



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

Walla Walla County

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

Published September 19, 2016

Report No. 1017436





Washington State Auditor's Office

September 19, 2016

Board of Commissioners
Walla Walla County
Walla Walla, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Walla Walla County January 1, 2015 through December 31, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Walla Walla County are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 County.

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The County qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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**

**Walla Walla County
January 1, 2015 through December 31, 2015**

Board of Commissioners
Walla Walla County
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, each major fund, and the aggregate remaining fund information of Walla Walla County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 12, 2016. As discussed in Note 17 to the financial statements, during the year ended December 31, 2015, the County implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 County'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

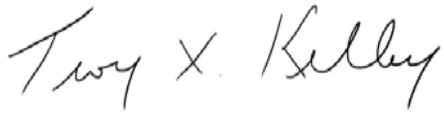
As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 12, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Walla Walla County
January 1, 2015 through December 31, 2015**

Board of Commissioners
Walla Walla County
Walla Walla, Washington

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

We have audited the compliance of Walla Walla County, Walla Walla County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2015. The County's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County'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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 County'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 County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County 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, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County 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 County'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 the Uniform Guidance, 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 County's internal control over compliance.

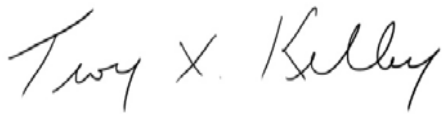
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 12, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Walla Walla County January 1, 2015 through December 31, 2015

Board of Commissioners
Walla Walla County
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Walla Walla County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 16.

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 County'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 County'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, each major fund and the aggregate remaining fund information of Walla Walla County, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Road, Human Services and Walla Walla County Public Facilities Improvement funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 17 to the financial statements, in 2015, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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 18 through 25, information on postemployment benefits other than pensions on page 71 and pension plan information on pages 72 through 73 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.

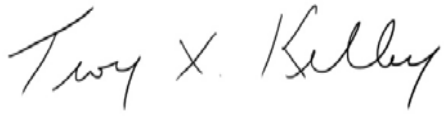
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 September 12, 2016 on our consideration of the County'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 County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 12, 2016

FINANCIAL SECTION

Walla Walla County January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

General and Major Special Revenue Fund Budgetary Comparisons – 2015

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – County Road Fund – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Human Services Fund – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Walla Walla County Public Facilities Improvement Fund – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Net Position – Fiduciary Funds – 2015

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF I Retiree Health Insurance Benefits – Schedule of Funding Progress – 2015
Schedule of Proportionate Share of the Net Pension Liability – 2015
Schedule of Employer Contributions – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

WALLA WALLA COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Walla Walla County's discussion and analysis offers readers of the County's financial statements, for the year ended [December 31, 2015](#), a narrative overview and analysis of the financial activities of the County. We encourage readers to consider the information presented here in conjunction with additional information included in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by [\\$161,433,039](#). Of this amount, [\\$1,475,456](#) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by [\\$4,296,907](#).
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balance of [\\$25,570,549](#), an increase of [\\$2,034,754](#) in comparison with the prior year. Approximately [31%](#), [\\$7,831,632](#) is available for spending at the government's discretion. The rest is either restricted by outside sources or committed by the County for specific purposes
- At the end of the current fiscal year, unassigned fund balance for the general fund was [\\$6,140,604](#), or [44%](#) of total general fund expenditures.
- The County's total long-term liabilities increased by [\\$2,352,910](#).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The county reports two Government-wide financial statements: the statement of net position and the statement of activities.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, highways and streets, economic development, and culture and recreation. The County does not have any business type activities.

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

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

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

The County maintains 50 individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, County Road fund, Human Services fund, WW Co Public Facilities Improvement Fund, Current Expense Building fund, and Human Services Capital Projects fund, all of which are considered to be major funds. Data from the other 44 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found immediately following the government-wide financial statements.

The County adopts an annual appropriated budget for its governmental funds in accordance with state law on a fund level. A budgetary comparison statement has been provided for the general fund and major special revenue funds with the fund financial statements in this report.

Proprietary funds. The County maintains one type of proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its fleet of vehicles, for its management information systems, risk management and unemployment compensation. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within 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. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found following the governmental fund financial statements in this report.

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

The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements in this report.

Other information. Required supplementary information can be found following the notes to the financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$161,433,039 at the close of the most recent fiscal year. This decreased by \$7,713,802 over the previous year. The implementation of GASB 68 added pension assets, liabilities and deferred resources that required a \$12,010,710 reduction of beginning net position. While the changes in accounting principle reduced the total net position, the county's total net position increased by \$4,296,907 in the current year.

By far the largest portion of the County's net position (90%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The County uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending.

WALLA WALLA COUNTY'S NET POSITION

				Governmental Activities	
				2015	2014
Current and Other Assets				32,265,736	30,946,262
Capital Assets (Net of Depr.)				<u>144,613,734</u>	<u>141,365,677</u>
Total Assets				176,879,470	172,311,939
Deferred outflows of resources				1,455,166	-
Current Liabilities				1,240,704	1,447,429
Noncurrent Liabilities				<u>13,464,505</u>	<u>1,717,669</u>
Total Liabilities				14,705,209	3,165,098
Deferred inflows of resources				2,196,388	-
Net Position:					
Net investment in capital assets				144,613,734	141,365,677
Restricted				15,343,849	14,062,951
Unrestricted				<u>1,475,456</u>	<u>13,718,213</u>
Total Net Position				161,433,039	169,146,841

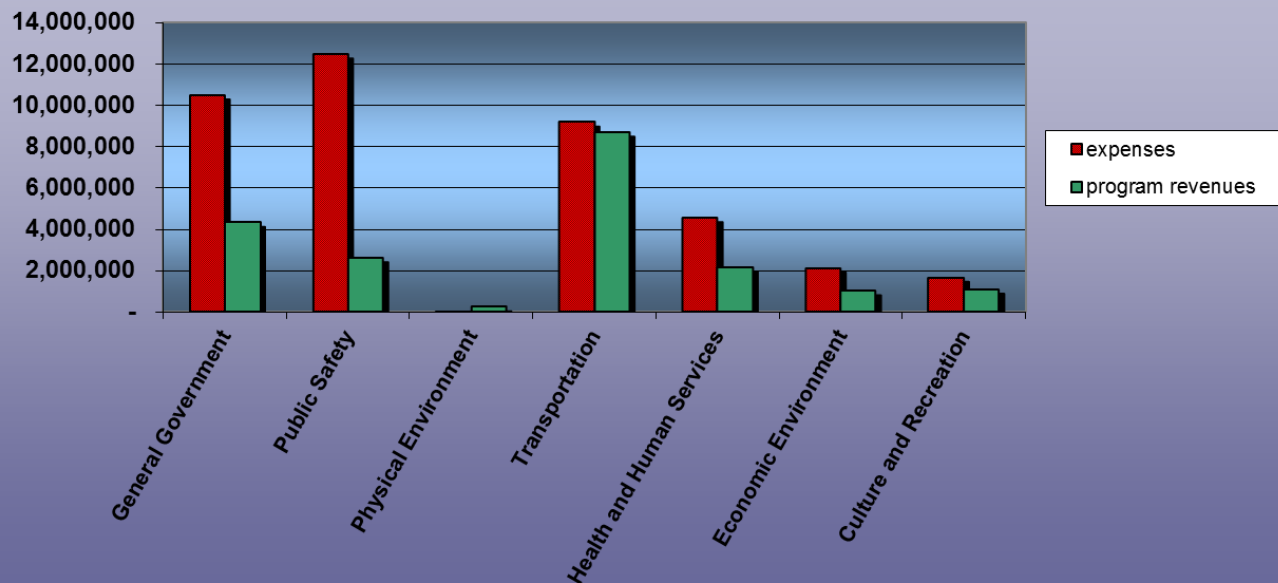
WALLA WALLA COUNTY'S CHANGE IN NET POSITION

					Governmental Activities	
					2015	2014
Revenues:						
Program Revenues:						
Charges for Services					6,402,841	6,881,025
Operating Grants and Contributions					8,194,657	10,494,000
Capital Grants and Contributions					5,498,583	2,063,522
General Revenues:						
Taxes					23,735,033	23,316,411
Unrestricted Grants and Contributions					53,721	56,954
Interest and Investment Earnings					956,049	862,383
Disposition of capital assets					<u>(6,633)</u>	<u>85,223</u>
Total Revenues					44,834,251	43,759,516
Program Expenses:						
General Government					10,489,463	10,306,712
Public Safety					12,469,175	12,652,833
Utilities					79,695	225,747
Transportation					9,176,871	9,269,558
Natural & Economic Environment					2,112,598	1,619,770
Social Services					4,552,277	6,796,792
Culture and Recreation					<u>1,657,266</u>	<u>1,679,384</u>
Total Expenses					<u>40,537,344</u>	<u>42,550,796</u>
Excess (Deficiency) Revenues Over (Under) Expenses					4,296,907	1,208,720
Transfers					-	-
Change in Net Position					4,296,907	1,208,720
Net Position - Beginning					169,146,842	169,198,566
Prior Period Adjustment					(12,010,710)	(1,260,445)
Net Position - Beginning, Restated					<u>157,136,132</u>	<u>167,938,121</u>
Net Position - Ending					161,433,039	169,146,841

