's financial statements this narrative overview and analysis of the financial activities of the City of Walla Walla for the fiscal year ended December 31, 2014. This discussion and analysis should be considered in conjunction with the Letter of Transmittal as well as other components of the report. **All amounts, unless otherwise indicated, are expressed in thousands of dollars.**

Financial Highlights

- The assets and deferred outflows of resources of the City of Walla Walla exceeded liabilities and deferred inflows at the close of the most recent fiscal year by \$162,115 (*net position*). Of this amount, \$33,118 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$8,260. Business-type activities contributed an increase of \$6,308 while governmental-type activities contributed an increase of \$1,952. The overall financial position of the City improved during 2014, which continues a conservative growth trend over the past several years.
- At fiscal year close, the City of Walla Walla's governmental funds reported combined ending fund balances of \$8,906, an increase of \$840 in comparison with the prior year. The main contributing factors for the increase were an increase in property taxes due to an annexation and an increase in the utility excise fee. At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$4,504 which represents 18.03% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City of Walla Walla's basic financial statements. The financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information is provided in addition to the basic financial statements.

Government-wide Financial Statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Walla Walla's finances for the total organization, in a manner similar to a private-sector business.

The *statement of net position* presents the City of Walla Walla's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position.

Increases or decreases in net position over time serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The *statement of activities* presents revenue, expenses, and the change in the government's net position during the fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items, which will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City of Walla Walla that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from *activities* that are supported by business revenues. The governmental activities of the City of Walla Walla include general government, public safety, utilities and environment, transportation, economic environment, and culture and recreation. The business-type activities of the City of Walla Walla include water/wastewater, stormwater, sanitation, landfill, golf course, ambulance, and equipment maintenance and replacement services.

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

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

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

The City of Walla Walla maintains twenty-three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General

Fund, which is a major fund as defined by the Governmental Accounting Standards Board. In 2014, the street construction fund was also a major governmental fund. Other construction funds that are currently not in use are not reported. Data from the remaining funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of *combining statements* elsewhere in this report.

Proprietary Funds: The City of Walla Walla maintains two types of proprietary funds. *Enterprise funds* report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Walla Walla uses enterprise funds to account for water/wastewater, stormwater, sanitation, landfill, golf course, and ambulance services. *Internal service funds* are used for operations serving other funds or departments within the City to accumulate and allocate costs internally to various functions. Internal service funds account for equipment maintenance and replacement, health and industrial insurance, emergency communication, and service center functions. Of those, insurance, emergency communication, and service center services predominantly benefit government activities (rather than business-type functions) and have been included with *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Enterprise fund financial statements provide separate information for the sanitation, water/wastewater, landfill, and ambulance operations, which are presented as major funds. Data from the other two enterprise funds, stormwater and golf course, and the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major enterprise funds and the internal service funds are provided in the form of *combining statements*.

Fiduciary Funds: Fiduciary funds are held by the City as a trustee or agent for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the fund resources are not available to support the City of Walla Walla's own programs. The accounting used for fiduciary funds is much like that used for enterprise funds except for agency funds, which only show assets and liabilities.

Notes to the Financial Statements: The notes provide additional information essential to a full understanding of data provided in the government-wide and fund financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the City of Walla Walla's progress in funding its obligation to provide pension benefits to certain firefighting employees and their beneficiaries.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The City of Walla Walla assets exceed liabilities and deferred inflows by \$162,115 at the close of 2014.

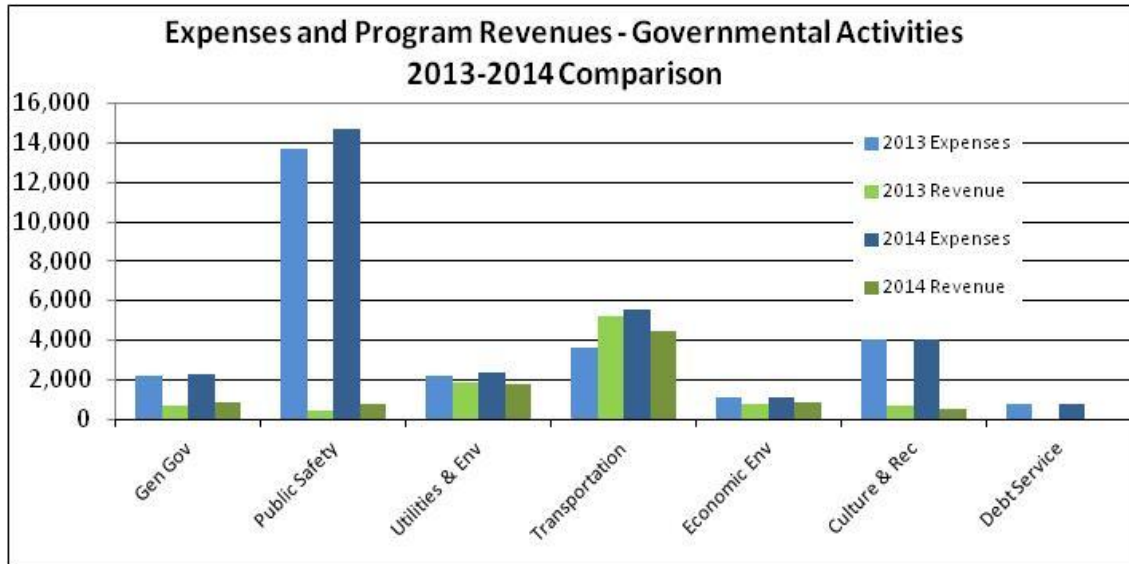
The largest portion of the City of Walla Walla's net position (79%) reflects an investment in capital assets (e.g. buildings, machinery, equipment, infrastructure, construction in progress) less related outstanding debt used to acquire those assets. The City of Walla Walla uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Walla Walla'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 City of Walla Walla's net position (0.6%) represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (20.4%) totaling \$33,118 may be used to meet the government's ongoing obligations.

At the end of 2014, the City of Walla Walla reports positive balances in all three categories of net position for governmental, business-type activities, and the government as a whole. The City's current and other assets for governmental activities increased by \$865, primarily due to an increase in property taxes from an annexation in 2014 and an increase in utility excise taxes. Current and other assets for business-type activities increased by \$825, primarily due to increases in rates to fund future construction and remediation efforts. Capital assets utilized in governmental activities increased by \$1,285, primarily due to an increase in construction in progress. Non-current liabilities decreased by \$2,658, for governmental and business activities primarily due to reductions in outstanding debt.

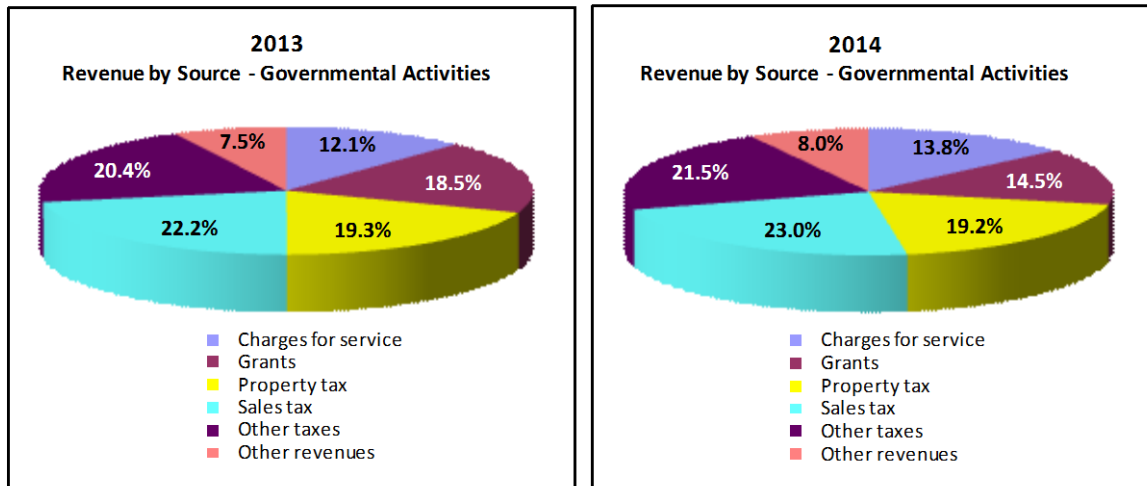
The City's net position increased during the fiscal year 2014 by \$8,260. This increase represents the degree to which ongoing revenues, mostly through rate increases, have exceeded expenditure increases.

Governmental Activities: Governmental activities increased the City of Walla Walla's net position by \$1,952, partly due to an increase in all taxes of \$378, charges for services increase of \$516 and other revenues over the previous fiscal year. Property tax revenue increased due to a statutory allowable tax levy increase, property annexation and property tax levies associated with construction projects. However, in September of 2014 the City approved using \$487 of unspent bond proceeds for the Police Station Bond to grant a property tax holiday in 2015. Sales-related taxes increased slightly due to a modest improvement in the economy. Business and occupation (B&O) taxes increased for electricity, gas, and cable due to utility rate increases and an annexation. Telephone B&O decreased as it has in other cities in the state due to an increased usage of cell phones, which are exempt from the B&O tax. Taxes related to the tourism industry, such as lodging taxes, continue to increase in part because of increased efforts associated with the Tourism Promotion Area (TPA). The tax on natural gas continued to increase slightly due to a rise in the cost of natural

gas. Utility Excise Taxes were higher in 2014 due to rate increases in water, wastewater, and stormwater as well as an increase in the Utility Excise Tax rate.



Revenues by Source - Governmental Activities



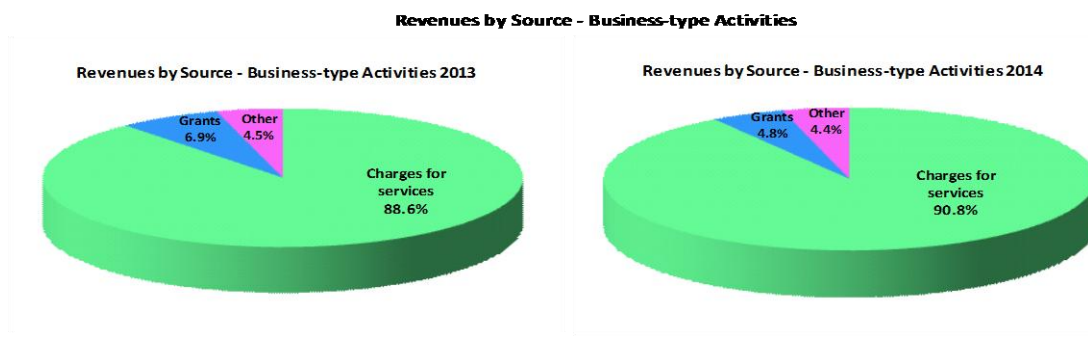
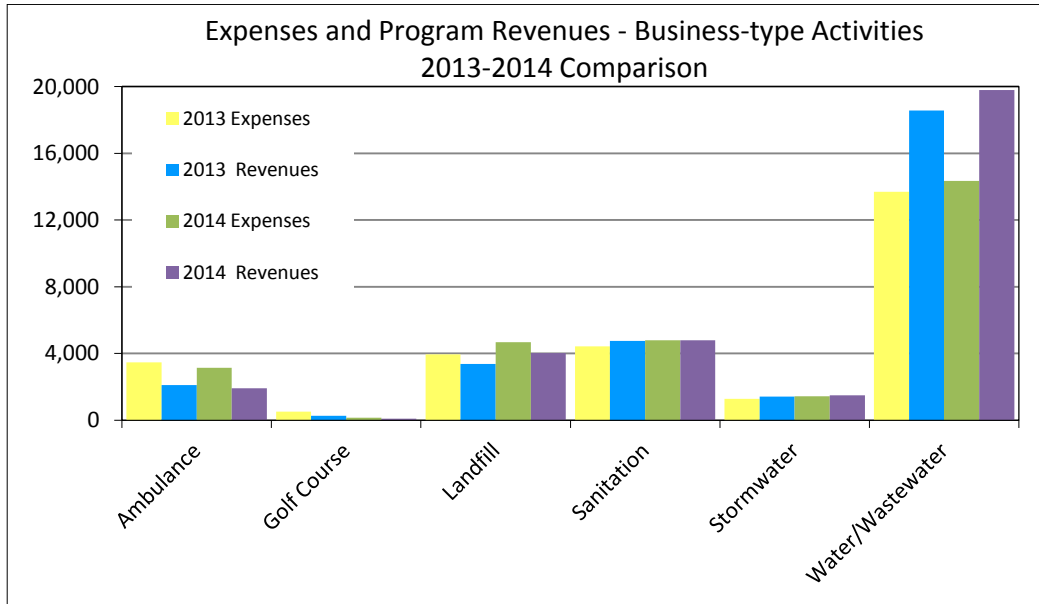
City of Walla Walla's Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current & other assets	\$18,500	\$19,365	\$32,297	\$33,122	\$50,796	\$52,487
Capital assets	62,615	63,900	102,939	105,412	165,554	169,312
Total assets	81,115	83,266	135,236	138,533	216,351	221,799
Other liabilities	1,867	1,795	797	765	2,664	2,560
Non-current liabilities	18,891	19,212	40,649	37,670	59,540	56,883
Total liabilities	20,758	21,008	41,446	38,436	62,204	59,443
Special assessments	291	240	-	-	291	240
Total deferred inflows of resources	291	240	-	-	291	240
Net investment in capital assets	48,599	50,450	69,214	77,617	117,813	128,068
Restricted	1,100	929	-	-	1,100	929
Unrestricted	10,367	10,638	24,575	22,480	34,943	33,118
Total net position	\$60,066	\$62,018	\$93,789	\$100,098	\$153,856	\$162,115

City of Walla Walla's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues:						
Program revenues:						
Charges for service	\$3,960	\$4,476	\$30,492	\$32,122	\$34,452	\$36,599
Operating grants/contributions	773	373	601	286	1,373	658
Capital grants/contributions	5,296	4,327	1,782	1,429	7,078	5,756
General revenues:						
Property tax	6,374	6,240	-	-	6,374	6,240
Sales tax	7,259	7,470	-	-	7,259	7,470
Other taxes	6,684	6,986	-	-	6,684	6,986
Other revenues	1,840	2,615	1,536	1,549	3,376	4,165
Total revenues	32,186	32,488	34,411	35,386	66,597	67,874
Expenses:						
General government	2,156	2,250	-	-	2,156	2,250
Public safety	13,678	14,682	-	-	13,678	14,682
Utilities and environment	2,195	2,361	-	-	2,195	2,361
Transportation	3,644	5,852	-	-	3,644	5,852
Economic environment	1,079	1,125	-	-	1,079	1,125
Culture and recreation	4,044	4,080	-	-	4,044	4,080
Interest on long-term debt	803	730	-	-	803	730
Ambulance	-	-	3,476	3,139	3,476	3,139
Golf course	-	-	512	147	512	147
Landfill	-	-	3,940	4,678	3,940	4,678
Sanitation	-	-	4,434	4,800	4,434	4,800
Stormwater	-	-	1,289	1,429	1,289	1,429
Water/Wastewater	-	-	13,685	14,342	13,685	14,342
Total expenses	27,599	31,080	27,337	28,535	54,935	59,614
Increase in net position before transfers	4,587	1,408	7,074	6,852	11,662	8,260
Transfers	818	543	(818)	(543)	-	-
Increase in net position	5,405	1,951	6,256	6,308	11,662	8,260
Net position, beginning	54,661	60,066	87,533	93,789	142,194	153,856
Net position, ending	\$60,066	\$62,018	\$93,789	\$100,098	\$153,856	\$162,115

Business-type Activities: Business-type activities increased the City of Walla Walla's net position by \$6,308. This is due to utility rate increases for water, wastewater, stormwater and landfill and the receipt of a grant for the costs associated with remediation and closure at the landfill. Expenses increased by \$1,198, largely due to an updated projection for City Landfill future closure, post-closure, and remediation expenses and for a large construction project for the Water Treatment Plant.