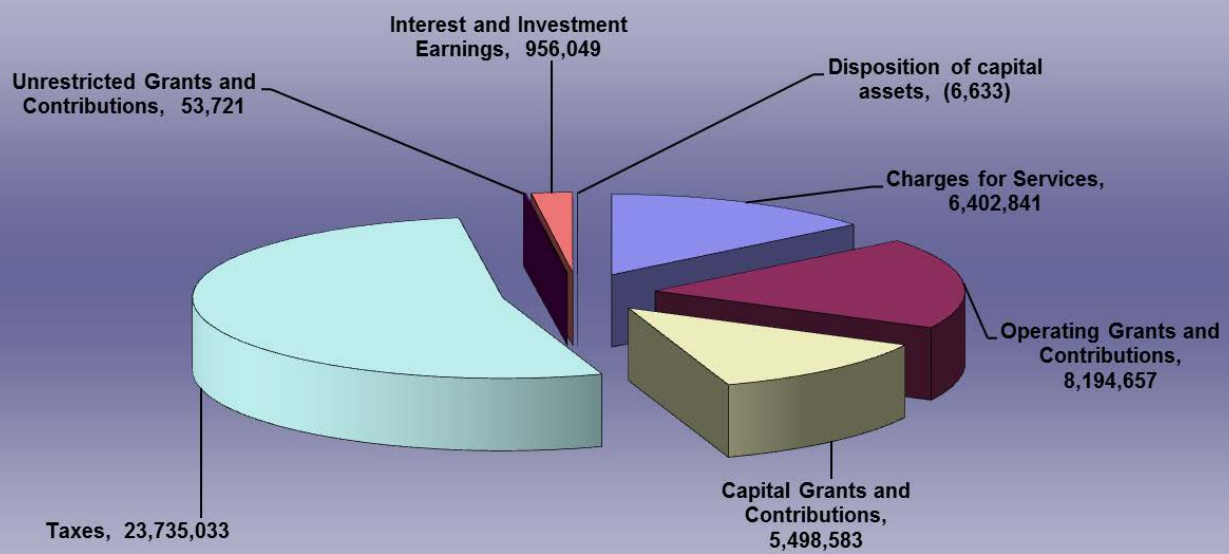
Governmental activities. Governmental activities increased the County's net position by \$4,296,907. Key elements of this increase are as follows:

- Infrastructure completed and in progress in 2015.
- Land acquired for infrastructure projects in progress and completed in 2015.
- Expenditures held at a minimum.
- Increased sales tax collections.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds. The General fund, County Road fund, Human Services fund, WW Co Public Facilities Improvement fund, Current Expense Building fund, and Human Services Capital Projects fund make up the County's major funds during the most recent fiscal year. Together these six funds account for 72% of total governmental fund assets and 70% of the total government fund balance.

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

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$25,570,549, an increase of \$2,034,754 in comparison with the prior year. The majority of the fund balances are restricted to specific purposes by state law or contracts, which allows the funds to be available for spending within the designated funds.

The General fund is the chief operating fund of Walla Walla County. At the end of the current fiscal year, unassigned fund balance of the General fund was \$6,140,604. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 44% of total General fund expenditures.

The fund balance of Walla Walla County's General fund increased by \$640,236 during the current fiscal year. Due to the conservative nature of our county and future financial outlook, expenditures were held at a minimum in 2015. Also, sales tax collections in 2015 were higher than in previous years.

The fund balance of the County Road fund increased by \$1,393,090 during the current fiscal year. The Budgeted expenses for 2015 were \$19,327,804 and the actual expenses were \$12,514,325. Several factors contributed to expenses being lower than anticipated in 2015. Public Works budgeted for the construction of the Mill Creek Bridge replacement, this project carries an estimated cost of \$4.5 million and due to delays in the environmental review process the bridge was not built and Public Works did not incur the budgeted construction expense. Additionally Public Works budgeted nearly \$800,000 in County Road funds for utility relocation, right of way purchases and other projected construction project costs that were unspent due to project delays or savings on construction costs.

The fund balance for Human Services fund decreased by \$126,542 during the current fiscal year. The primary reason for this decrease is spending of reserves for mental health operations.

The fund balance for WW Co Public Facilities Improvement Fund increased by \$75,620 during the current fiscal year.

The fund balance for the Current Expense Building fund increased by \$215,227 during the current fiscal year.

The fund balance for the Human Services Capital Projects fund increased by \$92,441 during the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget amounted to a \$308,088 increase in appropriations and can be briefly summarized as follows:

Department	Amount of Increase	Explanation
Assessor	7,200	Increased for machinery & equipment.
Auditor	5,000	Increased for small tools & equipment.
Licensing	3,000	Increased for small tools & equipment.
Clerk	3,000	Increased for communications.
Commissioners	7,762	Increased for machinery & equipment.
Human Resources	12,386	Increased for personnel.
Human Resources	6,821	Increased for advertising and machinery & equipment.
Coroner	3,800	Increased for personnel.
Coroner	42,200	Increased for professional services and repairs & maintenance.
Indigent Legal Services	98,127	Increased for professional services.
Law Library	3,043	Increased for supplies.
Miscellaneous	15,000	Increased for professional services.
Sheriff	25,536	Increased for personnel.
Sheriff	5,425	Increased for professional services.
Transfers	49,226	Increased for transfers to other funds.
Treasurer	9,762	Increased for machinery & equipment.
Community Outreach	10,800	Increased for miscellaneous.
Total	308,088	

Of this budget increase, \$54,229 was funded out of miscellaneous increases in various revenue sources and \$64,226 was funded from transfers in. \$19,223 was an increase in the budget to the beginning fund balance to better reflect the actual beginning fund balance. The remaining \$170,410 was budgeted from the available ending fund balance.

Actual General fund revenues were \$515,958 over budget, which represents a little more than a 3% increase of the final budgeted amount for the year without the beginning fund balance budget.

Actual General fund expenditures were \$1,063,876 under budget, which represents a little more than a 7% decrease of the final budgeted amount for the year without the ending fund balance budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Walla Walla County's investment in capital assets for its governmental activities as of December 31, 2015, amounts to [\\$144,613,734](#) (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. The total increase in the County's investment in capital assets for the current fiscal year was [more than 2%](#).

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

- \$4,963,363 for infrastructure completed in 2015.
- \$5,363,120 for new construction in progress on infrastructure projects.
- \$270,827 for land for completed and current infrastructure projects.

Walla Walla County's Capital Assets
(net of depreciation)

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Land	13,253,718	12,982,891
Buildings and Structures	42,287,907	42,559,468
Machinery and Equipment	8,786,689	8,319,045
Infrastructure	77,666,256	75,284,867
Construction in Progress	<u>2,619,164</u>	<u>2,219,406</u>
Total	144,613,734	141,365,678

Additional information will be under the County's capital assets found in Note 5 of the Notes to Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Walla Walla County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Walla Walla County Auditor
Karen M Martin, Auditor
P O Box 1856
Walla Walla, WA 99362.
e-mail: kmmartin@co.walla-walla.wa.us

**WALLA WALLA COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Governmental Activities
ASSETS	
Cash and cash equivalents	5,750,222
Investments	22,990,595
Receivables (net)	1,648,270
Inventories	944,347
Net pension asset	932,302
Capital Assets:	
Land	13,253,718
Depreciable assets (net)	51,074,596
Infrastructure (net)	77,666,256
Construction in progress	2,619,164
Total Assets	<u>176,879,470</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>1,455,166</u>
 LIABILITIES	
Accounts payable and accrued exp.	1,240,704
Noncurrent Liabilities:	
Due within one year	81,298
Due in more than one year	13,383,207
Total Liabilities	<u>14,705,209</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>2,196,388</u>
 NET POSITION	
Net investment in capital assets	144,613,734
Restricted for:	
Debt service	25,044
Transportation	5,882,542
Economic Environment	3,753,216
Mental & Physical Health	1,486,576
Other Purposes	4,196,470
Unrestricted	1,475,456
Total Net Position	<u><u>161,433,039</u></u>

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

**WALLA WALLA COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

			Grants & Contributions		Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating	Capital	Governmental Activities
FUNCTIONS/PROGRAMS					
Primary Government:					
<i>Governmental Activities:</i>					
General Government	10,489,463	3,356,513	938,536	25,276	(6,169,138)
Public Safety	12,469,175	952,221	1,657,556	-	(9,859,397)
Utilities	79,695	235,020	-	-	155,325
Transportation	9,176,871	173,007	3,048,015	5,462,790	(493,058)
Natural & Economic Environment	2,112,598	517,040	486,969	-	(1,108,590)
Social Services	4,552,277	200,544	1,960,862	-	(2,390,870)
Culture and Recreation	1,657,266	968,495	102,718	10,517	(575,535)
Total Governmental Activities/ Primary Government	<u>40,537,344</u>	<u>6,402,841</u>	<u>8,194,657</u>	<u>5,498,583</u>	<u>(20,441,263)</u>
GENERAL REVENUES:					
Property Taxes					14,700,389
Sales Taxes					8,336,420
B&O Taxes					2,071
Other Taxes					696,154
Unrestricted Grants and Contributions					53,721
Interest and Investment Earnings					956,049
Disposition of capital assets					(6,633)
TRANSFERS					<u>-</u>
Total General Revenues & Transfers					<u>24,738,170</u>
Change in Net Position					<u>4,296,907</u>
Net Position - Beginning					169,146,842
Change in accounting principle - GASB 68					<u>(12,010,710)</u>
Net Position - Beginning, Restated					<u>157,136,132</u>
Net Position - Ending					<u>161,433,039</u>

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

**WALLA WALLA COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	County Road	Human Services	WW Co Public Facilities Improv	Current Expense Building	Human Services Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	1,659,086	1,193,844	266,421	569,572	318,181	24,955	1,115,729	5,147,789
Investments	6,647,400	4,787,308	1,071,058	2,289,774	1,279,141	100,324	4,393,711	20,568,718
Receivables (net)	482,962	188,115	312,925	400,000	-	-	258,533	1,642,536
Due from other funds	7,394	-	-	-	-	-	60,046	67,440
Interfund loan receivable	-	-	-	177,778	-	-	2,443,466	2,621,244
Total assets	8,796,843	6,169,267	1,650,405	3,437,124	1,597,323	125,279	8,271,486	30,047,726
LIABILITIES								
Accounts payable and accrued exp.	378,136	52,898	227,765	-	215,490	19,824	251,297	1,145,410
Due to other funds	25	7,434	14,691	-	-	-	47,207	69,358
Interfund loan payable	-	-	-	-	1,003,188	1,406,344	211,712	2,621,244
Unearned revenue	-	-	-	-	-	-	-	-
Total liabilities	378,161	60,332	242,456	-	1,218,677	1,426,168	510,217	3,836,012
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue-property taxes	190,920	107,512	3,272	-	-	-	88,087	389,791
Unavailable revenue-court receivables	251,375	-	-	-	-	-	-	251,375
Total deferred inflows of resources	442,294	107,512	3,272	-	-	-	88,087	641,166
FUND BALANCE								
Restricted		6,001,423	1,404,677	3,437,124	-	-	5,394,495	16,237,719
Committed		-	-	-	378,645	-	1,122,552	1,501,197
Assigned	1,835,783	-	-	-	-	-	1,242,451	3,078,234
Unassigned	6,140,604	-	-	-	-	(1,300,889)	(86,317)	4,753,398
Total fund balances	7,976,387	6,001,423	1,404,677	3,437,124	378,645	(1,300,889)	7,673,181	25,570,549
Total liabilities, deferred inflows of resources, and fund balances	8,796,843	6,169,267	1,650,405	3,437,124	1,597,323	125,279	8,271,486	30,047,726

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

WALLA WALLA COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015

Total fund balances as shown of the Governmental Funds Balance Sheet	25,570,549
Capital assets used in governmental activities are not financial resources and are not reported in the funds	137,094,276
Capital Assets	183,818,255
Depreciation	(46,723,979)
The focus of governmental funds is on short-term financing; long-term assets are deferred in the funds	641,166
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(12,563,496)
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net position.	<u>10,690,545</u>
Net position of governmental activities	<u>161,433,039</u>

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

WALLA WALLA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	County Road	Human Services	WW Co Public Facilities Improv	Current Expense Buiding	Human Services Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	11,096,824	5,186,371	130,172	847,743	426,639	-	6,645,777	24,333,526
Licenses and Permits	157,328	16,705	-	-	-	-	657,696	831,729
Intergovernmental Revenues	945,862	8,438,188	1,596,153	-	-	-	2,772,319	13,752,522
Charges for Service	1,986,036	255,011	7,495	-	-	-	2,032,096	4,280,639
Fees and Fines	468,231	-	-	-	-	-	9,053	477,285
Miscellaneous Revenues	892,693	11,140	12,579	6,000	13,741	319,211	531,455	1,786,818
Total revenues	15,546,974	13,907,415	1,746,399	853,743	440,380	319,211	12,648,397	45,462,518
EXPENDITURES								
Current:								
General Government	8,198,064	192,884	-	-	289,827	301,769	1,122,111	10,104,656
Public Safety	5,013,004	-	-	-	49,421	-	7,433,336	12,495,761
Utilities	-	-	-	-	-	-	79,695	79,695
Transportation	-	6,687,494	-	-	-	-	-	6,687,494
Natural & Economic Environment	2,799	-	497,496	599,028	-	-	1,025,943	2,125,266
Social Services	228,347	-	1,300,445	-	-	-	2,793,089	4,321,881
Culture and Recreation	275,990	-	-	-	-	-	1,255,383	1,531,373
Capital Outlay	110,013	5,633,947	-	-	65,000	-	247,679	6,056,639
Total expenditures	13,828,216	12,514,325	1,797,941	599,028	404,248	301,769	13,957,236	43,402,764
Excess (deficiency) of revenues over (under) expenditures	1,718,758	1,393,090	(51,542)	254,715	36,132	17,441	(1,308,839)	2,059,754
OTHER FINANCING SOURCES (USES)								
Transfers in	134,226	-	-	-	179,095	75,000	1,303,522	1,691,843
Transfers out	(1,212,748)	-	(75,000)	(179,095)	-	-	(250,000)	(1,716,843)
Total other financing sources (uses)	(1,078,522)	-	(75,000)	(179,095)	179,095	75,000	1,053,522	(25,000)
Net change in fund balances	640,236	1,393,090	(126,542)	75,620	215,227	92,441	(255,317)	2,034,754
Fund balances--beginning	7,336,151	4,608,333	1,531,218	3,361,505	163,419	(1,393,330)	7,928,498	23,535,795
Fund balances--ending	7,976,387	6,001,423	1,404,677	3,437,124	378,645	(1,300,889)	7,673,181	25,570,549

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

WALLA WALLA COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Net changes in fund balances for governmental funds	2,034,754
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	2,747,498
Capital outlays	6,056,639
Depreciation	(3,229,112)
Cost of Assets Sold	(80,029)
The issuance of long-term debt (e.g., bonds, loans) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net position.	-
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.	(723,881)
Change in taxes receivable	(700,678)
Change in courts receivable	(23,203)
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.	427,320
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.	(188,784)
Change in net position of governmental activities, as reflected on the Statement of Activities	4,296,907

WALLA WALLA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Taxes	10,550,154	10,559,916	11,096,824	536,908
Licenses and Permits	269,540	269,540	157,328	(112,212)
Intergovernmental Revenues	1,020,058	1,038,755	945,862	(92,893)
Charges for Service	2,038,839	2,052,224	1,986,036	(66,188)
Fees and Fines	503,685	503,685	468,231	(35,454)
Miscellaneous Revenues	594,511	606,896	892,693	285,797
Total Revenues	14,976,787	15,031,016	15,546,974	515,958
EXPENDITURES				
Current:				
General Government	8,851,151	8,991,641	8,198,064	793,577
Public Safety	5,276,983	5,307,944	5,013,004	294,940
Utilities	-	-	-	-
Transportation	-	-	-	-
Natural & Economic Environment	4,025	4,025	2,799	1,226
Social Services	189,154	235,154	228,347	6,807
Culture and Recreation	311,917	322,717	275,990	46,727
Capital Outlay	-	30,611	110,013	(79,402)
Total Expenditures	14,633,230	14,892,092	13,828,216	1,063,876
Excess (deficiency) of revenues over (under) expenditures	343,557	138,924	1,718,758	1,579,834
OTHER FINANCING SOURCES (USES)				
Transfers in	481,631	545,857	134,226	(411,631)
Transfers out	(1,575,153)	(1,624,379)	(1,212,748)	411,631
Total other financing sources (uses)	(1,093,522)	(1,078,522)	(1,078,522)	-
Net change in fund balances	(749,965)	(939,598)	640,236	1,579,834
Fund balances - beginning	6,487,946	6,507,169	7,336,151	828,982
Fund balances - ending	5,737,981	5,567,571	7,976,387	2,408,816