Landfill expenses increased from 2013 to 2014 by \$737 due to pollution remediation and landfill closure and post-closure. The increase in net position in the water/wastewater functions is useful as replacement costs of infrastructure assets are expected to be higher than the depreciation costs reflected in operating expenses. The revenue increase in water/wastewater is due to rate adjustments for replacing aging infrastructure in the City as well as regular utility rate increases. The City Council approved the issuance of bonds to be paid back over five years to initially fund the City's Infrastructure Renewal and Replacement Program (IRRP). The rate increases are used for bond principal and interest payments. The City plans to maintain the rate increases to fund the IRRP in ensuing years after the final bond payment in 2015.

Financial Analysis of the Government's Funds

The City of Walla Walla uses fund accounting to promote accountability and stewardship, as well as to demonstrate compliance with finance-related legal requirements.

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

As of the end of 2014, the City of Walla Walla's governmental funds reported combined ending fund balances of \$8,906, an increase of \$840 in comparison with the prior year. Taxes for the City increased by \$692 due to increases for the utility excise taxes by \$290, sales tax \$212 and property taxes by \$179. Approximately \$3,518 constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

General Fund: The General Fund is the chief operating fund of the City of Walla Walla. At the end of the current fiscal year, unassigned and committed fund balances of the General Fund were \$4,504 and \$18 respectively. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total expenditures. Accordingly, the unassigned fund balance represents 18.03% of the total expenditures.

The City of Walla Walla's General Fund balance increased by \$418 during the 2014 fiscal year, a key factor was an increase in revenue of \$792 as compared to 2013. The increase in revenue in the General Fund is due to an increase in property taxes as a result of an annexation, an increase in sales tax due to the improved economy, and an increase in the Utility Excise Taxes. Overall revenues increased by 3.1% while total expenditures increased by 5.7%.

Street Construction Fund: The Street Construction Fund has a committed fund balance of \$620, committed by City Council for specific street projects and an assigned fund balance of \$11, intended for future street construction. The main source of revenue in 2014 for this fund was intergovernmental revenues and grants of \$702. Expenditures are capital outlay related to several construction projects. The two largest projects were the Clay/Hillbrook/Columbia Center IRRP project and Wilbur Street project with expenses in 2014 of \$613 and \$446 respectively.

Other Non-major Governmental Funds: Other non-major governmental funds include \$1,737 in restricted balance from lodging taxes, forfeitures and fines, and debt payment reserves. These funds also have a deficit unassigned balance of \$986 due to the Transportation Benefit District Construction Fund and LID Bond Funds debt liability. The committed fund balance for other non-major governmental funds is \$2,009, which is due to City established

Cemetery Reserve Fund and committed cash in the Street Fund for maintenance. The assigned fund balance for other governmental funds is \$18.

Proprietary Funds: The City of Walla Walla's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the major enterprise funds are as follows:

Sanitation	\$1,604	Ambulance	\$308
Water/Wastewater	\$12,867	Landfill	(\$1,394)

Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Walla Walla's business-type activities.

General Fund Budgetary Highlights

Due to economic uncertainties, the City continued to encourage departments and divisions to spend conservatively in 2014. As required by state and municipal code, the City performed a mid-biennium budget review and budget modification for the 2013-2014 biennium. As a result of the review, the City revised the expenditure and revenue budgets for 2014 to more accurately reflect the modest upturn of the economy.

For 2014, the City provided cost of living and cost of labor increases to comply with employment contracts. A 2% increase was factored into the budget to reflect ongoing 2013-2014 Police and Fire union contract negotiations. Actual revenues for 2014 were higher than the original budget because of increases in sales tax, B&O taxes and Utility Excise taxes. Changes in work schedules on various construction projects as well as changes in funding sources for these projects also caused modifications to the original budget.

The following are highlights of adjustments to the 2014 original budget as a result of the mid-biennium budget review, changes in the economy, and additional public contributions towards City programs:

- An increase of \$115,580 for electric B&O tax;
- A decrease of \$99,900 for telephone B&O tax;
- An increase of \$57,500 for utility excise tax;
- A decrease of \$42,520 for liquor excise tax;
- An increase of \$35,000 for out-of-city library use fees;
- An increase of \$24,910 in law and justice sales tax;
- A decrease of \$19,450 for gas B&O tax;
- An increase of \$19,000 for cable B&O tax;

Capital Asset and Debt Administration

Capital Assets: The City of Walla Walla's net investment in capital assets for its governmental and business-type activities as of December 31, 2014 amounts to \$128,068, net of related debt. Capital asset investments include land, buildings, improvements, machinery, equipment, park facilities, roads, and bridges. Capital assets increased by \$1,285 for governmental activities mostly due to street projects. Business activities increased by \$2,473 mostly due to water and wastewater IRRP projects. As a result, the City's capital asset investment increased for the year by \$3,758.

Major capital asset events during the current fiscal year included the following:

- The largest water and wastewater IRRP construction project was Clay/Hillbrook/Columbia Center, which was 99% complete in 2014, spending \$1,456 out of a \$1,528 project budget, with IRRP funding supported by water and wastewater rate revenue bonds. Spending on the City's IRRP program included in the CIP during 2014 totaled \$2,133.

The table below displays assets net of accumulated depreciation. Additional capital asset information is in Note 6.

City of Walla Walla's Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Land	\$3,557	\$3,557	\$1,222	\$1,222	\$4,778	\$4,778
Construction in progress	9,420	2,708	4,251	4,098	13,671	6,806
Buildings	17,561	17,231	16,782	16,184	34,343	33,415
Improvements	3,753	3,816	5,755	5,378	9,508	9,194
Equipment	1,531	1,492	5,290	5,499	6,821	6,991
Infrastructure	26,793	35,097	69,640	73,031	96,434	108,128
Total capital assets	\$62,615	\$63,900	\$102,939	\$105,412	\$165,554	\$169,312

Long-term Debt: At the end of the current fiscal year, the City of Walla Walla had total bonded debt outstanding of \$26,559. Of this amount, \$19,384 is comprised of debt backed by the full faith and credit of the government. General obligation bonded debt includes \$2,135 of water and wastewater debt associated with the IRRP to be repaid by rate revenue and \$3,912 of landfill and golf course debt to be repaid by user fee revenue. The remainder of the City of Walla Walla's bonded debt is primarily secured by specified revenue sources (i.e. revenue bonds). Additionally, the water/wastewater utility has outstanding loans used for capital construction of \$14,421. The special assessment bond is repaid by property owner levies and has been funded and accounted for as an interfund loan. Additional long-term liability information is in Note 9.

City of Walla Walla's Outstanding Debt

	Government-type Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
General obligation bonds	\$14,252	\$13,337	\$7,722	\$6,047	\$21,974	\$19,384
Revenue bonds	-	-	9,380	7,175	9,380	7,175
Construction loans	-	-	16,325	14,421	16,325	14,421
Special assessment IF loan	478	289	-	-	478	289
Total	\$14,730	\$13,626	\$33,427	\$27,643	\$48,157	\$41,269

Economic Factors and Next Year's Budgets and Rates (amounts not in thousands)

In 2014, the City adopted a biennial budget for 2015-16. After a mid-biennial review in 2013, the City adjusted the 2013 and 2014 budgets to more accurately reflect the projected revenues and to adjust salaries and benefits in 2014 to include increases in medical expenses and cost-of-labor/cost-of-living increases. Sales tax and revenue derived from areas such as utility taxes and real estate excise taxes are projected to continue in 2015 at levels experienced in the last six months of 2014.

The local economy experienced a slight upturn beginning in 2011 that is expected to continue through 2015. As a result, the City was not impacted as severely as some other cities in the State of Washington. When the City of Walla Walla adopted its 2015-2016 biennial budget in 2014, City administrators and City Council used a conservative approach for estimating revenue and expenses based on the economic outlook for 2014 and 2015. The City continually reviews its practices and streamlines processes as necessary.

Based on current information from the County Assessor's Office, the 2015 property tax levy of \$5,444,421 includes an increase of \$54,862 from new construction and an increase of \$6,708 from state assessed property improvements in 2014.

The 2015 budget assumes a number of changes in fees for services. Water rates will increase 8%. Wastewater rates will increase 7%. Stormwater rates will rise 4%. Operations and management rate increases are due to the cost of inflation and costs of meeting federal and state requirements. Landfill rates will increase by 8% and Sanitation rates are budgeted to increase by 8%. Ambulance base rates did not increase in 2015, for the fourth year in a row.

Following citizen input, the Council approved five years of utility rates for water, wastewater and stormwater dedicated to funding the IRRP that began in 2010. The IRRP is a long-term plan to replace the aging infrastructure in water, wastewater, and stormwater. Council has committed funding generated by a special rate increase for support of the IRRP projects. Proceeds from bonds issued in 2010 were used to fund the first four years of IRRP projects with the special rate increases paying for the principal and interest for the bonds. At the end

of five years, the bonds will be paid in full and the IRRP rate revenue will be used to fund future IRRP projects.

In 2011, the City Council established a Transportation Benefit District (TBD). Citizens of the City voted for a ten-year sales tax increase of 2/10th of a percent to support transportation projects in the City. The additional sales tax became effective in July 2013. The Transportation Benefit District is treated as a blended component in 2014.

Requests for Information

This financial report is designed to provide a general overview of the City of Walla Walla's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 15 N. 3rd Avenue, Walla Walla, WA 99362.

City of Walla Walla
Statement of Net Position
December 31, 2014

	Governmental Activities	Business Activities	Total	Component Unit WWJCDA
ASSETS				
Cash and equivalents	\$ 11,006,338	\$ 21,893,191	\$ 32,899,529	\$ -
Other receivables (net of allowance)	1,495,150	3,521,183	5,016,333	77,739
Prepays	73,962	2,314	76,276	-
Taxes receivables	6,725,337	-	6,725,337	-
Special assessment receivable	236,415	-	236,415	-
Notes receivable	-	17,758	17,758	-
Inventories	-	638,445	638,445	-
Unrestricted investments	-	80,513	80,513	-
Temporarily restricted investments	-	2,586,488	2,586,488	-
Restricted cash:				
Temporarily restricted	956,905	3,236,460	4,193,365	-
Permanently restricted	16,545	-	16,545	-
Interfund loans receivable (payable)	(1,354,322)	1,354,322	-	-
Internal balances receivable (payable)	209,088	(209,088)	-	-
Capital assets not depreciated:				
Land	3,556,599	1,221,574	4,778,173	-
Construction in progress	2,707,708	4,097,957	6,805,665	-
Capital assets net of accumulated depreciation:				
Buildings and structures	17,230,699	16,184,229	33,414,928	-
Other improvements	3,815,929	5,378,033	9,193,962	-
Machinery and equipment	1,492,010	5,499,118	6,991,128	-
Infrastructure	35,097,329	73,030,731	108,128,060	-
Total assets	\$ 83,265,692	\$ 138,533,228	\$ 221,798,920	\$ 77,739
LIABILITIES				
Accounts payable	\$ 295,090	\$ 6,140	\$ 301,230	\$ -
Other accrued liabilities	1,252,702	758,947	2,011,649	-
Unearned revenue	247,566	-	247,566	-
Noncurrent liabilities:				
Due within one year	2,340,534	7,716,759	10,057,293	-
Due in more than one year	16,871,659	29,953,731	46,825,390	-
Total liabilities	\$ 21,007,551	\$ 38,435,577	\$ 59,443,128	\$ -
DEFERRED INFLOWS OF RESOURCES				
Special assessments	\$ 240,415	\$ -	\$ 240,415	\$ -
Total deferred inflows of resources	\$ 240,415	\$ -	\$ 240,415	\$ -
NET POSITION				
Net investment in capital assets	\$ 50,450,335	\$ 77,617,386	\$ 128,067,721	\$ -
Net position restricted for:				
Permanent funds:				
Expendable	10,951	-	10,951	-
Nonexpendable	16,545	-	16,545	-
Library donations	27,734	-	27,734	-
Parks donations	874,185	-	874,185	-
Net position unrestricted	10,637,976	22,480,265	33,118,241	77,739
Total net position	\$ 62,017,726	\$ 100,097,651	\$ 162,115,377	\$ 77,739

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

City of Walla Walla
Statement of Activities
For the Year Ended December 31, 2014

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Component Unit WWJ/CDA
Primary government:						
Governmental activities:						
General government	\$ 2,249,975	\$ 44,644	\$ -	\$ (1,399,136)	\$ (1,399,136)	
Public safety	14,681,954	137,751	129,860	(13,908,975)	(13,908,975)	
Utilities and environment	2,360,895	-	65,818	(622,556)	(622,556)	
Transportation	5,851,751	11,215	4,131,738	(1,407,380)	(1,407,380)	
Economic environment	1,124,963	-	-	(279,848)	(279,848)	
Culture and recreation	4,079,993	178,964	-	(3,555,209)	(3,555,209)	
Interest expense	730,005	-	-	(730,005)	(730,005)	
Total governmental activities	31,079,536	372,574	4,327,416	(21,903,109)	(21,903,109)	
Business-type activities:						
Ambulance	3,139,012	1,473	-	(1,217,288)	(1,217,288)	
Golf course	147,287	-	-	(56,551)	(56,551)	
Landfill	4,677,636	284,111	-	(363,017)	(363,017)	
Sanitation	4,799,808	-	-	(15,981)	(15,981)	
Stormwater	1,429,072	-	513,952	580,345	580,345	
Water/Wastewater	14,341,718	-	915,102	6,374,775	6,374,775	
Total business-type activities	28,534,533	285,584	1,429,054	-	5,302,283	
Total primary government	\$ 59,614,069	\$ 658,158	\$ 5,756,470	(21,903,109)	(16,600,825)	
Component Unit:						
WWJ/CDA	\$ 3,630,855	\$ -	\$ -			\$ (1,454,360)
Total component units	\$ 3,630,855	\$ -	\$ -			\$ (1,454,360)
General revenues:						
Taxes:						
Property taxes				6,239,821	-	-
Sales taxes				7,470,268	-	-
Business and occupation taxes				3,211,772	-	-
Utility excise tax				3,164,614	-	-
Gambling taxes				52,726	-	-
Real estate excise taxes				290,807	-	-
Leasehold taxes				35,498	-	-
Tourism promotion tax				230,361	-	-
Intergovernmental				1,273,873	-	-
Miscellaneous general revenues				2,568,803	3,842,676	1,424,355
Gain (loss) on sale of capital assets				46,430	218,234	22
Transfers				-	57,304	-
Total general revenues and transfers				543,344	-	-
Change in net position				23,854,444	1,006,067	1,424,377
Net position - beginning				1,951,335	6,308,350	(29,983)
Prior period adjustment				60,917,443	92,908,959	108,807
Adjusted net position - beginning				(851,052)	880,342	(1,084)
Net position - ending				60,066,391	93,789,301	107,722
				\$ 62,017,726	\$ 162,115,377	\$ 77,739

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

City of Walla Walla
Balance Sheet
Governmental Funds
December 31, 2014

	General Fund	Street CIP's	Other Governmental	Total Governmental
ASSETS				
Cash and equivalents	\$ 5,785,822	\$ 338,817	\$ 3,161,680	\$ 9,286,319
Restricted cash and equivalents	-	-	973,450	973,450
Taxes receivables (net)	5,979,292	-	746,045	6,725,337
Other receivables (net)	878,825	329,826	214,284	1,422,935
Prepays	55,428	-	2,500	57,928
Special assessments receivable	-	-	236,415	236,415
Total assets	<u>\$ 12,699,367</u>	<u>\$ 668,643</u>	<u>\$ 5,334,374</u>	<u>\$ 18,702,384</u>
LIABILITIES				
Accounts payable	\$ 138,592	\$ -	\$ 138,813	\$ 277,405
Other accrued liabilities	1,062,789	37,331	59,641	1,159,761
Interfund loans payable	-	-	1,354,321	1,354,321
Unearned revenues	247,566	-	-	247,566
Total liabilities	<u>\$ 1,448,947</u>	<u>\$ 37,331</u>	<u>\$ 1,552,775</u>	<u>\$ 3,039,053</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes	\$ 5,770,882	\$ -	\$ 746,045	\$ 6,516,927
Special assessments	-	-	240,415	240,415
Total deferred inflows of resources	<u>\$ 5,770,882</u>	<u>\$ -</u>	<u>\$ 986,460</u>	<u>\$ 6,757,342</u>
FUND BALANCE				
Nonspendable	\$ 55,428	\$ -	\$ 16,545	\$ 71,973
Restricted	901,919	-	1,736,966	2,638,885
Committed	18,303	620,495	2,009,453	2,648,251
Assigned	-	10,817	17,860	28,677
Unassigned	4,503,888	-	(985,685)	3,518,203
Total fund balances	<u>\$ 5,479,538</u>	<u>\$ 631,312</u>	<u>\$ 2,795,139</u>	<u>\$ 8,905,989</u>
Total liabilities, deferred inflows of resources, fund balances	<u>\$ 12,699,367</u>	<u>\$ 668,643</u>	<u>\$ 5,334,374</u>	

The notes to the financial statements are an in e

Amounts reported for governmental activities in the statement of net position are different because:	
Total fund balances - governmental funds	\$ 8,905,989
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital outlays are expenditures for fund reporting but are asset additions for government wide reporting.	63,900,274
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Proceeds received from new and repayments of existing debts are recorded as resources and expenditures for fund reporting but are additions and reductions of liabilities for government wide reporting.	(19,212,193)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,516,927
Internal service funds are used by management to charge the costs of health and industrial insurance and emergency communication services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	1,906,729
Net position of governmental activities	<u>\$ 62,017,726</u>

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

City of Walla Walla
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014

	General Fund	Street CIP's	Other Governmental	Total Governmental
REVENUES				
Taxes	\$ 17,239,441	\$ -	\$ 3,621,060	\$ 20,860,501
Licenses and permits	673,350	-	312,884	986,234
Intergovernmental revenues	1,100,546	701,586	931,100	2,733,232
Charges for goods and services	6,723,059	-	295,100	7,018,159
Fines and forfeitures	192,980	-	4,056	197,036
Miscellaneous revenues	382,114	8,799	126,646	517,559
Total revenues	<u>\$ 26,311,490</u>	<u>\$ 710,385</u>	<u>\$ 5,290,846</u>	<u>\$ 32,312,721</u>
EXPENDITURES				
Current:				
General government	\$ 6,338,741	\$ -	\$ -	\$ 6,338,741
Public safety	11,753,370	-	81,401	11,834,771
Utilities and environment	2,387,847	-	-	2,387,847
Transportation	-	5,240	1,784,396	1,789,636
Economic environment	1,138,115	-	130	1,138,245
Culture and recreation	2,888,947	-	1,017,554	3,906,501
Debt service:				
Principal retirement	-	-	829,594	829,594
Interest	-	-	566,370	566,370
Administrative charges	-	-	67	67
Capital outlay:				
General government	87,169	-	-	87,169
Public safety	133,376	-	-	133,376
Utilities and environment	212,495	-	-	212,495
Transportation	-	1,789,042	927,574	2,716,616
Economic environment	18,731	-	-	18,731
Culture and recreation	15,790	-	-	15,790
Total expenditures	<u>\$ 24,974,581</u>	<u>\$ 1,794,282</u>	<u>\$ 5,207,086</u>	<u>\$ 31,975,949</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,336,909</u>	<u>\$ (1,083,897)</u>	<u>\$ 83,760</u>	<u>\$ 336,772</u>

The notes to the financial statements are an in e

OTHER FINANCING SOURCES (USES)

	General Fund	Street CIP's	Other Governmental	Total Governmental
Transfers in	\$ 126,975	\$ 1,137,222	\$ 2,239,478	\$ 3,503,675
Transfers out	(1,058,685)	(342,753)	(1,619,075)	(3,020,513)
Insurance recoveries	12,517	-	7,357	19,874
Total other financing sources and uses	\$ (919,193)	\$ 794,469	\$ 627,760	\$ 503,036
Net change in fund balance	417,716	(289,428)	711,520	839,808
Fund balances -- beginning	5,061,822	920,740	2,083,619	8,066,181
Fund balances -- ending	\$ 5,479,538	\$ 631,312	\$ 2,795,139	\$ 8,905,989

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

Net change in fund balances - total governmental funds (above) \$ 839,808

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. 1,284,840

The issuance of long-term debt (e.g. bonds, notes) 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 assets. 931,042

Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (164,634)

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. (1,251,913)

Internal service funds are used by management to charge the costs of emergency communications, vehicle maintenance and replacement to individual funds. The net revenue (loss) of certain activities of internal service funds is reported in the governmental activities. 312,192

Change in net position of governmental activities. \$ 1,951,335

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

City of Walla Walla
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	2013-2014 Biennial		Actuals 2013-14	Variance with Final Budget Over (Under)
	Budgeted Amounts Original	Final		
REVENUES				
Taxes	\$ 33,670,160	\$ 33,708,800	\$ 34,030,090	\$ 321,290
Licenses and permits	1,110,760	1,114,260	1,260,620	146,360
Intergovernmental revenues	1,667,740	2,119,140	2,055,480	(63,660)
Charges for goods and services	12,573,240	12,959,940	12,818,090	(141,850)
Fines and forfeits	633,060	477,910	438,330	(39,580)
Miscellaneous revenues	403,790	1,233,120	1,228,510	(4,610)
Total revenues	50,058,750	51,613,170	51,831,120	217,950
EXPENDITURES				
Current:				
General government	11,752,100	12,635,830	12,246,680	(389,150)
Public safety	24,309,980	23,627,730	23,128,670	(499,060)
Utilities and environment	4,421,930	4,655,680	4,609,560	(46,120)
Economic environment	2,058,920	2,253,350	2,218,940	(34,410)
Culture and recreation	5,557,450	6,065,810	5,817,820	(247,990)
Capital outlay:				
General government	213,680	166,360	161,520	(4,840)
Public safety	16,460	177,310	158,910	(18,400)
Utilities and environment	7,700	277,160	231,920	(45,240)
Economic environment	-	18,730	18,730	-
Culture and recreation	-	21,250	15,790	(5,460)
Total expenditures	48,338,220	49,899,210	48,608,540	(1,290,670)
Excess (deficiency) of revenues over (under) expenditures	1,720,530	1,713,960	3,222,580	1,508,620
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	-	12,520	12,520	-
Transfers in	235,260	338,860	344,340	5,480
Transfers out	(1,802,440)	(2,499,820)	(2,347,300)	152,520
Total other financing sources, uses and special items	(1,567,180)	(2,148,440)	(1,990,440)	158,000
Net change in fund balances	153,350	(434,480)	1,232,140	1,666,620
Fund balances -- beginning	4,247,400	4,247,400	4,247,400	-
Fund balances -- ending	<u>\$ 4,400,750</u>	<u>\$ 3,812,920</u>	<u>\$ 5,479,540</u>	<u>\$ 1,666,620</u>

Figures are rounded to the nearest ten dollars.
The notes to the financial statements are an integral part of this statement.

City of Walla Walla
Statement of Net Position
Proprietary Funds
December 31, 2014

	Business-type Activities - Major Enterprise Funds					Other Enterprise	Total Enterprise	Total Internal Service
	Sanitation	Water/Wastewater	Landfill	Ambulance				
ASSETS								
Current assets:								
Cash and equivalents	\$ 1,462,143	\$ 9,258,220	\$ 3,802,235	\$ 277,826	\$ 1,130,972	\$ 15,931,396	\$ 7,681,814	
Other receivables (net)	259,732	2,416,130	281,072	471,525	91,706	3,520,165	73,233	
Interfund loans receivable	-	-	-	-	-	-	571,498	
Inventories	-	565,451	-	-	-	565,451	72,994	
Restricted cash and cash equivalents	-	-	1,221,306	-	-	1,221,306	-	
Prepays	-	2,168	-	-	146	2,314	16,034	
Total current assets	1,721,875	12,241,969	5,304,613	749,351	1,222,824	21,240,632	8,415,573	
Noncurrent assets:								
Restricted cash and equivalents	-	-	2,015,154	-	-	2,015,154	-	
Restricted investments	-	2,586,488	-	-	-	2,586,488	-	
Unrestricted investments	-	80,513	-	-	-	80,513	-	
Long term receivable	-	-	17,758	-	-	17,758	-	
Interfund loans receivable	-	-	-	-	-	-	2,039,361	
Land	-	572,495	593,664	-	55,415	1,221,574	135,600	
Buildings and structures (net)	-	15,644,338	539,891	-	-	16,184,229	2,740,251	
Improvements other than buildings (net)	-	1,392,421	2,998,730	-	986,882	5,378,033	13,712	
Machinery and equipment (net)	10,855	474,462	65,014	27,288	38,451	616,070	5,051,167	
Infrastructure (net)	-	69,319,070	582,415	-	3,129,246	73,030,731	71,742	
Construction in progress	-	3,689,424	-	-	408,533	4,097,957	-	
Total noncurrent assets	10,855	93,759,211	6,812,626	27,288	4,618,527	105,228,507	10,051,833	
Total assets	\$ 1,732,730	\$ 106,001,180	\$ 12,117,239	\$ 776,639	\$ 5,841,351	\$ 126,469,139	\$ 18,467,406	
LIABILITIES								
Current liabilities:								
Accounts payable	\$ -	\$ 14	\$ 3,411	\$ 927	\$ -	\$ 4,352	\$ 19,473	
Other accrued liabilities	65,086	406,006	70,794	164,230	29,605	735,721	116,167	
Industrial insurance claims	-	-	-	-	-	-	9,866	
Compensated absences	48,713	112,055	48,189	201,770	19,727	430,454	133,432	
Pollution remediation payable from restricted assets	-	-	387,500	-	-	387,500	-	
Current portion long term debt	-	6,500,596	353,804	-	17,855	6,872,255	78,370	
Interfund loans payable	-	-	152,589	-	36,631	189,220	-	
Total current liabilities	113,799	7,018,671	1,016,287	366,927	103,818	8,619,502	357,308	
Noncurrent liabilities:								
Industrial insurance claims	-	-	-	-	-	-	65,771	
Compensated absences	3,867	11,035	10,978	74,633	4,262	104,775	63,142	
Landfill closure payable from restricted assets	-	-	3,957,227	-	-	3,957,227	-	
Pollution remediation payable from restricted assets	-	-	3,455,640	-	-	3,455,640	-	
Federal DWSRF LT2 slow sand plant	-	1,512,622	-	-	-	1,512,622	-	
Long term debt	-	17,363,213	3,352,475	-	206,314	20,922,002	-	
Interfund loans payable	-	-	645,469	-	421,848	1,067,317	-	
Total noncurrent liabilities	3,867	18,886,870	11,421,789	74,633	632,424	31,019,583	128,913	
Total liabilities	\$ 117,666	\$ 25,905,541	\$ 12,438,076	\$ 441,560	\$ 736,242	\$ 39,639,085	\$ 486,221	
NET POSITION								
Net investment in capital assets	\$ 10,855	\$ 67,228,402	\$ 1,073,435	\$ 27,288	\$ 4,394,358	\$ 72,734,338	\$ 7,934,102	
Unrestricted	1,604,209	12,867,237	(1,394,272)	307,791	710,751	14,095,716	10,047,083	
Total net position	\$ 1,615,064	\$ 80,095,639	\$ (320,837)	\$ 335,079	\$ 5,105,109	\$ 86,830,054	\$ 17,981,185	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.								
Net position of business-type activities								13,267,597
The notes to the financial statements are an integral part of this statement								\$ 100,097,651

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

City of Walla Walla
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Major Enterprise Funds						
	Sanitation	Water/ Wastewater	Landfill	Ambulance	Other Enterprise	Total Enterprise	Total Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash from customers	\$ 4,804,977	\$ 18,503,575	\$ 3,987,924	\$ 3,096,692	\$ 1,735,651	\$ 32,128,819	\$ 2,376,029
Cash from interfund services	-	-	-	-	-	-	8,384,348
Payments to suppliers	(2,565,263)	(6,351,682)	(999,545)	(233,778)	(451,950)	(10,602,218)	(1,962,865)
Payments to employees	(874,627)	(1,701,953)	(846,082)	(2,382,347)	(310,423)	(6,115,432)	(6,345,527)
Interfund service payments	(1,518,828)	(3,154,245)	(1,013,875)	(573,956)	(720,329)	(6,981,233)	(612,601)
Miscellaneous revenues	10,478	29,685	14,082	1,967	65,857	122,069	10,249
Payments for landfill closure	-	-	1,406,218	-	-	1,406,218	-
Net cash provided by operating activities	\$ (143,263)	\$ 7,325,380	\$ 2,548,722	\$ (91,422)	\$ 318,806	\$ 9,958,223	\$ 1,849,633
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Operating grants received	\$ -	\$ -	\$ 326,117	\$ 1,473	\$ -	\$ 327,590	\$ -
Proceeds from insurance recovery	-	-	2,175	-	-	2,175	-
Proceeds (repayments) from interfund loan	-	-	(168,586)	-	(56,731)	(225,317)	778,522
Transfers in	-	343,193	-	-	144,000	487,193	139,397
Transfers out	(37,960)	(979,886)	-	-	(7,337)	(1,025,183)	(84,569)
Total cash flows from noncapital financing	\$ (37,960)	\$ (636,693)	\$ 159,706	\$ 1,473	\$ 79,932	\$ (433,542)	\$ 833,350
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchase of capital assets	\$ -	\$ (4,652,986)	\$ -	\$ -	\$ (895,236)	\$ (5,548,222)	\$ (865,921)
Capital contributions and purchases	-	915,102	36,200	-	513,952	1,465,254	-
Principal and interest payments	-	(6,120,410)	(493,115)	-	(27,917)	(6,641,442)	(265,015)
Proceeds from sale of capital assets	-	-	-	-	-	-	19,498
Proceeds from DWSRF loan	-	1,512,622	-	-	-	1,512,622	-
Landfill closure and post-closure care	-	-	(252,060)	-	-	(252,060)	-
Pollution remediation	-	-	(1,154,158)	-	-	(1,154,158)	-
Total cash flows from capital and related financing	\$ -	\$ (8,345,672)	\$ (1,863,133)	\$ -	\$ (409,201)	\$ (10,618,006)	\$ (1,111,438)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	\$ -	\$ 144,045	\$ 279	\$ 4,874	\$ 176	\$ 149,374	\$ 712
Total cash flows from investing	\$ -	\$ 144,045	\$ 279	\$ 4,874	\$ 176	\$ 149,374	\$ 712
Net increase (decrease) in cash and equivalents	\$ (181,223)	\$ (1,512,940)	\$ 845,574	\$ (85,075)	\$ (10,287)	\$ (943,951)	\$ 1,572,257
Beginning cash and cash equivalents	\$ 1,643,366	\$ 10,771,160	\$ 6,193,121	\$ 362,901	\$ 1,141,259	\$ 20,111,807	\$ 6,109,556
Ending cash and cash equivalents	\$ 1,462,143	\$ 9,258,220	\$ 7,038,695	\$ 277,826	\$ 1,130,972	\$ 19,167,856	\$ 7,681,813
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ (188,723)	\$ 5,960,446	\$ 795,809	\$ 6,140	\$ (17,475)	\$ 6,556,197	\$ 837,026
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation expense	2,368	2,544,485	355,349	11,389	108,678	3,022,269	939,526
Landfill closure and post-closure care	-	-	1,406,218	-	-	1,406,218	-
(Increase) decrease in accounts receivable	31,628	(1,267,447)	(28,502)	(90,592)	215,286	(1,139,627)	25,392
(Increase) decrease in inventories	-	18,650	-	-	6,000	24,650	12,997
(Increase) decrease in prepaid expenses	-	-	-	-	-	-	477
Increase (decrease) in accounts payable	(1,322)	13,789	(8,728)	(211)	5,367	8,895	371
Increase (decrease) in miscellaneous revenue	-	29,685	14,082	1,967	95	45,829	10,249
Increase (decrease) in salaries and benefits	12,786	25,772	14,494	(20,115)	855	33,792	23,595
Net cash provided by operating activities	\$ (143,263)	\$ 7,325,380	\$ 2,548,722	\$ (91,422)	\$ 318,806	\$ 9,958,223	\$ 1,849,633
No noncash investing, capital, and financing activities							