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

WALLA WALLA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
COUNTY ROAD FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	County Road Fund			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes	4,969,000	4,969,000	5,186,371	217,371
Licenses and Permits	16,550	16,550	16,705	155
Intergovernmental Revenues	13,940,049	13,940,049	8,438,188	(5,501,861)
Charges for Service	284,100	284,100	255,011	(29,089)
Fees and Fines	-	-	-	-
Miscellaneous Revenues	10,500	10,500	11,140	640
Total Revenues	<u>19,220,199</u>	<u>19,220,199</u>	<u>13,907,415</u>	<u>(5,312,784)</u>
EXPENDITURES				
Current:				
General Government	260,000	260,000	192,884	67,116
Public Safety	-	-	-	-
Utilities	-	-	-	-
Transportation	7,577,804	7,577,804	6,687,494	890,310
Natural & Economic Environment	-	-	-	-
Social Services	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	<u>11,490,000</u>	<u>11,490,000</u>	<u>5,633,947</u>	<u>5,856,053</u>
Total Expenditures	<u>19,327,804</u>	<u>19,327,804</u>	<u>12,514,325</u>	<u>6,813,479</u>
Excess (deficiency) of revenues over (under) expenditures	(107,605)	(107,605)	1,393,090	1,500,695
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(107,605)	(107,605)	1,393,090	1,500,695
Fund balances - beginning	<u>3,700,000</u>	<u>3,700,000</u>	<u>4,608,333</u>	<u>908,333</u>
Fund balances - ending	<u><u>3,592,395</u></u>	<u><u>3,592,395</u></u>	<u><u>6,001,423</u></u>	<u><u>2,409,028</u></u>

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

WALLA WALLA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Human Services Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	122,630	122,630	130,172	7,542
Licenses and Permits	-	-	-	-
Intergovernmental Revenues	1,716,931	1,870,436	1,596,153	(274,283)
Charges for Service	60,492	58,818	7,495	(51,323)
Fees and Fines	-	-	-	-
Miscellaneous Revenues	51,272	51,272	12,579	(38,693)
Total Revenues	<u>1,951,325</u>	<u>2,103,156</u>	<u>1,746,399</u>	<u>(356,757)</u>
EXPENDITURES				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Utilities	-	-	-	-
Transportation	-	-	-	-
Natural & Economic Environment	292,999	503,966	497,496	6,470
Social Services	1,663,170	1,523,133	1,300,445	222,688
Culture and Recreation	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>1,956,169</u>	<u>2,027,099</u>	<u>1,797,941</u>	<u>229,158</u>
Excess (deficiency) of revenues over (under) expenditures	(4,844)	76,057	(51,542)	(127,599)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	(75,000)	(75,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
Net change in fund balances	(4,844)	1,057	(126,542)	(127,599)
Fund balances - beginning	<u>492,679</u>	<u>1,192,679</u>	<u>1,531,218</u>	<u>338,539</u>
Fund balances - ending	<u>487,835</u>	<u>1,193,736</u>	<u>1,404,677</u>	<u>210,941</u>

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

WALLA WALLA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
WW CO PUBLIC FACILITIES IMPROV FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	WW Co Public Facilities Improv			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
REVENUES				
Taxes	650,000	695,000	847,743	152,743
Licenses and Permits	-	-	-	-
Intergovernmental Revenues	-	-	-	-
Charges for Service	-	-	-	-
Fees and Fines	-	-	-	-
Miscellaneous Revenues	-	-	6,000	6,000
Total Revenues	<u>650,000</u>	<u>695,000</u>	<u>853,743</u>	<u>158,743</u>
EXPENDITURES				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Utilities	-	-	-	-
Transportation	-	-	-	-
Natural & Economic Environment	1,200,000	1,400,000	599,028	800,972
Social Services	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>1,200,000</u>	<u>1,400,000</u>	<u>599,028</u>	<u>800,972</u>
Excess (deficiency) of revenues over (under) expenditures	(550,000)	(705,000)	254,715	959,715
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(179,095)	(179,095)	(179,095)	-
Total other financing sources (uses)	<u>(179,095)</u>	<u>(179,095)</u>	<u>(179,095)</u>	<u>-</u>
Net change in fund balances	(729,095)	(884,095)	75,620	959,715
Fund balances - beginning	<u>2,605,545</u>	<u>3,160,545</u>	<u>3,361,505</u>	<u>200,960</u>
Fund balances - ending	<u>1,876,450</u>	<u>2,276,450</u>	<u>3,437,124</u>	<u>1,160,674</u>

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

**WALLA WALLA COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	Governmental Activities Internal Service Funds
ASSETS	
<i>Current assets:</i>	
Cash and cash equivalents	602,432
Investments	2,421,878
Receivables (net)	5,735
Due from other funds	1,918
Inventories	944,347
<i>Capital assets:</i>	
Depreciable assets (net)	7,519,458
Total assets	<u>11,495,767</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>69,475</u>
LIABILITIES	
<i>Current liabilities:</i>	
Accounts payable and accrued exp.	95,294
<i>Noncurrent liabilities:</i>	
Net pension liability	672,679
Total liabilities	<u>767,973</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>106,725</u>
NET POSITION	
Net investment in capital assets	7,519,458
Unrestricted	3,171,087
TOTAL net position	<u><u>10,690,545</u></u>

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

WALLA WALLA COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
OPERATING REVENUES:	
Charges for Services	\$3,814,629
Miscellaneous	<u>\$0</u>
Total Operating Revenues	\$3,814,629
OPERATING EXPENSES:	
Personal Services	\$1,049,098
Supplies	\$913,228
Other Services and Charges	\$1,210,675
Depreciation	<u>\$955,330</u>
Total Operating Expenses	<u>\$4,128,331</u>
OPERATING INCOME (LOSS)	(\$313,702)
NONOPERATING REVENUES (EXPENSES):	
Investment Income	\$1,246
Gains (Losses) On Fixed Asset Disposition	<u>\$73,396</u>
Total Nonoperating Revenues (Expenses)	\$74,642
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(\$239,060)</u>
Capital Contributions	\$25,276
Transfers In	\$25,000
Transfers Out	\$0
Change in Net Position	<u>(\$188,784)</u>
Net Position - Beginning	\$11,616,892
Change in accounting principle - GASB 68	<u>(\$737,563)</u>
Net Position - Beginning, Restated	<u>\$10,879,329</u>
Net Position - Ending	<u>\$10,690,545</u>

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

**WALLA WALLA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Governmental Activities <u>Internal Service Funds</u>
Cash Flows from Operating Activities	
Receipts from customers	\$3,841,406
Payments to suppliers	(\$2,208,080)
Payments to employees	(\$1,076,732)
Other receipts (payments)	<u>\$266,651</u>
Net cash provided (used) by operating activities	<u>\$823,246</u>
Cash Flows from Noncapital Financing Activities	
Interfund Loan	\$0
Operating subsidies and transfers to other funds	<u>\$25,000</u>
Net cash provided (used) by noncapital financing activities	<u>\$25,000</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(\$1,546,679)
Other receipts (payments)	<u>\$189,463</u>
Net cash provided (used) by capital and related financing activities	<u>(\$1,357,217)</u>
Cash Flows from Investing Activities	
Purchase of Investments	\$195,849
Interest and dividends	<u>\$1,246</u>
Net cash provided by investing activities	<u>\$197,095</u>
Net Increase (decrease) in cash and cash equivalents	(\$311,876)
Cash and Cash Equivalents at	
Beginning of the year	<u>\$914,308</u>
End of the year	<u><u>\$602,432</u></u>
*Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	(\$313,702)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	\$955,330
Change in assets and liabilities:	
Receivables, net	\$26,777
Inventories	\$266,651
Accounts and other payables	(\$84,177)
Accrued liabilities	<u>(\$27,634)</u>
Net cash provided by operating activities	<u>\$823,246</u>
Noncash investing, capital, and financing activities:	
Contributions of capital assets from government	\$25,276
Increase in fair value of investments	\$0

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

**WALLA WALLA COUNTY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	9,450,601
Investments	36,341,380
Deposits with Fiscal Agents	5,524,501
Taxes Receivable	<u>1,366,176</u>
Total assets	<u><u>52,682,658</u></u>
 LIABILITIES	
Accounts payable and accrued expenses	4,900,743
Deferred Revenue	1,366,176
Custodial Accounts	<u>46,415,739</u>
Total liabilities	<u><u>52,682,658</u></u>

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

WALLA WALLA COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

Walla Walla County was incorporated on April 16, 1854, and operates under the laws of the State of Washington applicable to a third class county with commissioner form of government. The present boundaries were established in 1875. The County is a general-purpose government and provides public safety (police and emergency services), roads and bridges, health and social services, culture and recreation, and general administrative services. As required by the generally accepted accounting principles the financial statements present county – the primary government. The County Commissioners appoint the board of the Walla Walla County Housing Authority, but it is not a component unit of Walla Walla County. There is no legal or financial interdependency. According to GASB Statement 14 Walla Walla County and the Walla Walla County Housing Authority are related organizations.

B. Government-Wide and Fund Financial Statements

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

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

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financials 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 fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual are earned interest, certain charges for services, and intergovernmental revenues, such as grants, where program expenditures are the prime factor for determining reimbursement. Other revenues such as sales based taxes, licenses, fines and fees are not considered susceptible for accrual since they are not generally measurable until received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The County reports the following major governmental funds:

The General (or current expense) Fund is the County's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund.

The County Road Fund accounts for the maintenance and construction of county roads, bridges, and culverts by the county road department.

The Human Services Fund accounts for the health and well being programs for the community by the human services department.

The WW Co Public Facilities Improvement Fund accounts for the sales and use tax for the financing of public facilities of rural counties.

The Current Expense Building Fund accounts for the capital improvements to current expense buildings.

The Human Services Capital Projects Fund accounts for the capital improvements for the human services department.

Additionally, the County reports the following funds types:

Internal service funds account for Equipment Rental and Revolving, Risk Management, Unemployment Compensation, Technology Services, and Technology Services Reserve provided to

other departments or funds of the county, or to other governmental units, on a cost reimbursement basis.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital gains 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are revenues for goods and services provided. Operating expenses for enterprise funds and internal services funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the general and special revenue funds and for all proprietary funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

Other budgets are adopted at the level of the fund, except in the general (current expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at year-end.

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

2. Amending the Budget

The County Auditor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the County Commission.

When the county commission determines that it is in the best interest of the County to increase or decrease the appropriation for a particular fund, it may do so by resolution approved by one more than the majority after holding public hearing(s).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

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

3. Deficit Fund Net Position

There is one major governmental fund with a deficit fund balance at December 31, 2015:

The Human Services Capital Projects fund reports a deficit of \$1,300,889 due to an interfund loan to purchase the community social services center.

There is one non-major governmental fund with a deficit fund balance at December 31, 2015:

The Fairground Properties fund reports a deficit of \$86,317 due to interfund loans to purchase property adjacent to the fairgrounds.

There is one internal service fund with a deficit fund balance at December 31, 2015:

The Technology Services fund reports a deficit of 81,333 due to reporting pension liability for GASB 68.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2015, the treasurer was holding \$15,200,823 in short term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General Fund.

For the purposes of the statement of cash flows, the county considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments - See Note 3, *Deposits and Investments*.

3. Receivables

Taxes receivable consist of property taxes. See Note 4, *Property Taxes*.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments. As of December 31, 2015, \$1,397 of special assessments receivable were delinquent.

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

4. Amounts Due to and from Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. A separate schedule of interfund loans receivable and payable is furnished in Note 12, *Interfund Balances and Transfers*.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued by the FIFO method.

6. Capital Assets – See Note 5, *Capital Assets*.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Purchase and construction of such assets is recorded as expenditure in the appropriate governmental fund.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs of normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	100 – 200
Machinery & Equipment	5 – 20
Infrastructure	40

7. Deferred Outflows/Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: property taxes and court receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. Also included in compensated absences is compensated time.

Vacation pay, which may be accumulated up to 30 days, is payable upon resignation, retirement or death. Sick leave may accumulate with no limit. Fifty percent of outstanding sick leave is payable upon retirement and one hundred percent is payable to the employees heirs upon death of County Road employees. Twenty-five percent of outstanding sick leave is payable upon retirement to all other employees.

9. Pensions

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

10. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

11. Fund Balance Details

	General Fund	County Road	Human Services	WW Co Public Facilities Improv	Current Expense Buiding	Human Services Capital Projects	Nonmajor Governmental Funds	Total
FUND BALANCES:								
Restricted for:								
Public Safety							1,463,160	1,463,160
Juvenile Services							444,615	444,615
Transportation		6,001,423						6,001,423
Economic Environment							104,702	104,702
Mental & Physical Health			1,404,677				674,427	2,079,103
Public Facilities Improvement				3,437,124				3,437,124
Tourism							133,337	133,337
Archiving							315,365	315,365
Foreclosure costs							52,663	52,663
Veterans & Homeless Services							225,955	225,955
Legal Services							214,719	214,719
Stormwater Management							746,923	746,923
Natural Resources							725,235	725,235
Technology							55,248	55,248
Judicial							174,921	174,921
Debt Service							25,044	25,044
Treasurer's Services							38,179	38,179
Committed to:								
Community Development							497,012	497,012
Culture & Recreation							16,981	16,981
Elections							186,627	186,627
Public Safety							408,279	408,279
Other Capital Projects					378,645		13,653	392,299
Assigned to:								
Unanticipated Employee Benefits	1,064,474							1,064,474
Unanticipated Court Emergencies	543,838							543,838
Community Outreach	227,471							227,471
Other Capital Projects							1,242,451	1,242,451
Unassigned	<u>6,140,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,300,889)</u>	<u>(86,317)</u>	<u>4,753,398</u>
Total fund balances	7,976,387	6,001,423	1,404,677	3,437,124	378,645	(1,300,889)	7,673,181	25,570,549

12. Fund Balance Classification

In accordance with GASB Statement No. 54, Walla Walla County fund balances for governmental funds are reported into five categories: nonspendable, restricted, committed, assigned, and unassigned.

Restricted fund balances are resources constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.

Committed fund balances require a resolution by the Board of County Commissioners to commit a revenue source for a specific purpose.

Assigned fund balances are resources constrained by the expressed intent in writing of the Board of County Commissioners or Finance Committee for a specific purpose.

When expenditures are incurred that could be paid from either restricted, committed, assigned, or unassigned resources, the county uses restricted resources first, assigned resources second, committed resources third, and unassigned resources last.

13. Minimum Fund Balance

The Board of County Commissioners, as the county legislative authority, deem it to be fiscally responsible to maintain an ending fund balance in the general (current expense) fund budget equal to the amount of three months of expenditures, in the event of unforeseen circumstances that could adversely affect the budget and the county's operations. For the past several years, the county has been able to meet this goal.

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. The details of the differences are as follows:

Total fund balances as shown on the Governmental Funds Balance Sheet: \$25,570,549

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

	Capital Assets	183,818,255	
	Depreciation	<u>(46,723,979)</u>	
Capital assets net of depreciation			137,094,276

The focus of governmental funds is on short-term financing; long term assets are deferred in the funds. 641,166

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (12,563,496)

Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in government activities in the statement of net position. 10,690,545

Net position of governmental activities: \$161,433,039

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. The details of the differences are as follows:

Net changes in fund balances for governmental funds:	2,034,754
Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is depreciated over their estimated useful lives.	2,747,498
Capital Outlays	6,056,639
Depreciation	(3,229,112)
Cost of Assets Sold	(80,029)
The issuance of long-term debt (e.g. bonds, loans) is a resource and the repayment of bond principal is an expenditure of governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net position.	0
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.	(723,881)
Change in Taxes Receivable	(700,678)
Change in Courts Receivable	(23,203)
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.	427,320
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.	<u>(188,784)</u>
Change in net position of governmental activities:	\$4,296,907

NOTE 3 - DEPOSITS AND INVESTMENTS

Walla Walla County is authorized by RCW's 36.29.020, 39.58, 39.59.020, 39.59.030, 39.60.010, 39.60.050 and 43.84.080 to invest in the following types of securities: U.S. Treasury Obligations, U.S. Government Agency Obligations and U.S. Government Sponsored Enterprises (GSE's), Banker's Acceptances (BA's) purchased through State of Washington Financial Institutions and authorized broker/dealers, Commercial Paper, Non-negotiable Certificates of Deposit, Deposit Notes of Financial Institutions, Repurchase Agreements, Bonds of the State of Washington and any local government in the State of Washington, General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, registered warrants and notes for Walla Walla County and those districts in Walla Walla County for which the Treasurer is the ex-officio Treasurer (subject to compliance with RCW 39.56.030), the Washington State Local Government Investment Pool (LGIP) and as defined in RCW 39.59.030, mutual bond funds as and subject to the arbitrage provisions of Section 148 of the Federal Internal Revenue Code (if bond covenants permit investment in mutual funds).

RCW 39.58.130 authorizes the investment of municipal funds in deposits in qualified public depositories

provided that the total in public deposits does not exceed the total net worth of the bank.

The County's cash and investments are subject to several types of risk, which are examined in more detail on the following pages.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. Walla Walla County's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). The FDIC insures the first \$250,000 of the county's deposits. The deposit balances over \$250,000 are collateralized with the WPDPC.

Custodial Credit Risk of Investments

Custodial credit risk of investments is the risk that, in the event of the failure of a counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county investment policy requires that all deliverable securities will be settled delivery versus payment (DVP), which ensures that securities are deposited at a third party, such as safekeeping and custodian bank acting as an agent for the county. A signed safekeeping and custodial agreement(s) shall be entered into with a federally-regulated financial institution, currently Bank of New York Mellon. The custodian institution shall hold the securities as evidenced by a safekeeping receipt. Non-negotiable CD's, public funds deposit accounts and investments in the LGIP are not handled on a DVP basis, and therefore are exempt from this process. Certificates of deposit in the County Treasurer's name, or a copy thereof, will be delivered to and held by the Treasurer's Office.

The Local Government Investment Pool (LGIP) operates in a manner consistent with SEC Rule 2a7. Participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited, as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. There is no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. As a 2a7-like pool, investments in the LGIP are reported at amortized cost. The fair value of County shares in the LGIP is dollar for dollar equal to the value of pool shares.