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

City of Walla Walla
Statement of Net Position
Fiduciary Funds
December 31, 2014

	Pension and Other Employee Benefits
ASSETS	
Cash and equivalents	\$ 446,546
Total assets	<u>\$ 446,546</u>
LIABILITIES	
Accounts payable	\$ 743
Other accrued liabilities	13,350
Total liabilities	<u>\$ 14,093</u>
NET POSITION	
Held in trust for pension benefits and other purposes	<u>\$ 432,453</u>

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

City of Walla Walla
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended December 31, 2014

	Pension and Other Employee Benefits
ADDITIONS	
Contributions:	
Fire insurance premium tax	\$ 46,535
Employer contributions	545,106
Total contributions	<u>591,641</u>
DEDUCTIONS	
Personnel benefits	\$ 630,815
Services and charges	8,900
Total deductions	<u>639,715</u>
Change in net position	(48,074)
Net Position -- beginning of the year	480,527
Net Position -- end of the year	<u><u>\$ 432,453</u></u>

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

CITY OF WALLA WALLA
Notes to the Financial Statements
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Walla Walla have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America 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

The City of Walla Walla was incorporated in 1862 and operates under Washington state law applicable to non-charter code cities with a Council-Manager form of government. As required by generally accepted accounting principles, the financial statements present the activities of the City of Walla Walla, the primary government.

The City is a general purpose government and provides police, fire, ambulance, water/wastewater and sanitation services, a landfill, street maintenance, planning and zoning, a library, parks, and a cemetery. The City has one blended component unit, the Walla Walla Transportation Benefit District, a legally separate entity which is part of the City's operations. The City contracts for operation and maintenance of the municipal golf course and operation of the wastewater treatment plant. Through an interlocal agreement with the County of Walla Walla, the City contracts for development services and code enforcement with the Walla Walla Joint Community Development Agency. The City's basic financial statements include the financial position and results of operations of all funds controlled by the City.

The basic financial statements do not include the financial position or results of operations of:

The *Walla Walla School District*, even though the operations are conducted within the City's borders. It is a separate municipal corporation, and no financial interdependence exists between the two entities.

The *Walla Walla Valley Transit*, even though three of the seven board members are appointed by the City Council for a two-year term.

The *Walla Walla Housing Authority*, though the City Council appoints their five board members. The members cannot be elected officials and are appointed for five-year terms. The City's relationship with the Housing Authority of Walla Walla qualifies as a related organization under GASB 14. RCW 35.82.030 establishes rules governing the Housing Authority. The City is under no financial obligation and receives no financial benefit from the relationship.

Blended component unit:

The Walla Walla Transportation Benefit District (TBD) is governed by a board composed of the seven members of the City Council of Walla Walla, who serve in an ex-officio and independent capacity. Although legally separated from the City of Walla Walla, the TBD is reported as if it were part of the primary government, because the TBD's sole purpose is to finance, preserve, maintain, construct, or reconstruct the City's transportation infrastructure. The TBD was created by Walla Walla City Council Ordinance No. 2011-19. The City and TBD signed an interlocal agreement on December 9, 2011, to coordinate efforts in maintaining and preserving the transportation infrastructure within the boundaries of the City and to exercise the powers available under RCW 36.73. Send requests for copies of the TBD financial statements to: Finance Director, City Hall, 15 N. 3rd Avenue, Walla Walla, WA 99362.

Discretely presented component unit:

The Walla Walla Joint Community Development Agency (WWJCDA) is an independent entity which resulted from a merger of the City of Walla Walla Development Services Department and the Walla Walla County Community Development Department through an interlocal agreement. The WWJCDA provides land use planning, construction inspection, and code compliance services. In 2014, the City paid a 62% operating subsidy to the WWJCDA. The WWJCDA operating budget is subject to City Council approval. The City Council sets rates and fees charged by the WWJCDA. Two of the five Board of Director members are appointed by the City Council, two are appointed by the County and the fifth member is appointed for a two-year term by the City and the County jointly. Send requests for copies of the WWJCDA financial statements to: Finance Director, City Hall, 15 N. 3rd Avenue, Walla Walla, WA 99362.

B. Government-Wide and Fund Financial Statements

The government-wide 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 and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City's policy is to not 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 which are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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.

Fiduciary funds account for resources legally held in *trust* or *agency* capacity for others and therefore cannot be used to support the government's own programs. Trust funds employ the same economic resource measurement focus and accrual basis of accounting as proprietary funds. Agency funds report only assets and liabilities and use the accrual basis of accounting to recognize receivables and payables. Agency funds have no measurement focus as the purpose of this type of fund is to simply receive and disburse funds belonging to another organization.

Governmental fund financial statements are reported using the flow of 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 shortly after to pay liabilities of the current period. For this purpose, the City considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related fund 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 considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of the special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as current period revenue. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all governmental financial resources, except those required to be accounted for in another fund.

The *street construction* fund accounts for financial resources related to the construction of streets and related assets.

The City reports the following major proprietary funds:

The *sanitation fund* is responsible for the collection and disposal of solid waste throughout the City and administers the contract for the City's recycling program.

The *water/wastewater fund* accounts for the water-treatment plant activities, wastewater treatment and disposal, as well as the distribution of water and the collection of wastewater throughout the City including some areas outside the City limits.

The *landfill fund* accounts for activities related to waste stored at the landfill, composting operations, and the household hazardous waste disposal program.

The *ambulance fund* accounts for the activities related to in-town service, most of the county emergency ambulance services, and long-distance ambulance transport services.

Additionally, the City reports the following fund types:

Special revenue funds are used to account for revenues raised for a specific purpose.

Debt service funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital project funds are used to report significant capital acquisition and construction separate from ongoing operating activities.

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Internal service funds are proprietary funds used to account for an activity which provides goods or services to other funds, departments, or agencies of the primary government and its component units.

Trust funds account for pension and medical costs for active and retired Fire Department employees qualified under State statutes.

As a general rule, the effect of the interfund activity has been eliminated for the city-wide financial statements. An exception to this general rule is administrative overhead charges where the amounts are reasonably equivalent in value to the interfund services provided. Likewise, other charges between the government's utility functions and certain other service functions and various other functions of the government have not been eliminated. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers, 2) operation 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 operation. The principal operating revenues for enterprise funds are charges for services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and capital asset depreciation. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

The City of Walla Walla operates under a biennial budget in accordance with the Revised Code of Washington (RCW) 35.34.

1. Scope of Budget

Biennial appropriated budgets are adopted for the general, special revenue, proprietary and pension trust funds on an accrual basis consistent with generally accepted accounting principles. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for the fiscal periods which correspond to the lives of debt issues or projects.

The appropriated budget is prepared by fund, function, and department. The fund level is the legal level for budgetary control. Appropriations generally lapse at year-end, except for appropriations for capital outlays, which may be carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

Encumbrance accounting is employed to ensure effective budgetary control and accountability. While encumbrances lapse at year-end, valid outstanding encumbrances for which performance is expected in the next year are reinstated and honored during the subsequent year.

2. Procedures for Adopting the Original Budget

The City of Walla Walla's budget procedures are mandated by RCW 35.34. The City of Walla Walla used the following steps to establish the biennial budget reflected in the financial statements:

- Prior to October 1 in even-numbered years, the City Manager submits to the City Clerk the proposed operating budget for the biennial period commencing the following January 1. The operating budget includes proposed expenditures and revenues for the biennium.
- In November, public hearings are held at regular Council meetings to obtain citizen comments.
- In December, the biennial budget is legally adopted by Council ordinance.

3. Amending the Budget

The City Manager is authorized to transfer from fund balance and to transfer budgeted amounts between departments within any fund. However, revisions which alter the total revenues of the City must be approved by the City Council and adopted by ordinance. When the Walla Walla City Council determines it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding a public hearing.

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

4. Excess of Expenditures over Appropriations

For the year ended December 31, 2014, the General Fund as a whole did not exceed the appropriated amount.

5. Deficit Fund Net Position

The Local Improvement District (LID) Bond Fund showed a deficit fund balance of (\$230,720) at December 31, 2014. This is expected and normal since the debt related to this debt service is from an interfund loan rather than an outside funding source. With internal financing the debt is carried within the fund and therefore results in a negative fund balance. Interfund loans payable in the LID Bond Fund total \$288,689 and will be redeemed with annual assessment proceeds.

The Transportation Benefit District (TBD) Street Construction Fund showed a deficit fund balance of (\$754,965) at December 31, 2014. This is expected and normal since the debt related to this construction fund is from an interfund loan rather than an outside funding source. With internal financing the debt is carried within the fund and therefore results in a negative fund balance. Interfund loans payable in the TBD Street Construction fund total \$827,000 and will be repaid with sales tax proceeds within the four-year loan term.

The Landfill Fund showed a deficit fund balance of (\$320,837) at December 31, 2014. This is due to the recognition of landfill closure, post-closure, and pollution remediation liabilities and corresponding expenses.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Equivalents

The City reports both restricted and unrestricted cash, cash equivalents, and investments. Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from acquisition date. Restricted cash, cash equivalents, and investments are resources limited to capital improvements, debt service, or other uses per contractual or legal requirements.

State statutes and the City's investment policies authorize the City to invest in obligations of the U.S. Treasury, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The City's deposits are covered by federal depository insurance (FDIC and FSLIC) or by collateral held in the multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC).

The City reports long-term investments at cost which approximates fair value for the items held. The reported value of the pool is the same as the fair value of the pool shares. The LGIP operates in accordance with appropriate state law and regulations.

2. Investments See deposit investment information in Note 4.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (see Note 5).

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments which are liens against the property benefited.

Accounts receivable are amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. The Ambulance Fund allowance for uncollectible accounts is 43.5% of the outstanding receivables at December 31, 2014. Notes and contracts receivable consist of amounts owed on an open account from private individuals or organizations for goods and services rendered. Since the City is unable by law to grant credit to any entity, loans receivable are related to grant monies received from other agencies which have authorized the loan as part of the grant process. Loan repayments establish revolving loan funds for future loans which match the original grant purpose.

4. Amounts Due To and From Other Funds and Governments, Interfund Loans, Advances Receivable

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

Loans between funds, as reported in the fund financial statements, are included as a liability in applicable governmental funds so that the indicated fund balance represents amounts available for appropriation and expendable available financial resources.

5. Inventories and Prepaid Items

Inventories are valued by the FIFO (first-in-first-out) method. Inventories in governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time individual inventory items are purchased. The inventories associated with internal service funds

and enterprise funds report inventories as expenditures when they are consumed rather than when they are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate a portion of the fund balance is not available for future expenditures.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

6. Restricted Assets and Liabilities

Corporuses of permanent funds are included in restricted assets. Cash in the Cemetery Reserve Fund is restricted for the care and maintenance of the cemetery. The “landfill closure” account is used by the Landfill Fund and contains resources set aside to fund future landfill closure and post-closure costs. The pollution remediation account contains resources for current activity on the remediation of the landfill. Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the balance sheet because they are maintained in a separate investment account and their use is limited by applicable bond covenants. The “bond debt service” account is used by the Water/Wastewater Fund to report resources set aside to subsidize potential deficiencies from the water/wastewater operations that could adversely affect debt service payments. In September 2013, the City determined the acquisition of a private real property was necessary to eliminate neighborhood blight. In 2014, the City filed a condemnation action against the property. A real estate appraisal determined that the fair market value of the property was \$77,000. The City deposited \$77,000 of Code Enforcement funds with the Walla Walla County Superior Court for the condemnation. The funds are currently being held in trust by the Walla Walla County Clerk’s Trust Account until the litigation is resolved. Restricted assets are composed of:

Restricted Assets	Temporary Restrictions	Permanent Restrictions
Esther Eyruad Trust	\$ -	\$ 3,000
Sherwood Library Trust	-	13,545
Code Enforcement Fund	77,000	-
Cemetery Reserve	879,905	-
Landfill Closure	2,015,154	-
Pollution Remediation	1,221,306	-
Water/Wastewater Debt Service	2,586,488	-

7. Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation, except for donated historical treasures not capitalized because they meet the exemption from capitalization according to GASB Statement 34, paragraph 27. Costs for additions or improvements to capital assets are capitalized when the effectiveness or efficiency of the asset is

increased. Costs for normal maintenance and repairs are not capitalized.

The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriated price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values donated capital assets at the estimated fair value of the item at the date of its donation. Interest incurred during the construction of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Capitalization	
	Threshold	Years
Land	\$30,000	n/a
Buildings	30,000	10 to 100
Improvements	30,000	5 to 100
Infrastructure	30,000	5 to 125
Intangible assets	30,000	Varies
Machinery and equipment	5,000	2 to 20

For capital asset details, see Note 6.

8. Deferred Outflows and Inflows of Resources

Deferred inflows of resources. A deferred inflow of resources is an acquisition of net position by the government which is applicable to a future reporting period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

Property taxes (General Fund)	\$5,770,882
Property taxes (Debt Service Fund)	746,045
Special assessments (Debt Service Fund)	<u>240,415</u>
Total governmental deferred inflow of resources	<u>\$6,757,342</u>

9. Compensated Absences

Compensated absences are paid time off work, such as vacation and sick leave benefits. Vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund

financial statements. In proprietary funds, compensated absences are recorded as an expense and liability when earned. Compensated absence expenditures are recognized in government funds when the liability becomes due and payable, specifically leave due to employees who have left active service by the end of the fiscal period.