As of December 31, 2015, the county had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>Greater Than 1</u>
LGIP	\$ 3,008,869	\$ 3,008,869	\$
US Treasuries	6,977,031	1,000,586	5,976,445
Federal Agencies	38,868,687	8,009,374	30,859,313
Municipal Bonds	13,486,258	3,165,592	10,320,666
Public Funds Deposit	<u>10,575,519</u>	<u>10,575,519</u>	<u>0</u>
Total	\$72,916,364	\$25,759,940	\$47,156,424

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the county diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The county

coordinates its investment maturities to closely match cash flow needs and the maximum maturity of the total portfolio shall not exceed three years unless matched to a specific cash flow. The County does not have a specific interest rate policy; however, it is cognizant of this risk and addresses it in the Walla Walla County Investment Policy, of which the WWCIP is in compliance with as of 12/31/15.

Credit Risk

State law and county policy limit investments to those authorized by state statute. The county allows 100 percent investment US Treasuries, Federal Agencies, the LGIP and savings or time accounts. The county limits holdings in certificates of deposits to 50 percent of the portfolio; municipal bonds to 35 percent of the portfolio; inter-fund of the county to 20 percent of the portfolio; repurchase agreements to 10 percent of the portfolio; bankers acceptances (rated A1 or P1) to 25 percent of the portfolio; commercial paper to 10 percent of the portfolio (no more than 5 percent may be invested with any one issuer of commercial paper); registered warrants to 5 percent of the portfolio. Investments with any one financial institution shall not exceed the institution’s net worth as determined by the PDPC. No more than 40% of the portfolio shall be invested with any one U.S. government operated agency or sponsored issuer. At December 31, 2015 the county held no investments in repurchase agreements or commercial paper.

As of year-end, the credit quality ratings of debt securities (other than US government guaranteed) are as follows:

<u>Debt Security</u>	<u>S&P Rating</u>	<u>Percentage of Portfolio</u>
US Treasuries	AA+	10%
Federal Farm Credit Bank	AA+	5%
Federal Home Loan Bank	AA+	18%
Federal Home Loan Mortgage	AA+	11%
Federal National Mortgage Assoc.	AA+	18%
Federal Agricultural Mortgage Corp.	N/A	1%
Municipal Bonds	AA	18%
LGIP	Not Rated	4%

Concentration Risk

The county allows 100 percent investment US Treasuries, Federal Agencies, the LGIP and savings or time accounts. The county limits holdings in certificates of deposits to 50 percent of the portfolio; municipal bonds to 35 percent of the portfolio; inter-fund of the county to 20 percent of the portfolio; repurchase agreements to 10 percent of the portfolio; bankers acceptances (rated A1 or P1) to 25 percent of the portfolio; commercial paper to 10 percent of the portfolio (no more than 5 percent may be invested with any one issuer of commercial paper); registered warrants to 5 percent of the portfolio. Investments with any one financial institution shall not exceed the institution’s net worth as determined by the PDPC. No more than 40% of the portfolio shall be invested with any one U.S. government operated agency or sponsored issuer.

GASB statement 31 requires adjustments be made to the financial statements to reflect the difference between amortized cost and fair value of investments. Fair value of investments has been determined using quoted market prices and is equivalent to market value. In 2015, the difference between amortized cost and fair value was not material. Therefore, no adjustments have been made. Investments are shown on the balance sheet at cost, net of amortized premium or discount. Gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

Total Pooled and Non-Pooled Investments

Pooled investments – primary government	\$22,990,596
Non-pooled investments – primary government	0
Pooled investments – fiduciary	36,341,380
Non-pooled investments – fiduciary	<u>0</u>
Total	\$59,331,976

EXTERNAL INVESTMENT POOL

The Walla Walla County Investment Pool (WWCIP) operates on an amortized cost-book value basis. The County Finance Committee performs oversight of the pool’s performance. There are no legally binding guarantees for the WWCIP. Authorized investments for the WWCIP are the same as investments held outside of the pool and are defined the Walla Walla County Investment Policy.

All funds deposited in the WWCIP are available to the participant at full face value without regard to current market values. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant’s account. The Walla Walla County Treasurer, by law, is the treasurer of most governments within the county, including schools, fire and library districts. These districts do not have a legal option to have their cash handled by other than the County Treasurer.

The WWCIP did experience a net decrease in the fair value of the investments during 2015. At 12/31/15, the market value of investments was \$228,897 less than the amortized cost. These unrealized losses will not be recognized in the various funds as management intends to hold these investments to maturity.

Fair value of the WWCIP is reviewed by the County Finance Committee quarterly. Fair value is determined using information from our safekeeping agent, Bank of New York Mellon, and Government Portfolio Advisors, the county’s investment consultant.

There is no involuntary participation in the WWCIP. Districts can have the County Treasurer manage their cash invested outside of the WWCIP.

NOTE 4 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Those other authorities include the State of Washington, cities and towns, school districts, fire districts, cemetery districts, and ports. Collections for these districts are accounted for in agency funds.

Taxes are levied annually on January 1, on property value listed as of the prior May 31. Assessed values are established by the County Assessor at 100 percent of market value. A revaluation of all property is required at least once every year. Taxes are due in two equal installments on April 30 and October 31.

Property tax is recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which it applies is recorded as deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered

fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The County may levy up to \$1.80 per \$1,000 of assessed valuation for general governmental services.

The County's regular levy for 2015 was \$1.485222432 for \$1,000 on an assessed valuation of \$5,194,803,037 for a total regular levy of \$7,715,438. Additionally, a special assessment for Mill Creek Flood Control totaled \$50,000.

The County is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitation as the levy for general governmental services. The County's road levy for 2015 was \$2.055439 per \$1,000 on an assessed valuation of \$2,481,692,302 for a total road levy of \$5,100,966.

Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. Special property tax levies approved by vote are not subject to those limitations.

NOTE 5 – CAPITAL ASSETS

A. Capital Assets

Capital assets activity for the year ended December 31, 2015 was as follows:

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 12,982,891	\$ 270,827	\$ -	\$ 13,253,718
Construction In Progress	2,219,406	5,363,120	(4,963,363)	2,619,164
Total capital assets, not being depreciated	15,202,297	5,633,947	(4,963,363)	15,872,882
Capital assets, being depreciated:				
Buildings	56,006,751	165,941	(48,983)	56,123,710
Machinery and Equipment	17,066,918	1,839,895	(872,398)	18,034,414
Infrastructure	103,278,974	4,963,363	-	108,242,337
Total capital assets, being depreciated:	176,352,643	6,969,199	(921,381)	182,400,461
Less accumulated depreciation for:				
Buildings	(13,447,283)	(396,847)	8,327	(13,835,803)
Machinery and Equipment	(8,747,873)	(1,205,621)	705,768	(9,247,725)
Infrastructure	(27,994,107)	(2,581,974)	-	(30,576,081)
Total accumulated depreciation	(50,189,263)	(4,184,442)	714,096	(53,659,609)
Total capital assets, being depreciated, net	126,163,380	2,784,757	(207,286)	128,740,851
Governmental activities capital assets, net	\$ 141,365,678	\$ 8,418,704	\$ (5,170,648)	\$ 144,613,734

Depreciation expense was charged to functions as follows:

General Government	\$ 244,250
Public Safety	166,887
Transportation	2,609,160
Natural & Economic Environment	6,182
Social Services	64,688
Culture and Recreation	137,945
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>955,330</u>
Total depreciation-governmental activities	\$4,184,442

NOTE 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$11,576,071
Pension assets	\$932,302
Deferred outflows of resources	\$1,455,166
Deferred inflows of resources	\$2,196,388
Pension expense/expenditures	\$845,776

State Sponsored Pension Plans

Substantially all county 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (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 98540-8380

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

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

The county’s actual contributions to the plan were \$36,921 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The county’s actual contributions to the plan were \$1,122,832 for the year ended December 31, 2015.