Contracts with employees call for the accumulation of vacation leave and sick pay benefits. Vacation pay may be accumulated up to 240 hours, and is payable upon resignation, retirement, or death. At employment termination, employees with at least 10 years of continuous service may receive cash payment for 25% of accumulated sick leave up to a maximum of 240 hours.

10. Other Accrued Liabilities

Other accrued liabilities include accrued wages and employee benefits, deposits, sales and use tax payable, and retainage payable.

11. Long-term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures when incurred. Long-term debt details are available in Note 9.

12. Unearned Revenue

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, unearned revenue reported in the governmental funds consists of \$247,566 in prepaid cemetery services.

13. Fund Balance Classification

Fund balance for governmental funds is reported in the following classifications depicting the relative strength of the constraints which control how specific amounts can be spent. The City considers expenditures to be made from the most restrictive resource when more than one fund balance classification is appropriate. After restricted funds are depleted, the flow assumption for unrestricted funds is to first use committed fund balance, then assigned fund balance and finally unassigned fund balance.

- Nonspendable fund balances are either not in spendable form or are legally or contractually required to remain intact.
- Restricted fund balances have constraints placed upon the use of the resources either by an

external party or imposed by law through a constitutional provision or enabling legislation.

- **Committed** fund balances can only be used for specific purposes ordained by the City Council, the City's highest level of decision-making authority. Commitments may be changed, modified, or rescinded only by ordinance approved by the vote of one more than the majority of all members of the City Council.
- **Assigned** fund balances are constraints imposed for specific purposes by the City Manager who is authorized to assign unexpended funds per Walla Walla Municipal Code 3.03.050.
- **Unassigned** fund balance is the residual amount of the general fund not included in the four categories above. Also, deficit fund balances within other governmental fund types are reported as unassigned.

14. Fund Balance Details

Fund balances by classification for the year ended December 31, 2014 were as follows:

Fund Balances	General Fund	Street CIP's	Other Governmental	Total Governmental
Nonspendable:				
Prepays	\$ 55,428	\$ -	\$ -	\$ 55,428
Library Trusts	-	-	16,545	16,545
Restricted for:				
Community Services	901,919	-	981,546	1,883,465
Debt Service	-	-	755,420	755,420
Capital Projects	-	-	-	-
Committed to:				
Community Enforcement & Development	18,303	-	453,505	471,808
Cemetery	-	-	879,905	879,905
Debt Service	-	-	53,963	53,963
Streets	-	-	622,080	622,080
Capital Projects	-	620,495	-	620,495
Assigned to:				
UDAG Fund	-	-	4,988	4,988
Cemetery and Library	-	-	12,872	12,872
Capital Projects	-	10,817	-	10,817
Unassigned:	4,503,888	-	(985,685)	3,518,203
Total Fund Balances:	\$5,479,538	\$ 631,312	\$ 2,795,139	\$ 8,905,989

15. Minimum Fund Balance

In 2010, the City Council passed a General Fund Reserve Policy to establish a minimum unassigned fund balance for the General Fund. The policy requires an annual review of the General Fund reserve level and sets the minimum reserve level at 5%. In addition, the policy sets a higher target of 15% for the General Fund reserve level. If at any time, the level of the reserves is projected to drop below the 5% minimum, the City Council will institute budgetary actions to bring the reserve up to the minimum level.

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

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

The governmental funds balance sheet includes reconciliation between fund balance – total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The following shows the detail of these capital asset changes net of accumulated depreciation:

Beginning balance of capital assets excluded from fund level:

Land	\$ 3,556,599
Construction in progress	9,420,090
Buildings	17,560,794
Other improvements	3,753,215
Equipment	1,531,375
Infrastructure	26,793,361
Current year spending in construction work in progress	543,154
Current year capital purchases	3,892,228
Current year capital asset disposals	(56,310)
Current year depreciation	(3,094,232)
Net adjustment to add to government-wide fund balance to arrive at	
<i>Net position-governmental activities</i>	<u><u>\$ 63,900,274</u></u>

Another element of that reconciliation explains that “long-term liabilities...are not due and payable in the current period and are not reported in the funds.” The following shows the detail of these liability changes:

Beginning balance of long-term liabilities excluded from fund level:

Bonds payable	\$ (14,251,920)
Bond premiums	(129,060)
Compensated absences	(1,804,251)
Workers compensation claims	(73,548)
OPEB obligation	(2,626,316)
Net pension obligation	(6,227)
Current year principal payments reducing debt	915,307
Current year amortization of bond premium	15,735
Current year compensated absences earned	(1,427,371)
Current year compensated absences used	1,396,981
Current year workers compensation claim additions	(60,665)
Current year workers compensation claim reductions	58,576
Current year OPEB obligation additions	(1,765,097)
Current year OPEB obligation reductions	632,137

Current year net pension obligation additions	(247,715)
Current year net pension obligation reductions	161,241
Net adjustment to add to government-wide fund balance to arrive at <i>Net position-governmental activities</i>	<u><u>\$ (19,212,193)</u></u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that 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. The details of this difference are as follows:

Current year spending in CWIP	\$ 543,154
Current year capital purchases	3,892,228
Current year loss on disposal of capital assets	(56,310)
Depreciation expense	(3,094,232)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in <i>net position</i> of governmental activities	<u><u>\$ 1,284,840</u></u>

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Amortization of bond premiums	\$ 15,735
Debt principal retirement	915,307
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in <i>net position</i> of governmental activities	<u><u>\$ 931,042</u></u>

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. The details of this difference are as follows:

Current year compensated absences earned	(1,427,371)
Current year compensated absences used	1,396,981
Current year OPEB obligation additions	(1,765,097)
Current year OPEB obligation reductions	632,137

Current year net pension obligation additions	(247,715)
Current year net pension obligation reductions	161,241
Current year workers compensation claim additions	(60,665)
Current year workers compensation claim reductions	58,576
<i>Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental funds</i>	<u><u>\$ (1,251,913)</u></u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 – DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits 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 (WPDPC). The State of WPDPC Act, implemented on August 11, 1969, was amended during the 2009 legislative session to fully protect public deposits in the result of bank failure. At fiscal year end, the City of Walla Walla had \$2,181,299 on deposit with Baker Boyer National Bank. The FDIC insures those deposits up to \$250,000. The remaining amount on deposit is fully protected by the WPDPC, eliminating custodial credit risk for the \$1,931,299 deposit amount over the FDIC \$250,000 limit.

B. Investments

As of December 31, 2014, the government had the following investments, stated at cost which approximates fair value:

	<u>Fair Value</u>	<u>Weighted Average Maturities (Years)</u>
LGIP cash equivalents	\$36,636,243	0.17
AIG matching fund investment	<u>2,667,000</u>	2.58
Total investments at fair value	\$39,303,243	
Portfolio weighted average maturity		0.33

Credit rating. AIG Matching Fund Corporation investments have a Moody's rating of Baa1. The Local Government Investment Pool (LGIP) is a voluntary investment vehicle operated by the State Treasurer pursuant to RCW 43.250. The LGIP is managed in a manner consistent with SEC's rule 2a-7 of the Investment Act of 1940 and is unrated.

Interest rate risk. Interest rate risk is the risk that if interest rates change over time it will adversely affect the fair value of an investment. The City's investment policy is to diversify the investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity. LGIP balances are not subject to interest rate risk, as the LGIP weighted average maturity will not exceed 90 days.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City policy allows the following types of investments in accordance with state law: demand or investment deposits in qualified public depositories located within the state; United

States government bonds, notes, bills, certificates of indebtedness, or interim financing warrants of a local improvement district of the City of Walla Walla which is within the protection of the local improvement guaranty fund law; mutual funds and money market funds; bonds and other obligations of a metropolitan municipal corporation; notes or bonds secured by mortgages insured by the federal agencies or corporations; notes, bonds and debentures; the Local Government Investment Pool in the State Treasury; and such other investments authorized by law and approved by ordinance or resolution of the Walla Walla City Council.

Custodial credit risk – investments. Custodial credit risk is the risk that in event of a bank failure, the City would not be able to recover the value of the investment or collateral securities. The City limits custodial credit risk by holding investments which are insured and are registered or held by the City's agent in the City's name. Certificates of deposit are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the WPDPC. With regard to bankers' acceptances, no more than ten percent of the portfolio shall be with any one institution. With regard to certificates of deposit, no more than thirty-three percent of the portfolio shall be with any one financial institution.

Concentration risk. It is the policy of the City to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific class of securities. With the exception of U.S. Treasury securities and the state investment pool, no more than twenty percent will be in bankers' acceptances and no more than ten percent in certificates of deposits with savings and loans.

NOTE 5 – PROPERTY TAX

Taxes Receivable. The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by the 20th day of the following month.

Property Tax Calendar

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

Property tax is recorded as a receivable and deferred inflow of resources when levied. Upon receipt, property tax revenue is recognized and deferred inflow of property tax revenue is reduced. Delinquent taxes total \$359,004. Subsequent collections of delinquent amounts will be recorded as revenue in the period actually received. No allowance for uncollectible tax is established, because delinquent taxes are considered fully collectible.

The City may levy up to \$3.60 per \$1,000 of assessed value for general governmental services, subject to two limitations:

- a. State law provides that the City's operating levy may not exceed 101% of the largest single levy of the past 3 years, plus an additional dollar amount calculated by multiplying the increase in assessed value resulting from new construction, property improvements, annexed property, and an increase in the assessed value for the preceding year.

- b. Washington State Constitution and Washington State law, RCW 84.55.010, limit the property tax rate to one percent of assessed value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

The City's 2014 levy is \$2.557727 per \$1,000 on a 2013 assessed valuation of \$2,007,583,808 for a total operating levy of \$5,134,851. The City's 2015 levy was \$2.595161 per \$1,000 on a 2014 assessed valuation of \$2,097,912,830 for a total regular levy of \$5,444,421.

Special levies approved by the voters are not subject to the limitations listed above. The City voted a debt service levy for the purposes of building a fire station in 2004 and a police station in 2009. The City's 2014 voted levy is \$0.607159 per \$1,000 on a 2013 assessed valuation of \$1,979,897,108 for a total voted levy of \$1,202,113. The City's 2015 voted levy was \$0.344710 per \$1,000 on a 2014 assessed valuation of \$2,069,862,390 for a total voted levy of \$713,502.

In September 2014, the City of Walla Walla approved using \$487,640 of unspent bond proceeds for the Police Station bond to partially offset the property tax levy in 2015. This results from excess funds from the \$11,595,000 Walla Walla Police Station Bond issue approved by voters in 2009.

NOTE 6 – CAPITAL ASSETS

A. Capital Assets

Capital asset activity for the year ending December 31, 2014 was as follows:

Primary Government	Beginning			Ending
<u>Governmental Activities</u>	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land	\$3,556,599	\$ -	\$ -	\$ 3,556,599
Construction in progress	9,420,090	2,455,401	9,167,783	2,707,708
Total capital assets not being depreciated	12,976,690	2,455,401	9,167,783	6,264,307
Capital assets being depreciated:				
Buildings	23,713,289	222,313	-	23,935,602
Improvements other than buildings	5,209,554	172,025	-	5,381,579
Machinery and equipment	3,594,991	266,517	173,889	3,687,618
Infrastructure	55,901,221	10,486,911	470,392	65,917,740
Total depreciated capital assets	88,419,055	11,147,765	644,281	98,922,539
Less accumulated depreciation for:				
Buildings	6,152,495	552,408	-	6,704,903
Improvements other than buildings	1,456,340	109,310	-	1,565,650
Machinery and equipment	2,063,616	305,881	173,889	2,195,608
Infrastructure	29,107,860	2,126,633	414,081	30,820,411
Total accumulated depreciation	38,780,310	3,094,232	587,970	41,286,572
Capital assets being depreciated, net	49,638,745	8,053,534	56,311	57,635,967
Governmental activities capital, net	62,615,435	10,508,934	9,224,094	63,900,274
<u>Business-type Activities</u>				
Capital assets not being depreciated:				
Land	1,221,574	-	-	1,221,574
Construction in progress	4,250,562	3,867,867	4,020,472	4,097,957
Total capital assets not being depreciated	5,472,136	3,867,867	4,020,472	5,319,532
Business-type assets being depreciated:				
Buildings	31,093,756	-	-	31,093,756
Improvements other than buildings	7,835,622	-	-	7,835,622
Machinery and equipment	16,577,307	1,083,905	605,701	17,055,510
Infrastructure	96,341,345	5,476,618	190,357	101,627,606

Total depreciated capital assets	151,848,030	6,560,523	796,058	157,612,495
Less accumulated depreciation for:				
Buildings and system	14,311,495	598,033	-	14,909,527
Improvements other than buildings	2,081,077	376,511	-	2,457,588
Machinery and equipment	11,287,588	870,879	602,074	11,556,393
Infrastructure	26,701,058	1,975,311	79,493	28,596,875
Total accumulated depreciation	54,381,218	3,820,734	681,568	57,520,384
Capital assets being depreciated, net	97,466,812	2,739,789	114,490	100,092,110
Business-type activities capital, net	\$102,938,948	\$6,607,656	\$4,134,962	\$105,411,642

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 314,095
Public safety	425,180
Utilities & environment	3,205
Transportation	2,127,950
Culture & recreational environment	223,802
Total depreciation - governmental activities	<u>\$3,094,232</u>

Business-type Activities:

Golf course	\$ 55,184
Sanitation	2,368
Water	1,017,279
Stormwater	53,494
Wastewater	1,527,206
Landfill	355,349
Ambulance	11,389
Fleet Services	3,966
Vehicle Replacement	794,499
Total depreciation - business-type activities	<u>\$3,820,734</u>

The City of Walla Walla has active construction projects as of December 31, 2014. At year-end the government's commitments with contractors are as follows:

	Project Commitment	Spent to Date	PO Amount Remaining
Street construction	\$ 369,649	\$ 320,488	\$ 49,161
TBD street construction	630,501	607,557	22,944
Water construction	1,479,232	1,211,347	267,885
Stormwater construction	349,013	297,607	51,406
Landfill construction	1,706,313	1,294,171	412,142
Wastewater construction	390,251	337,724	52,527
	<u>\$4,924,959</u>	<u>\$4,068,894</u>	<u>\$856,065</u>

B. Collections not Capitalized

The City of Walla Walla has the option to not capitalize historical treasures and similar items according to GASB Statement No. 34, paragraph 27. Governments are encouraged, but not required, to capitalize collections that are a) held for public exhibition, education or research (rather than financial gain); b) adequately maintained and kept unencumbered; and c) subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The City owns the following donated historical treasures not capitalized as of the

December 31, 2014:

<u>Number</u>	<u>Asset description</u>	<u>Reason for not capitalizing</u>
1	French G.P.F. 155 mm cannon from World War I	Meets exemption under GASB 34, p. 27
2	French G.P.F. 155 mm cannon from World War I	Meets exemption under GASB 34, p. 27

NOTE 7 – PENSION PLANS

Substantially all City of Walla Walla full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

In addition, the City of Walla Walla requested Milliman, Inc. to perform an actuarial valuation of the City's Firefighters Pension Fund effective January 1, 2014. For more details on the contents of the report, please see "Local Governments Pension Trust Funds" and "Other Post Employment Benefits" sections below. A copy of the actuarial valuation can be obtained from the City Clerk's office.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by August 31, 2002 for local government employees are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members

joining the system on or after September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price

Index), capped at 3 percent annually. To offset the cost of this adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually. PERS Plan 2 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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. PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65. For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

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

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

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with

the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors. A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW. The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

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

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

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

Both the City of Walla Walla and the employees made the required contributions. The City required contributions for the years ended December 31 were as follows:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$9,399	\$797,437	\$109,028
2013	\$12,778	\$664,636	\$101,857
2012	\$12,077	\$569,397	\$81,787

B. Law Enforcement Officers and Firefighters Retirement System (LEOFF) Plans 1 and 2

The current actuarial valuation of Firefighters Pension Fund for the City of Walla Walla was provided by Milliman, Inc. effective January 1, 2014. For more details on the contents of the report please see “Local Governments Pension Trust Funds” and “Other Post Employment Benefits” sections below. A copy of this report can be obtained from the City Clerk’s office.