Public Safety Employees’ Retirement System (PSERS)

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

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

PSERS membership includes:

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

PSERS covered employers include:

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

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

Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January through June 2015	10.54%	6.36%
July through December 2015	11.54%	6.59%

The county's actual contributions to the plan were \$168,395 for the year ended December 31, 2015.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months’ salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The county's actual contributions to the plan were \$98,642 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the county's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the county's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$8,090,378	\$6,645,060	\$5,402,219
PERS 2/3	\$14,107,774	\$4,824,735	(\$2,282,941)
PSERS 2	\$807,547	\$106,276	(\$392,571)
LEOFF 1	(\$112,357)	(\$175,625)	(\$229,549)
LEOFF 2	\$757,763	(\$756,677)	(\$1,896,350)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the county reported a total pension liability of \$11,576,071 and a total pension asset of \$932,302 for its proportionate share of the net pension liabilities/(assets) as follows:

	Liability (or Asset)
PERS 1	\$6,645,060
PERS 2/3	\$4,824,735
PSERS 2	\$106,276
LEOFF 1	(\$175,625)
LEOFF 2	(\$756,677)

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

	Liability (or Asset)
LEOFF 2 – employer's proportionate share	(\$756,677)
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	(500,314)
TOTAL	(\$1,256,991)

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.130198%	0.127034%	(2.43%)
PERS 2/3	0.140259%	0.135031%	(3.73%)
PSERS 2	0.527887%	0.582268%	10.30%
LEOFF 1	0.013012%	0.014572%	11.99%
LEOFF 2	0.061218%	0.073621%	20.26%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of

Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the county recognized pension expense as follows:

	Pension Expense
PERS 1	\$213,539
PERS 2/3	\$521,369
PSERS 2	\$126,358
LEOFF 1	(\$46,640)
LEOFF 2	\$31,150
TOTAL	\$845,776

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the county reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$-0-	\$-0-
Net difference between projected and actual investment earnings on pension plan investments	\$-0-	\$363,557
Changes of assumptions	\$-0-	\$-0-
Changes in proportion and differences between contributions and proportionate share of contributions	\$-0-	\$-0-
Contributions subsequent to the measurement date	\$319,935	\$-0-
TOTAL	\$319,935	\$363,557

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$512,871	\$-0-
Net difference between projected and actual investment earnings on pension plan investments	\$-0-	\$1,287,976
Changes of assumptions	\$7,774	\$-0-
Changes in proportion and differences between contributions and proportionate share of contributions	\$-0-	\$168,219
Contributions subsequent to the measurement date	\$344,033	\$-0-
TOTAL	\$864,677	\$1,456,195

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$99,568	\$-0-
Net difference between projected and actual investment earnings on pension plan investments	\$-0-	\$52,713
Changes of assumptions	\$658	\$-0-
Changes in proportion and differences between contributions and proportionate share of contributions	\$3,319	\$-0-
Contributions subsequent to the measurement date	\$49,775	\$-0-
TOTAL	\$153,320	\$52,713

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$-0-	\$-0-
Net difference between projected and actual investment earnings on pension plan investments	\$-0-	\$29,649
Changes of assumptions	\$-0-	\$-0-
Changes in proportion and differences between contributions and proportionate share of contributions	\$-0-	\$-0-
Contributions subsequent to the measurement date	\$-0-	\$-0-
TOTAL	\$-0-	\$29,649

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$66,260	\$-0-
Net difference between projected and actual investment earnings on pension plan investments	\$-0-	\$229,269
Changes of assumptions	\$1,996	\$-0-
Changes in proportion and differences between contributions and proportionate share of contributions	\$-0-	\$65,006
Contributions subsequent to the measurement date	\$48,977	\$-0-
TOTAL	\$117,233	\$294,275

Deferred outflows of resources related to pensions resulting from the county's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2
2016	(\$140,902)	(\$399,167)	(\$3,779)	(\$11,505)	(\$89,000)
2017	(\$140,902)	(\$399,167)	(\$3,779)	(\$11,505)	(\$89,000)
2018	(\$140,902)	(\$399,169)	(\$3,785)	(\$11,505)	(\$89,001)
2019	\$59,150	\$261,953	\$27,664	\$4,866	\$40,231
2020	\$-0-	\$-0-	\$17,258	\$-0-	\$626
Thereafter	\$-0-	\$-0-	\$17,253	\$-0-	\$125

DEFERRED COMPENSATION PLAN

Walla Walla County offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans are with independent plan administrators. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. On December 31, 2015, 69 employees were participating in the deferred compensation plans.

Compensation deferred under the plan and all income attributable to the plan is solely the property of the county. The county's rights to this property are subject only to the claims of the county's general creditors until paid to the employee or other beneficiary and are not restricted to the benefit provisions under the plan.

The county has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The county believes that it is highly unlikely that it will use the

assets to satisfy the claims of general creditors in the future.

Of the \$5,348,178 in the plan at December 31, 2015, \$5,348,178 was applicable to the county while the remaining \$0 represents the assets of other jurisdictions participating in the plan. Deferred compensation plan investments are recorded at market value, along with the corresponding liability, in the agency fund.

NOTE 7 - RISK MANAGEMENT

Walla Walla County is a participating member of the Washington Counties Risk Pool (WCRP). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to join together for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in August of 1988 when 15 counties in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2015, 26 counties participate in the WCRP.

The Pool allows members to jointly establish a plan of self-insurance, and provides related services, such as risk management and claims administration. Members enjoy occurrence-based, jointly purchased and/or jointly self-insured liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits are \$25 million per occurrence and each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. For losses occurring in 2015, Walla Walla County selects a per-occurrence deductible of \$50,000.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance for further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions (“SIRs”) equal to the greater of the deductible for the member with the claim or \$100,000. More recent years’ reinsurance programs have included “corridor deductibles” with aggregated stop losses which have the effect of increasing the Pool’s SIR. For 2014-15, this “corridor” increased the SIR to \$2 million, but with an aggregated stop loss of \$3.35 million. Other reinsurance agreements respond up to the applicable policy limits. Those reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer). Since the Pool is a cooperative program, there is a joint liability among the participating members.

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

reassessments by the Pool for the members' proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

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

During 2014-15, Walla Walla County was also one of twenty-six (26) counties which participated in the Washington Counties Property Program (WCPP). Property losses are covered under the WCPP to the participating counties' buildings and contents, vehicles, mobile/contractor equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes 'All Other Perils ("AOP")' coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Each participating county is solely responsible for paying their selected deductible, ranging between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

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

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

An 11-member executive committee is elected by and from the WCRP Board for staggered, 3-year terms. Authority has been delegated to the Committee by the Board of Directors to, a) approve all disbursements and reviews the Pool's financial health, b) approve case settlements exceeding the applicable member's deductible by at least \$50,000, c) review all claims with incurred loss estimates exceeding \$100,000, and d) evaluate the Pool's operations, program deliverables, and the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board to consider and act upon.

During 2014-15, the WCRP's assets grew 3% to \$48.8 million while its liabilities increased slightly to \$29.8 million. The Pool's net position decreased slightly from \$19.4 million to \$18.9 million. The Pool more than satisfies the State Risk Manager's solvency requirements (WAC 200.100.03001). The Pool is a cooperative program with joint liability amongst its participating members.

Deficits of the Pool resulting from any fiscal year are financed by reassessments of the deficient year's membership in proportion with the initially levied and collected deposit assessments. The Pool's reassessments receivable balance as of December 31, 2015 was zero (\$0). As such, there were no known contingent liabilities at that time for disclosure by the member counties.

B. The County maintains insurance against most normal hazards except for unemployment insurance, where it has elected to become self-insured.

Claims are processed by independent claims managers. Based on the claims managers' estimates, the County's estimated liability for probable losses at December 31, 2015 was as follows:

Unemployment: \$48,990

C. With the hiring of Jay Winter and addition of responsibilities as the county's risk manager, the Walla Walla County Board of Commissioners determined that, for accounting purposes and to more accurately track costs of the county for insurance, claims, and risk management exposures, a stand-alone fund was established in the 2005 County Budget as follows: Risk Management.

The fund is intended to be a self-supporting fund, with funds to accrue in fund balance to help offset future costs to the county not covered by insurance (those losses that are the responsibility of the county under the county deductible amount).

Mr. Winter, in conjunction with the Board, determined that a percentage of costs incurred to operate the Personnel/Risk Management department should be paid by funds outside Current Expense, such as Public Works and Human Services, both of which have large number of employees, greater exposure for claims due to nature of responsibilities (responsible for road design, interact with persons seeking mental health services, etc.), with the resultant increased need for services from the personnel/risk management division.

The county is a member of the Washington Counties Risk Pool for liability coverage, and has insurance through the McDonald Zaring Insurance (MZI) agency on buildings, etc.

D. The counties insurance settlements did not exceed coverage in each of the past three years.

NOTE 8 – SHORT-TERM DEBT

Short-term activities for the year ended December 31, 2015 was as follows:

	<u>Balance</u> <u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2015</u>
Fair Operations	\$0	\$47,175	\$47,175	\$0

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2015 the following changes occurred in long-term liabilities:

<u>Governmental Activities:</u>	<u>Balance</u> <u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2015</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	875,974		8,790	867,184	81,298
Net Pension Liability	9,393,926	2,182,145		11,576,071	0
OPEB Obligations	841,695	305,640	126,085	1,021,250	0
Governmental activity	\$11,111,595	\$2,487,785	\$134,875	\$13,464,505	\$81,298
Long-term liabilities:					

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$27,205 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 10 – CONTINGENCIES AND LITIGATIONS

The county has recorded in its financial statements all material liabilities. There are no material contingent liabilities to record.

The County 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. County management believes that such disallowances, if any, will be immaterial.

NOTE 11 – RESTRICTED NET POSITION

The government-wide statement of net position reports \$15,343,848 of restricted net position, of which \$14,637,275 is restricted by enabling legislation.