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature. LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board’s duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS’ fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment. As of December 31, 2014, the City of Walla

Walla does not have employees covered under LEOFF Plan 1.

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

Term of Service	Percent of Final Average Salary
20 or more years	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums. Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the

death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws. LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed statute. For DRS' fiscal year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW. The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**The employer rate for ports and universities is 8.59%.

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

	LEOFF Plan 1	LEOFF Plan 2
2014	\$ -	\$412,676
2013	\$ -	\$383,100
2012	\$49	\$389,160

C. Local Government Pension Trust Funds

Plan description

The City of Walla Walla administers the Firefighters Pension Fund, reflected as a trust fund in the

City of Walla Walla financial reports. There is no stand alone financial report for the plan. The Firefighters Pension Fund is a closed, small, single-employer defined benefit plan established in conformance with RCW 41.26. Members do not make contributions. The actuarial cost method is the entry age normal cost method. The amortization period is the level dollar method for a 20-year closed plan beginning January 1, 2008, with 13 years remaining. The current actuarial valuation of Firefighters Pension Fund for the City of Walla Walla was provided by Milliman, Inc. effective January 1, 2014, and can be obtained from the City Clerk's office.

No new employees have been covered by the plan since March 1, 1970. Pension obligations for firefighters retired since March 1, 1970, have been assumed by LEOFF (except for certain minimal benefits in excess of LEOFF benefits). The City liability under the Firefighters pension plan is limited to benefits for covered firefighters retired prior to March 1, 1970 and excess benefits over LEOFF I for firefighters retired after March 1, 1970.

Firefighters pension plan members are eligible for retirement after completion of service for a period of 5 years or more and attainment of age 50. A member is eligible for disability benefits if disabled for a minimum of 6 months. An individual becomes vested after 5 years of service. Since no new employees have been covered under this system since 1970, current participants are fully vested.

The Firefighters Pension Fund makes two types of payments:

- Pensions to eligible members retired prior to March 1, 1970, or deceased members' spouses.
- Amounts to certain eligible members retired after that date if the amount received from LEOFF does not equal or exceed the amount entitled from the prior pension fund.

Benefits are calculated based on length of service (a percentage for each year of service) and on the final average salary (calculated over the last two years of credited service). No changes were made to benefit provisions in the current year.

Firefighters Pension Fund Covered Individuals

Single Employer – Closed Plan

January 1, 2014*

Firefighters retired	12
Firefighters disabled in the line of duty	11
Firefighters disabled not in the line of duty	5
Survivors of firefighters	8
Total covered individuals	36

*Date of latest actuarial valuation

Summary of significant accounting policies

The financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period due and the City has made a commitment to provide the contributions. Expenses are recorded when due and payable in accordance with terms of the plan.

Contributions and reserves

The Firefighters Pension Fund has three revenue sources, the fire insurance premium tax, the General Fund, and the Ambulance Fund. The fire insurance premium tax is a dedicated source of revenue from the Washington State Treasurer's Office as authorized by RCW 41.16.050 and amounted to \$46,535 in 2014. The revenues received from the state are reported as revenue in the period due and appear on the statement of changes in the fiduciary net position as Fire Insurance Premium Tax. Expenses are recorded when due and payable in accordance with the terms of the plan. The City's General Fund and Ambulance Funds contributed \$115,203 and \$8,403, respectively, in 2014.

Funding status and progress

The Firefighters Pension Fund has been operating on a pay-as-you-go basis. Actuarial valuation of the fund is performed every two years, with the most recent valuation performed on January 1, 2014. While assumptions are made regarding mortality, inflation, and wage rates, the City uses a projected cash flow rather than an actuarial funding plan to liquidate unfunded liabilities. This projection is used to budget annual amounts to transfer to the fund for benefits. The Annual Required Contribution (ARC) is computed using the entry age normal cost method. The amortization method is the level dollar method for a 20 year closed plan beginning January 1, 2008, with 13 years remaining at December 31, 2014. Projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of benefits not provided for by future Normal Cost payments is called the Actuarial Accrued Liability.

Actuarial assumptions involving investment earnings and salary growth have been determined in accordance with the recommendation of the system's retained actuary. Designed to reduce short-term volatility, actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. Under LEOFF, the benefit is adjusted after retirement in proportion to the change in the Consumer Price Index (CPI). The following assumptions are used in the most current study:

- 4.0% return on present and future assets
- 3.75% per year salary inflation
- CPI increases of 2.75% per year

Schedule of Funding Progress

Pension Benefits (\$ in thousands)

	Actuarial	Actuarial	Unfunded			UAAL as a
	Value of	Accrued	Actuarial Accrued	Funded	Covered	Percentage of
<u>Valuation Date</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Liabilities (UAAL)</u>	<u>Ratio</u>	<u>Payroll</u>	<u>Covered Payroll</u>
January 1, 2010	\$166	\$3,695	\$3,529	4%	\$-	N/A
January 1, 2012	\$62	\$3,577	\$3,515	2%	\$-	N/A
January 1, 2014	\$212	\$2,876	\$2,664	7%	\$-	N/A

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Employer Contributions</u>	<u>Fire Insurance Premiums</u>	<u>Total Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
December 31, 2012	\$264,190	\$40,451	\$304,641	\$301,626	101%
December 31, 2013	\$281,700	\$42,955	\$324,655	\$301,626	108%
December 31, 2014	\$114,706	\$46,535	\$161,241	\$248,040	65%

Annual Pension Cost and Net Pension Obligation (NPO)

<u>Annual Required Contribution (ARC)</u>	<u>Fiscal Year Ending 12/31/2014</u>
1. Annual Normal Cost, beginning of year	\$ -
2. Amortization of UAAL, beginning of year	239,075
3. Interest to end of year	<u>8,965</u>
4. ARC, end of year	248,040
5. Interest on NPO	234
6. Adjustment to ARC	<u>(559)</u>
7. Annual pension cost	247,715
8. Employer contributions	<u>(161,241)</u>
9. Change in NPO	86,474
10. NPO, beginning of year	<u>6,227</u>
11. NPO, end of year	\$ 92,701

Net Pension Obligation Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation (NPO)</u>
December 31, 2012	\$300,130	102%	\$30,683
December 31, 2013	\$300,199	108%	\$ 6,227
December 31, 2014	\$247,715	65%	\$92,701

Annual Development of Pension Cost

<u>Fiscal Year Ending</u>	<u>Arc at EOY</u>	<u>Interest On NPO</u>	<u>Arc Adjust</u>	<u>Annual Pension Cost (APC)</u>	<u>Total Employer Contributions</u>	<u>Change in NPO</u>	<u>NPO Balance</u>	<u>(Gain)/ Loss</u>	<u>Amort. Factor @ 20 years</u>	<u>Amort. (Gain)/ Loss</u>	<u>Ending Balance</u>
12/31/2012	\$301,626	\$1,408	(\$2,904)	\$300,130	\$304,641	(\$4,511)	\$30,683	(\$3,015)	12.1184	\$2,904	\$30,683
12/31/2013	\$301,626	\$1,227	(\$2,654)	\$300,199	\$324,655	(\$24,456)	\$6,227	(\$23,029)	11.5631	\$2,654	\$6,227
12/31/2014	\$248,040	\$234	(\$559)	\$247,715	\$161,241	\$86,474	\$92,701	\$86,799	11.1424	\$559	\$92,701

NOTE 8 – RISK MANAGEMENT

The City of Walla Walla maintains insurance against most normal hazards except for general liability, health insurance, and workers compensation, where it has elected to become partially insured. The City of Walla Walla is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 175 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services. WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall. An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of WCIA.

Matrix Absence Management, Inc. manages the workers' compensation claims. Self-insurance is in effect for losses up to \$500,000 per occurrence. The retention is \$500,000 with a Statutory

Maximum Liability of Excess Insurer. Claims are processed by Matrix Absence Management and reviewed by the City administration for verification. Based on the claims manager estimates, the City's estimated liability for probable losses at December 31, 2014 is \$75,637.35 for the workers compensation program. The state requires \$100,000 be set aside in cash reserves for protection for the workers compensation fund. The City met this requirement. The fund's average monthly cash balance for 2014 was \$256,036.58. No reserves were necessary at year-end as claims are estimated to fall below funded levels.

Workers compensation claim settlement and loss expenses are accrued in the Industrial Insurance Fund for the estimated settlement value of both reported and unreported claims up to the aggregate stop loss. This fund is responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements and for purchasing certain excess insurance policies. Interfund premiums for workers compensation are assessed on the number of employees and the average claims over the last three years and reported as revenues and expenses.

	Year ended 12/31/2013	Year ended 12/31/2014
Unpaid claims, beginning of fiscal year	\$ 159,613	\$ 73,548
Incurred claims (including IBNRs)	49,929	60,665
Changes in estimate for claims, prior period	(12,697)	38,343
Payments on claims	(123,297)	(96,919)
Unpaid claims, end of fiscal year	<u>\$73,548</u>	<u>\$75,637</u>

NOTE 9 – LONG-TERM DEBT

Governmental Debt

The City issues general obligation bonds to finance the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and business-type activities and are being repaid and reported from the applicable resources. Standard and Poor's has assigned the following ratings for the City: Limited Tax General Obligation – AA as of March 2014; Unlimited Tax General Obligation Bonds – AA as of March 2014. Moody's Investors Service has assigned the following ratings for the City as of April 2010: Limited Tax General Obligation Bonds – A1; Unlimited Tax General Obligation Bonds – Aa3.

Title	Purpose	Interest Rate	Original	Outstanding
1996 GO Bond Deferred Series B	Service center construction	5.30%-6.25%	\$1,291,550	\$78,370
2005 GO Bond Street	Isaacs street improvements	3.125%-4.5%	300,000	183,243
2009 GO Bond Police Station	Police station construction	3.25%-4.375%	11,595,000	9,720,000
2010 GO Bond Fire Truck	Fire truck acquisition	3.00%-5.00%	845,000	645,000
2010 GO Refunding Bond	Refund callable LTGO 2001	3.00%-5.00%	415,000	110,000
2013 GO Refunding Bond	Refund fire station	2.72%	2,840,000	2,600,000
General Obligation Bonds			\$17,286,550	\$13,336,613
2009-1 Bond (Taxable)	LID interfund loan	4.40%	551,000	\$288,689
Special Assessment Bond			\$551,000	\$288,689

The annual debt service requirements to maturity are as follows:

Year Ending 12/31/2014	Government Activities		Special Assessment	
	Interest	Principal	Interest	Principal
2015	674,971	942,964	\$12,702	\$47,379
2016	461,430	796,216	10,618	49,463
2017	435,150	831,216	8,441	51,640
2018	407,395	857,838	6,169	53,912
2019	378,596	907,838	3,797	56,284
2020-2024	1,406,205	4,855,541	1,321	30,011
2025-2039	556,575	4,144,999	-	-
Total	\$ 4,320,322	\$ 13,336,613	\$43,048	\$288,689

Special Assessment Bond

The City issued a special assessment bond in 2011 for capital construction related to streets in an existing commercial area. The \$551,000 bond will be repaid from amounts levied against the property owners who benefited by the construction. If a deficiency exists because of an unpaid or delinquent special assessment, the City will provide the resources to cover the deficiency until the proceeds are received. As of December 31, 2014, the LID special assessment delinquency equals zero, all special assessments are current. The bond interest rate is 4.4% with a twelve-year repayment schedule. This special assessment bond has been funded and accounted for as an interfund loan from the Equipment Replacement fund, mentioned by reference in Note 11, but accounted for as illustrated in Note 13.

Business-type Debt

The City issues revenue bonds to finance acquisition and construction of major capital facilities. The revenue bonds are repaid by proprietary fund revenues. General obligation bond proceeds utilized by golf course, landfill, and water/wastewater activities are expected to be repaid by the revenues generated from those enterprise activities and have been included as revenue bonds in the business debt. The City also issues bonds where the government pledges 100% of Water and Wastewater Fund revenue. Total water and wastewater pledged revenues in 2014 were \$11,423,915 and total debt service collateralized was \$6,285,239. Standard and Poor's has affirmed an A+ rating for the City's water and wastewater revenue bonds as of August 2013.

Title	Purpose	Interest Rate	Original	Outstanding
Water/Wastewater Rev. Bond 2005	Capital construction	3.00%-4.25%	\$12,595,000	\$7,175,000
Landfill Revenue Bond 2005	Capital construction	3.13%	3,073,000	1,327,590
Golf Course Revenue Bond 2005	Capital construction	3.13%	367,000	224,168
Water/Wastewater Rev. 2010 Bond	Capital construction	3.00%-5.00%	8,105,000	2,135,000
Landfill Revenue 2010 Bond	Capital construction	3.00%-5.00%	2,805,000	2,360,000
97-78897-038 Loan Water	Capital construction	1.00%	1,030,000	216,842
L9900019A Loan Wastewater	Capital construction	4.10%	14,220,127	5,098,314
PW-99-791-038 Loan Wastewater	Capital construction	1.00%	7,000,000	1,864,492
PW-02-691-060 Loan Wastewater	Capital construction	0.50%	5,159,197	2,225,394
PW-06-962-PRE-103 Loan Wastewater	Capital construction	1.00%	531,399	335,621
PW-07-962-018 Loan Wastewater	Capital construction	1.00%	6,823,104	4,680,188
Revenue Bonds & Notes			\$61,708,827	\$27,642,608

The annual debt service requirements to maturity are as follows:

Year Ending 12/31/2014	Business-Type Activities	
	Interest	Principal
2015	\$ 816,040	\$ 6,738,043
2016	562,238	4,751,396
2017	410,656	4,902,819
2018	250,232	2,464,129
2019-2023	550,406	6,129,961
2024-2028	185,827	2,456,260
2029-2033	8,000	200,000
Total	\$ 2,783,399	\$ 27,642,608

NOTE 10 – LEASES

Operating Leases

The City leases a building, office equipment and other equipment under non-cancelable operating leases. Total costs for such leases were \$80,326 for the year ended December 31, 2014. The future minimum lease payments for these leases are as follows:

Year Ending 12/31/2014	Amount
2015	\$ 66,478
2016	62,966
2017	61,435
2018	30,694
2019	5,800
2020-2024	21,767
Total	\$ 249,140

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity is reported by governmental activities and business-type activities, as applicable. Long-term liability activity for governmental activities for the fiscal year 2014:

Governmental Activities	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
1996 GO Bonds Deferred Series B	\$164,082	-	85,712	\$78,370	\$78,370
2005 GO Bond Street Construction	197,838	-	14,595	183,243	14,595
2009 GO Bond Police Station	10,135,000	-	415,000	9,720,000	435,000
2009 GO Bond Premiums	101,431	-	6,339	95,092	6,339
2010 GO & Refunding Bond Series	915,000	-	160,000	755,000	165,000
2010 GO Bond Premiums	27,629	-	9,396	18,233	8,702
2013 GO Refund Bond Fire Station	2,840,000	-	240,000	2,600,000	250,000
General Obligation Bonds	14,380,980		931,042	13,449,938	958,006

Bond LID Taxable 2011 Interfund	477,749	-	189,060	288,689	47,379
Special Assessment Bonds	477,749	-	189,060	288,689	47,379
Compensated Absences	1,804,251	1,427,371	1,396,981	1,834,641	1,372,662
Workers Compensation Claims	73,548	60,665	58,576	75,637	9,866
Net Pension Obligation	6,227	247,715	161,241	92,701	-
Net OPEB Obligation	2,626,316	1,765,097	632,137	3,759,276	-
Government Liabilities	\$19,369,071	\$3,500,848	\$3,369,037	\$19,500,882	\$2,387,913

For compensated absences, the General Fund, the Street Funds, the Emergency Services Fund, and the Service Center Fund normally liquidate 89.9%, 2.3%, 7.5% and 0.3% respectively. The fund for which the liability is incurred is responsible for liquidating compensated absence liabilities. In the coming years, the General Fund, the Ambulance Fund, and the Fire Medical and Pension Funds which incurred the pension and OPEB liabilities are responsible for liquidating the liability.

Long-term liability activity for business-type activities for the fiscal year 2014:

Business-type Activities	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Water Bond 2005	\$8,740,000	-	\$2,055,000	\$6,685,000	\$2,140,000
Water GO Bond 2010	1,656,000	-	631,200	1,024,800	1,024,800
Wastewater Bond 2005	640,000	-	150,000	490,000	155,000
Wastewater GO Bond 2010	1,794,000	-	683,800	1,110,200	1,110,200
Landfill GO Bond 2005	1,550,141	-	222,551	1,327,590	227,551
Landfill GO Bond 2010	2,480,000	-	120,000	2,360,000	125,000
Golf Course GO Bond 2005	242,022	-	17,854	224,168	17,854
2010 Bond Premiums	297,946	-	146,298	151,648	134,211
Revenue Bonds	17,400,109	-	4,026,703	13,373,406	4,934,616
Water 9778897038	271,053	-	54,211	216,842	54,211
Wastewater L9900019A	5,909,103	-	810,789	5,098,314	844,372
Wastewater PW99791038	2,237,390	-	372,898	1,864,492	372,898
Wastewater PW02691060	2,503,568	-	278,174	2,225,394	278,174
Wastewater PW06962PRE103	363,589	-	27,968	335,621	27,968
Wastewater PW07962018	5,040,202	-	360,014	4,680,188	360,014
Revenue Loans	16,324,905	-	1,904,055	14,420,851	1,937,638
Federal DWSRF LT2 Slow Sand	-	1,512,622	-	1,512,622	-
Landfill Closure	3,705,167	379,202	127,142	3,957,227	-
Pollution Remediation	2,688,982	1,154,158	-	3,843,140	387,500
Compensated Absences	529,927	493,787	460,470	563,244	457,004
Business-type Liabilities	\$40,649,090	\$3,539,769	\$6,518,370	\$37,670,490	\$7,716,758

The City was approved by the Environmental Protection Agency and the Public Works Board to receive a loan totaling \$12,120,000 to improve its drinking water system. The authorized Drinking Water State Revolving Fund Loan (DWSRF) is a low interest loan, and at December 31, 2014, the draws totaled \$1,392,622 along with a loan origination fee of \$120,000. The loan terms will be defined upon project completion.

Rebatable Arbitrage. Arbitrage occurs when the City invests funds borrowed at tax-exempt interest rates in higher yielding taxable securities. Excess interest must be remitted to the federal government under IRS section 148(f) of the Internal Revenue Code. The City recognizes this liability

when due and payable. The City had no arbitrage excess earnings liability to report in 2014.

NOTE 12 – CONTINGENCIES AND LITIGATIONS

The City's financial statements include all material liabilities. There are no material contingent liabilities to record.

A former Walla Walla employee who was terminated for cause on October 7, 2010 made a public records request for certain documents related to his termination and other documents on October 14, 2010. The requestor filed an action in 2011 against the City of Walla Walla arising out of the records request. The lawsuit and potential claim for wrongful termination was referenced in earlier financial statements. The lawsuit was dismissed on February 9, 2015, and the statute of limitations has now expired for re-filing or otherwise making a claim against the City for the termination. The estimated maximum exposure is \$0.00, and the dismissed lawsuit and potential claim will not be referenced in future financial statement notes.

A lawsuit was filed against the City of Walla Walla on February 17, 2015 by a person who alleged wrongful withholding of records under Washington's Public Records Act. The City disputes the action and is defending against it. Liability is unlikely. The City could, however, be held responsible for undetermined costs, attorney's fees, and costs if its defense is unsuccessful. The estimated maximum exposure on the present action is \$25,000. The likelihood of a favorable or unfavorable outcome in this matter cannot be evaluated at the present time.

Miscellaneous minor claims have been made against the City of Walla Walla, which have been tendered to its insurance pool WCIA. Defense and indemnification for any such claims is and will be provided by WCIA. The City reasonably anticipates that it will suffer no liability adverse to its financial condition as a result of any such claims. The estimated aggregate maximum exposure to the City on any claims defended by WCIA is no more than \$1,000.

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

NOTE 13 – INTERFUND BALANCES AND TRANSFERS

Interfund loans provide upfront, one-time funding for physical improvements from otherwise idle equipment replacement funds. The loans will be fully repaid over time from the fund receiving the physical improvement benefit and tend to be shorter-term in nature. The total interfund loan balance includes \$571,497 of which is due within one year and \$2,039,362 of which is due in more than one year from the date of the financial statements.

Purpose	Interfund Loans Due From				Due To:
	Non-major Special Rev.	Non-major Government	Landfill	Non-major Enterprise	Equipment Replacement
Driving Range	-	-	-	\$99,629	\$99,629
LED Stoplights	81,947	-	-	-	81,947
Irrigation System	-	-	-	358,850	358,850
Landfill Area 7	-	-	798,058	-	798,058
Street Light Retrofit	156,686	-	-	-	156,686
LID Abadie St.	-	288,689	-	-	288,689
Transportation Benefit	-	827,000	-	-	827,000
Interfund Loans	\$238,633	\$1,115,689	\$798,058	\$458,479	\$2,610,859

Transfers between funds during the year ended December 31, 2014 are as follows:

Transfers	General Fund	Street CIP	Non-Major Gov't	Water/ Wastewater	Other Enterprise	Internal Service	Transfers From:
General Fund	-	\$150,749	\$847,936	-	\$60,000	-	\$1,058,685
Street CIP	2,050	-	-	340,704	-	-	342,754
General CIP	766	-	487,641	-	-	-	488,407
Non-Major Gov't	1,630	155,000	903,901	-	-	70,137	1,130,668
Water/Wastewater	-	826,625	-	-	84,000	69,260	979,885
Sanitation	37,960	-	-	-	-	-	37,960
Non-Major Ent.	-	4,848	-	2,489	-	-	7,337
Internal Services	84,569	-	-	-	-	-	84,569
Transfers	\$126,975	\$1,137,222	\$2,239,478	\$343,193	\$144,000	\$139,397	\$4,130,265

Transfers between funds are used to 1) move revenues from the fund with the collection authorization to the Debt Service Fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Debt Service Fund to establish mandatory reserve accounts, 3) move unrestricted General Fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs and funding street construction projects, 4) move amounts between funds to finance construction projects in accordance with the City's construction budget and 5) transfer excess proceeds from finished construction projects back to the contributing funds.

NOTE 14 – RECEIVABLE AND PAYABLE BALANCES

Other receivables include customer accounts receivable, interest receivable, and grants receivable. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Accrued grants receivable relate to qualified expenditures made prior to the end of the year.

As of December 31, 2014 the City's individual major funds and non-major enterprise funds receivable balances include the applicable allowances for uncollectible accounts as follows:

Other Receivables											
	General	Major CIP	Nonmajor Gov't	Internal Serv Gov	Sanitation	Water/ Wstwtr	Landfill	Amb	Nonmajor Ent	Internal Serv Bus	Total
Accts recvbl	\$878,825	\$329,826	\$214,284	\$72,215	\$259,732	\$2,356,729	\$281,072	\$471,525	\$91,706	\$1,018	\$4,956,932
Accrued int	-	-	-	-	-	59,401	-	-	-	-	59,401
Total	\$878,825	\$329,826	\$214,284	\$72,215	\$259,732	\$2,416,130	\$281,072	\$471,525	\$91,706	\$1,018	\$5,016,333

Receivables for the Ambulance Fund are reported net of allowance for uncollectible accounts. Using historical collection rates, it is estimated that 43.5% of the receivables or \$351,209 at December 31, 2014 will ultimately prove uncollectible for the Ambulance Fund.

NOTE 15 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

A. LEOFF I Health Plan

Plan Description

The City of Walla Walla Health Plan (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the City of Walla Walla Law Enforcement Officers and Firefighters Disability Board in accordance with RCW 41.26: *Law enforcement officers and firefighters retirement system*. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. We have used the alternative measurement method permitted under GASB 45 to determine the ARC. The Health Plan does not issue a separate stand-alone financial report. The plan covers 59 retirees.

Funding Policy

The LEOFF 1 medical benefit requirements are established by RCW 41.26.150(1) with local disability boards administering the LEOFF 1 medical service expenses. LEOFF 1 retirees are not required to contribute to the Health Plan. Amounts contributed in 2014, 2013 and 2012 were \$421,500, \$482,400 and \$696,080, respectively. The City’s contribution was to fund “pay-as-you-go” costs under the Health Plan and not to pre-fund benefits.

Annual OPEB Cost and Net OPEB Obligation

The basis for the City’s annual OPEB cost (expense) is the annual required contribution (ARC), which represents a level of funding, if paid on an ongoing basis, will cover normal costs each year and amortize unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The components of the City’s annual OPEB cost, the estimated amount contributed to the Health Plan, and the changes in the City’s net OPEB obligation to the Health Plan for the year ended December 31, 2014:

Amortization of unfunded actuarial accrued liability	<u>\$1,896,258</u>
Annual required contribution (ARC)	1,896,258
Interest on net OPEB obligation	105,053
Adjustment to ARC	<u>(236,214)</u>
Annual OPEB cost (expense)	1,765,097
Employer contributions	<u>(632,137)</u>
Change in net OPEB obligation	1,132,960
Net OPEB obligation, beginning of year	<u>2,626,316</u>
Net OPEB obligation, end of year	<u><u>\$3,759,276</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2012	\$1,325,550	76.3%	\$2,078,603
12/31/2013	\$1,221,458	55.2%	\$2,626,316
12/31/2014	\$1,765,097	35.8%	\$3,759,276

Funded Status and Funding Progress

The funded status of the Health Plan as of December 31, 2014 is shown below:

Actuarial accrued liability (AAL)	\$21,083,331
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	21,083,331
Funded ratio (actuarial value of plan assets ÷ AAL)	0%
Covered payroll	-
UAAL as a percentage of covered payroll	0%

Actuarial methods and assumptions

The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2009 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 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years.

Actuarial methods and assumptions include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. These assumptions are individually and collectively reasonable for the purposes of this valuation. The assumptions included are as follows: Return on investment earnings 4.50%, consumer price index 3.50%, and general salary increases (due to inflation) excluding longevity, merit, or step increases 4.00%.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for the Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a÷b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)÷c)
12/31/2012	-	\$15,147,809	\$15,147,809	0.0%	\$62,945	24065%
12/31/2013	-	\$14,191,964	\$14,191,964	0.0%	0	0%
12/31/2014	-	\$21,083,331	\$21,083,331	0.0%	0	0%

Pension and Other Post Employment Benefit Financial Statements

Pension and Other Employee Benefit Trust Funds

Statement of Net Position

December 31, 2014

	Fire Other Benefits	Fire Pension Benefits	Pension & Other Employee Benefits
Cash and equivalents	\$ 278,814	\$ 167,732	\$ 446,546
Total assets	<u>278,814</u>	<u>167,732</u>	<u>446,546</u>
Accounts payable	743	-	743
Other accrued liabilities	-	13,350	13,350
Total liabilities	<u>743</u>	<u>13,350</u>	<u>14,093</u>
Net position held in trust for pension and medical benefits	<u>\$ 278,071</u>	<u>\$ 154,382</u>	<u>\$ 432,453</u>

Pension and Medical Employee Benefit Trust Funds

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2014

	Fire Other Benefits	Fire Pension Benefits	Pension & Other Employee Benefits
Fire insurance premium tax	\$ -	\$ 46,535	\$ 46,535
Employer contributions	421,500	123,606	545,106
Contributions	421,500	170,141	591,641
Interest on investments	-	-	-
Total additions	<u>421,500</u>	<u>170,141</u>	<u>591,641</u>
Personnel benefits	411,982	218,833	630,815
Services and charges	-	8,900	8,900
Total deductions	<u>411,982</u>	<u>227,733</u>	<u>639,715</u>
Change in net position	<u>9,518</u>	<u>(57,592)</u>	<u>(48,074)</u>
Net position, beginning of year	268,553	211,974	480,527
Net position, end of year	<u>\$ 278,071</u>	<u>\$ 154,382</u>	<u>\$ 432,453</u>

B. Deferred Compensation Plan

The City offers its employees three deferred compensation plans created in accordance with

Internal Revenue Code Section 457. One plan is administered by the International City Managers Association's Retirement Corporation, and the second is administered by the Baker Boyer Bank Trust Department and the third is Deferred Compensation Program which is administered by the Washington State Deferred Compensation Program. The funds are held in trust for the participants and their beneficiaries. The plans, available to all employees, permit them to defer a portion of their salary until future years. Employees may participate with a corresponding City match of up to 3%. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The amounts withheld from the employee's earnings and the related matching contribution from the City are remitted to the third party administrators after each payroll and the City incurs no further liability once the funds have been remitted to the trust. According to the trust, in no event shall the City's liability to pay benefits to a participant under the plan exceed the value of the amounts credited to the participant's account; neither the City nor Administrator shall be liable for losses arising from depreciation or shrinkage in the value of any of the investments acquired under the plans.

NOTE 16 – CLOSURE AND POST-CLOSURE CARE COSTS

Background: The City of Walla Walla owns the regional municipal landfills. The Sudbury Landfill is located on 923 acres of which 175 acres are currently active and permitted for disposal of solid waste or have been used and are now closed. Area 7 is the current designated landfill area with a total of 3 cells with Cells 1 and 2 currently in use. The active area has an estimated capacity at the current fill rate of approximately 10 years. The site however, has a conceptually approved plan for Area 7, cell 3. Construction of this lined site began in 2005 and was completed in February 2006. Cell 2 was constructed in 2008. Once the Area 6 capacity was reached, the City was required by State and Federal laws and regulations to cover that area and perform post-closure care as well as monitoring functions at the site in accordance with WAC 173-304.

The City of Walla Walla owns a second 97 acre landfill, designated as the Tausick Way Landfill that has been closed and no longer accepts waste. The adjacent Burdine site has been permitted as an inert waste disposal site for materials. The Tausick Way Landfill is maintained through the Landfill's operations and management budget which includes mowing, pesticide spraying, methane monitoring, and fence repair. The Tausick Way Landfill was closed in 1975 and was not subject to current closure and post-closure requirements that are mandated by the Department of Ecology.

Closure and post closure costs: Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste in a designated area, the City must record a portion of these closure and post-closure costs each year as an expense. That expense calculation is based upon the landfill capacity used in the reported period. The City must also recognize a liability that is directly related to the cumulative capacity consumed at the landfill. The latest designs for area 7 cells 1 and 2 indicate approximately 53% of the existing lined area has been filled as of December 31, 2014 based on a survey performed by HDJ Design Group in December 2014 and landfill tipping records for 2014.

The City's closure and post-closure operations plan for Area 6 was approved by the Department of Ecology in 2004. This plan was prepared by a consultant and includes cost estimates for closing the

landfill areas and providing for post-closure care. Area 6 was closed in 2011 with five feet of soil cover, a gas collection system, and a landfill flare. Due to the closure of area 6, the total long-term closure and post-closure costs for Area 7 are estimated in current dollars at \$4,148,710. As of December 31, 2014, cash of \$2,015,154 has been accumulated and set aside for estimated closure and post-closure costs. The financial assurance plan for the City has been updated. Closure and post-closure costs will be met through rate revenues and the potential for grant funding.

On March 11, 2013, a consultant for the City of Walla Walla presented an estimate for the cost of closure and post-closure for the Burdine Property. Closure costs are estimated at \$1,000,000 and post-closure monitoring costs are estimated at \$67,000 per year. Based on the consultant's estimated probabilities for the duration of the long-term monitoring, the City has recorded a liability in the amount of \$753,750 for post-closure costs associated with Burdine.

As part of its budget process, the City reviews the closure and post-closure cost estimate from the landfill consultant and adjusts the liability to account for any needed adjustments based upon inflation, changes in technology, and/or changes in regulations. The total closure and post-closure cost is an estimate and subject to change resulting from inflation, deflation, technology or changes in applicable laws or regulations.

NOTE 17 – TERMINATION BENEFITS

Termination benefits are determined on a case by case basis. The City of Walla Walla did not enter into any termination commitments or arrangements during fiscal year 2014.

NOTE 18 – POLLUTION REMEDIATION OBLIGATIONS

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, became effective for fiscal periods beginning after December 15, 2007. GASB 49 identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and provides guidance on how to calculate and report the costs of obligations associated with pollution cleanup efforts.

The Sudbury Road Landfill is a City-owned and operated landfill which the Washington State Department of Ecology determined required remediation in 2008 pursuant to MTCA. The City of Walla Walla entered into Agreed Order No. 8456 with the Washington State Department of Ecology in 2011 and completed a remedial investigation/feasibility study. The City is currently working with the Department of Ecology on a draft Cleanup Action Plan (CAP) that will further explain the activities that will be required to implement the selected remedy. The remediation liability is calculated based on a planning-level cost estimate to complete the CAP and design and implementation the remedy. Other costs included in the calculation include anticipated internal engineering costs, legal fees, and payments to the Department of Ecology. The City is funding the remediation costs with rate revenues, grant funding under a MTCA remedial action grant and insurance proceeds.

Pursuant to GASB Statement 49, the City is reporting a \$2,998,140 liability in its Landfill Fund for its

estimated liability due to its standing as a potentially liable person for groundwater contamination at the Sudbury Road Landfill site. The obligation is an estimate subject to changes resulting from price increases or reductions, technology, Ecology requirements, or laws and regulations.

The ultimate cost of remediation activities of the Landfill Fund reported in the preceding paragraph may be reduced by receipt of grant funding and insurance coverage reimbursement payments. Toxic Cleanup Remedial Action Grant Agreement No. TCPRA-2014-WalWal-00009 dated January 1, 2014 (the "Agreement") between the City and Ecology, provides a 75% state-funded grant share with a 25% recipient contribution to cover remediation costs through the scheduled completion of the Remedial Investigation/Feasibility Study in December 31, 2015. Ecology has indicated that additional grant funding will likely be available to extend the current remedial action grant to 2015-2017 to assist in funding remedy design and implementation activities that will be required under a new Consent Decree with Ecology.

The Tausick Way Landfill is a closed, formerly permitted municipal waste landfill which was operated by the City between the 1940s and 1970s. On May 30, 2013, the City of Walla Walla received an Early Notice from Ecology for its Tausick Way Landfill property. Ecology subsequently decided the Tausick Way Landfill property will be added to the Confirmed and Suspected Contaminated Sites database and that a Site Hazard Assessment will be conducted. At this time, the associated pollution remediation liability, if any, cannot be reasonably estimated. The City continues to monitor the potential for off-site migration of landfill gas. No landfill gas has been detected off-property to date.

The Burdine/Isaacs property was formerly privately held property that, according to available records, appears to have had a history of sand and gravel mining and subsequent solid and inert waste disposal. It is adjacent to the City-closed Tausick Way Landfill, and is located at 2740 East Isaacs Avenue, Walla Walla, Washington. The City purchased the property in 1999 to resolve a garbage trespass claim and maintains ownership today. On February 4, 2004, the City of Walla Walla received an Early Notice letter from Ecology for the Burdine property stating that contaminated soil was reportedly found on the Burdine property. Remedial studies were performed and the City was granted an inert landfill permit for the Burdine property in 2006 which requires the City to perform groundwater monitoring.

In 2012 the City received a \$200,000 Integrated Planning Grant from Ecology to study whether the Burdine property could be redeveloped as a brownfield development. The study looked at three options, two development scenarios and one scenario to cap and close the Burdine property. Planning level estimates for each scenario were developed by the consultant. If Ecology requires remedial action at the Burdine property the City's remediation liability is estimated to be \$845,000.

As part of its budget process, the City reviews the remediation cost estimate from the landfill consultant and adjusts the liability to account for any needed adjustments based upon inflation, changes in technology, and/or changes in regulations. The total remediation cost is an estimate and subject to change resulting from inflation, deflation, technology or changes in applicable laws or regulations.

NOTE 19 – OTHER DISCLOSURES

A. Prior Period Adjustments

<u>Description</u>	<u>Governmental Activities</u>	<u>Business Activities</u>
Cash	\$133,749	\$(133,749)
Other receivables	\$37,393	-
Construction in progress	(1,014,091)	1,014,091
Net pension obligation	<u>(8,103)</u>	<u>-</u>
Total net effect on beginning	\$ (851,052)	\$ 880,342

Asset Adjustments

During the closure of multiple, long-term capital projects, the City of Walla Walla identified business type construction in progress (CIP) assets that were included in the street construction CIP account. As a result, this moved \$880,342 in fund balance from government type activities into business type activities. The construction in progress assets consisted of water, wastewater and storm water infrastructure lines that were added during street construction projects.

During the preparation of the CAFR, it was discovered that 2013 property taxes received in 2014 had not been accrued back to the appropriate period. As a result, the Other Receivables balance increased by \$37,393 in 2013.

Liability Adjustment

During the review of the Milliman study it was discovered that administrative costs were incorrectly included in the employer contribution for the Firefighter Pension Fund.

NOTE 20 – SUBSEQUENT EVENTS

On July 31, 2014, the City Council voted to terminate the agreement between the City and the Walla Walla County for support of the Walla Walla Joint Community Development Agency (WWJCDA) effective December 31, 2014. Effective January 1, 2015, the City re-established a Development Services Department to perform the duties of the WWJCDA and the City's planning responsibilities.

On February 10, 2015, the citizens of the City of Walla Walla voted to approve an increase in property taxes to finance the building of a new swimming and related recreation facilities. On April 22, 2015, the City Council approved the issuance of bonds for the rebuilding of Veteran's Memorial Swimming Pool and related facilities. In 2015, the City will issue \$5,830,000 of general obligations bonds maturing within 20 years and levy annual excess property tax levies to pay for the bonds.

On April 22, 2015, the City Council approved the issuance of LTGO bonds in an amount not to exceed \$3,000,000 to refund the LTGO Bonds, Series 2005, fund improvements for the library HVAC system, and address safety issues in City Hall. The Council also approved the refunding of the Water and Wastewater Revenue Refunding Bonds, Series 2005 and to use the money invested with AIG to make part of the debt payment for these bonds.

City of Walla Walla
Schedule Of Expenditures Of Federal Awards
For the Year Ended December 31, 2014

Federal or Pass-Through Agency Name	Federal Program Title	CFDA number	Other ID Number	Expenditures			Note Ref
				Pass-Through Awards	Direct Awards	Current Year Expenditures	
US Department of Agriculture							
Passed through Washington State OSPI	Summer Food Service Program for Children	10.559	S14-36974	\$ 82,678	\$ -	\$ 82,678	1, 2
Total US Department of Agriculture						82,678	
Department of Housing and Urban Development							
Passed through WA State Dept of Commerce	Community Development Block Grant	14.228	13-65400-034	24,000	-	24,000	1, 3
Office of Community Planning and Development	Community Development Block Grant program for Entitlement Communities	14.218	B-14-MC-53-0025	-	44,644	44,644	1
Total US Department of Housing and Urban Development						68,644	
US Department of Justice							
Passed through Washington State Dept of Commerce	Victims of Crime Act Grant	16.575	S14-31119-042	29,334	-	29,334	1, 2
Passed through Washington State Dept of Commerce	Victims of Crime Act Grant	16.575	S15-31119-042	31,593	-	31,593	1, 2
Subtotal US Department of Justice CFDA 16.575						60,927	
Passed through Washington State Dept of Commerce	Violence Against Women Formula Grants	16.588	F13-31103-067	15,711	-	15,711	1, 2
Passed through National Association of VOCA Assistance Administrators	Crime Victim Assistance/Discretionary Grants	16.582	14-107	4,998	-	4,998	1, 1
Office of Justice Programs	Bulletproof Vest Partnership Program	16.607	N/A	-	1,234	1,234	1, 2
Office of Justice Programs	Bulletproof Vest Partnership Program	16.607	N/A	-	417	417	1, 2
Subtotal US Department of Justice CFDA 16.607						1,651	
Office of Justice Programs	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0893	-	4,500	4,500	1, 3
Office of Justice Programs	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-1120	-	7,647	7,647	1, 3
Subtotal US Department of Justice CFDA 16.738						12,147	
Total US Department of Justice						95,434	
US Department of Transportation							
Passed through Washington Dept of Transportation	Highway Planning and Construction - 13th Avenue - Abadie to Cherry	20.205	STPUS-7169(002)/LA-7961	30,304	-	30,304	1, 2
Passed through Washington Dept of Transportation	Highway Planning and Construction - Alder Street at Colville Street and 1st Avenue Intersection Improvements	20.205	STPUS-HSIP-000S(320)/LA-7827	75,934	-	75,934	1, 2
Passed through Washington Dept of Transportation	2015 Walla Walla Pedestrian Improvements	20.205	TAP-9936(002) / LA-8503	1,225	-	1,225	1, 2
Subtotal US Department of Transportation CFDA 20.205						107,463	
Passed through Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	2,890	-	2,890	1, 2
Passed through Washington Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	N/A	2,311	-	2,311	1, 2
Total US Department of Transportation						112,664	
Office of Water, Environmental Protection Agency							
Passed through Washington State Department of Commerce	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM13-952-183	1,392,622	-	1,392,622	4
Total US Office of Water, Environmental Protection Agency						1,392,622	
US Department of Homeland Security							
Federal Emergency Management Agency	Assistance to Firefighters Grant - Operations and Safety Program	97.044	EMW-2012-FR-00293	-	129,860	129,860	1, 2
Total US Department of Homeland Security						129,860	
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 1,693,600	\$ 188,302	\$ 1,881,902	

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

City of Walla Walla
Notes to the Schedule Of Expenditures Of Federal Awards
For the Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City of Walla Walla uses the accrual basis of accounting for all funds except the governmental fund types, expendable trust and agency funds which use the modified accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the state and/or federal portion of the program costs. Entire program costs including the City of Walla Walla's portions, may be more than shown.

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

The total amount expended for this program was passed through to a subrecipient that administered its own project.

NOTE 4 - FEDERAL LOANS

The City of Walla Walla was approved by the EPA and the PWB to receive a loan totaling \$12,120,000 to improve its drinking water system. The amount listed for this loan includes (1) the proceeds used during the year and (2) prior year expenditures for planning, architectural and engineering, and other services that were approved for payment as shown below:

Current year project expenditures	\$ 932,454
Prior year expenditures approved for payment with loan proceeds	
2009 expenditures	\$ 37,027
2010 expenditures	\$ 236,395
2011 expenditures	\$ 83,198
2012 expenditures	\$ 26,414
2013 expenditures	<u>\$ 77,134</u>
Total expenditures reported on the SEFA	<u>\$ 1,392,622</u>

Both the current and prior year loans are also reported on the City's Schedule of Liabilities.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

City of Walla Walla Walla Walla County January 1, 2014 through December 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Walla Walla.

Finding ref number: 2014-001	Finding caption: The City's Public Works Department did not have adequate internal controls to ensure compliance with suspension and debarment requirements.
Name, address, and telephone of auditee contact person: Jean Teasdale 15 N. 3 rd Walla Walla, WA (509) 527-4423	
Corrective action the auditee plans to take in response to the finding: The City of Walla Walla implemented the following action plan to correct the issue. <ul style="list-style-type: none">• The Public Works Department developed a legal services request process (see below) that all staff must use when awarding a contract or contract amendment.• Included in the process is checking the System for Award Management (SAM) to determine if the contractor, consultant, vendor, etc. has been debarred or suspended by the federal government.• When the contract is submitted for legal review, all the necessary attachments will be included to document that the steps of the process have been followed.• The plan was implemented in May 2015. Legal Services Request Process May 2015 All Construction and Professional Services contracts and amendments need to be processed through the AgendaQuick Legal Services Request (LSR) process regardless of dollar amount and/or if it went to Council for approval. Using AgendaQuick:	

- Create a new LSR and enter appropriate information into the template.
- In the Instructions box, reference the Resolution # and date of Council award (if appropriate) and provide a brief description of what the contract is for.
- Utilizing the Attachments tab, attach all supplemental information i.e. contract, scope of work, insurance certificates, payment bond, performance bond, bid bond, retainage agreement, etc. (See attachment checklist below)
- The PM, Darci or Rhonda will send Carol two original contracts (via interoffice mail) with a note referencing the LSR form number. Carol will hold on to the contracts until Preston goes to see Carol to sign as to form.

Once you have entered your LSR into routing, make sure you allow enough time for the form to move through the approval process before contacting the City Attorney's office to check on the status.

Once the contract has been reviewed and approved by the City Attorney's office, the original contracts will be provided to the City Manager for signature. After the City Manager has signed the contracts, Carol will provide them to the City Clerk for distribution and scanning into Laserfiche. The City Clerk will notify the PM by email that the contract has been signed.

Checklist for required attachments: (The list below is not inclusive)		Professional/Personal Service Contracts	Small Works Roster Contracts
Bid/Performance/Payment Bonds	Insurance Accord		(See SWR Process for applicable attachments)
Insurance Accord	Signed Contract		
Signed Contract	Scope of Work		
Retainage Agreement	SAM (System for Award Management)		
SAM (System for Award Management)	Fee Schedule		

Amendments to Professional Services Contracts (PSC):

- Complete the PSC Amendment Memorandum and Amendment Template (found on the Intranet under the Forms tab).
- Create a new LSR and enter appropriate information into the template.
- Attach the PSC Amendment Memorandum and Amendment Template utilizing the Attachments tab.
- Attach all supplemental information i.e. scope of work, insurance certificates, etc.

Anticipated date to complete the corrective action: May 2015

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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