NOTE 12 - INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund loan balances at December 31, 2015 were as follows:

<u>Due To</u>	<u>Due From</u>			<u>Total</u>
	<u>Cur Exp Building</u>	<u>Human Svc Capital Proj</u>	<u>Non Major Governmental</u>	
Non-Major Governmental	\$1,003,188 ¹	\$1,406,344 ^{2,4}	\$211,712 ³	\$2,621,244

¹An interfund loan was made in 2009 from the Investment Pool fund to the Current Expense Building fund to buy back/pre-pay the loan from Baker Boyer Bank. The loan is scheduled to be repaid October 1, 2018.

²An interfund loan was made in 2010 from the Investment Pool fund to the Human Services Capital Projects fund to purchase the community social services center. The loan is scheduled to be repaid December 30, 2020.

³An interfund loan was made in 2011 and 2012 from the Investment Pool fund to the Fairground Properties fund to purchase property adjacent to the fairgrounds. The loans are scheduled to be repaid April 30, 2027.

⁴An interfund loan was made in 2014 from the W W Co Public Facilities Improvement fund to the Human Services Capital Projects fund for the HVAC repair project at 1520 Kelly Place, Walla

Walla. The loan was from the Port of Walla Walla portion of the funds. The loan is scheduled to be repaid May 1, 2023.

B. Interfund Transfers

Interfund transfers to support operations to other funds during 2015 were as follows:

<u>Transfer To</u>	<u>Transfer From</u>				<u>Total</u>
	<u>General Fund</u>	<u>Human Services</u>	<u>WW Co Pub Fac</u>	<u>Non-Major Governmental</u>	
General Fund	134,226				134,226
Current Expense Bldg			179,095		179,095
Human Services Cap Proj		75,000			75,000
Non-Major Governmental	1,078,522			225,000	1,303,522
Internal Service Funds				25,000	25,000
Total	\$1,212,748	\$75,000	\$179,095	\$250,000	\$1,716,843

NOTE 13 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2015 were as follows:

<u>Governmental Activities:</u>	<u>Accounts</u>	<u>Taxes</u>	<u>Courts Receivable</u>	<u>Due from Other Gov</u>	<u>Other</u>	<u>Total</u>
General Fund		190,920	251,375	40,668		482,963
County Road		107,512		80,603		188,115
Human Services		3,272		309,653		312,925
WW Co Public Fac Improv					400,000	400,000
Non-Major Governmental		88,087		170,446		258,533
Internal Service Funds	5,735					5,735
Total Governmental Activities:	\$5,735	\$389,791	\$251,375	\$601,370	\$400,000	\$1,648,271

B. Payables

Payables at December 31, 2015 were as follows:

<u>Governmental Activities:</u>	<u>Vendors</u>
General Fund	378,136
County Road	52,898
Human Services	227,765
Current Expense Building	215,490
Human Service Capital Projects	19,824
Non-Major Governmental	251,297
Internal Service Funds	95,294
Total Governmental Activities:	\$1,240,704

NOTE 14 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Plan Description

The County provides postemployment health care benefits for members of the LEOFF I retirement system who retired on account of service, sickness, or disability, as required by the Revised Code of Washington (RCW) Chapter 41.26. The County pays medical, dental and long term care premiums, 100% of co-pays, and 100% out-of-pocket costs for life. There are eight participants eligible to receive these benefits.

Funding Policy

Funding for LEOFF I retiree healthcare costs is provided entirely by the County as required by RCW. The County's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of ten years. The following table shows the components of the County's annual OPEB cost, the amount actually contributed to the plan, and changes in the County's net OPEB obligation for the fiscal year ending December 31, 2015:

Annual required contribution	\$347,675
Interest on net OPEB obligation	33,668
Adjustment to the ARC	<u>(75,703)</u>
Annual OPEB Cost	305,640
Contributions made	<u>126,085</u>
Increase in Net OPEB obligation	179,555
Net OPEB obligation, beginning of year	<u>841,695</u>
Net OPEB obligation, end of year	\$1,021,250

The County's annual OPEB costs, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the preceding years were as follows:

Fiscal year Ending <u>December 31</u>	Annual <u>OPEB Cost</u>	<u>Contribution</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
2015	\$305,640	\$126,085	41.3%	\$1,021,250
2014	\$234,415	\$138,287	59.0%	\$841,695
2013	\$301,746	\$148,155	49.1%	\$745,567

Funding Status and Funding Progress

The funded status of the plan as of December 31, 2015, was as follows:

Actuarial accrued liability (AAL)	\$3,865,583
Actuarial value of plan assets	0
Unfunded actuarial accrued liability	3,865,583
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll	0
UAAL as a percentage of covered payroll	N/A

Methods and Assumptions

The County's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF I rates used in the June 30, 2014 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF I medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and net OPEB obligation (NOO) are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 15 – ACCOUNTING AND REPORTING CHANGES

In 2011, the county implemented GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions” which changed the classification of fund balances. The following special revenue funds are now rolled into the general fund on the financial statements: Current Exp-Retirement Fund (136), Sup Court & Indigent Defense Emergency Fund (137), Community Outreach (151), CE Medical Insurance Reserve (153), and Leoff I Fund (154).

GASB Statement No. 68 “Accounting and Financial Reporting for Pensions” was implemented this year which requires the County to report its share of the state retirement plan's net pension liability or asset, deferred outflows and inflows of resources related to pensions, and adjustments to pension expense. The implementation of this standard resulted in a \$12,010,710 reduction in net pension on the government-wide statement of activities and a \$737,563 reduction in net position on the proprietary fund statement of revenues, expenses and changes in net position.

REQUIRED SUPPLEMENTARY INFORMATION

WALLA WALLA COUNTY
LEOFF I RETIREE HEALTH INSURANCE BENEFITS
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2015

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)
12/31/2015	-	3,865,583	3,865,583	0%	0	N/A
12/31/2014	-	3,020,308	3,020,308	0%	35,749	8449%
12/31/2013	-	3,559,956	3,559,956	0%	80,222	4438%
12/31/2012	-	2,420,916	2,420,916	0%	79,879	3031%
12/31/2011	-	2,290,005	2,290,005	0%	91,916	2491%
12/31/2010	-	2,308,962	2,308,962	0%	160,444	1439%
12/31/2009	-	2,364,148	2,364,148	0%	167,002	1416%

REQUIRED SUPPLEMENTARY INFORMATION
WALLA WALLA COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2015

PERS 1	2015	2014
County's proportion of the net pension liability	0.127%	0.130%
County's proportionate share of the net pension liability	6,645,060	6,558,785
County's covered employee payroll	362,056	397,094
County's proportionate share of the net pension liability as a percentage of covered employee payroll	1835.37%	1651.70%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%
PERS 2/3	2015	2014
County's proportion of the net pension liability	0.135%	0.140%
County's proportionate share of the net pension liability	4,824,735	2,835,141
County's covered employee payroll	11,027,384	11,833,443
County's proportionate share of the net pension liability as a percentage of covered employee payroll	43.75%	23.96%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%
PSERS	2015	2014
County's proportion of the net pension liability	0.582%	0.528%
County's proportionate share of the net pension liability	106,276	(76,443)
County's covered employee payroll	1,526,271	1,575,133
County's proportionate share of the net pension liability as a percentage of covered employee payroll	6.96%	-4.85%
Plan fiduciary net position as a percentage of the total pension liability	95.08%	105.01%
LEOFF 1	2015	2014
County's proportion of the net pension liability	0.015%	0.013%
County's proportionate share of the net pension liability	(175,625)	(157,808)
County's covered employee payroll	-	14,352
County's proportionate share of the net pension liability as a percentage of covered employee payroll	-	-1099.56%
Plan fiduciary net position as a percentage of the total pension liability	127.36%	126.91%
LEOFF 2	2015	2014
County's proportion of the net pension liability	0.074%	0.061%
County's proportionate share of the net pension liability	(756,677)	(812,389)
State's proportionate share of the net pension liability (asset) associated with the county	(500,314)	(530,796)
Total proportionate share of the net pension liability (asset)	(1,256,991)	(1,343,185)
County's covered employee payroll	1,886,085	1,971,635
County's proportionate share of the net pension liability as a percentage of covered employee payroll	-40.12%	-41.20%
Plan fiduciary net position as a percentage of the total pension liability	111.67%	116.75%

Notes: GASB 68 was implemented for the 2015 financial statements so only two years of data is available.
Up to ten years of history will be presented over time as the data is generated.

REQUIRED SUPPLEMENTARY INFORMATION
WALLA WALLA COUNTY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2015

PERS 1	2015	2014
Statutorily or contractually required contributions	36,921	36,572
Contributions in relation to the statutorily or contractually required contributions	36,921	36,572
Contribution deficiency (excess)	-	-
Covered County payroll	362,056	397,094
Contributions as a percentage of covered County payroll	10.20%	9.21%
PERS 2/3	2015	2014
Statutorily or contractually required contributions	1,122,832	1,089,870
Contributions in relation to the statutorily or contractually required contributions	1,122,832	1,089,870
Contribution deficiency (excess)	-	-
Covered County payroll	11,027,384	11,833,443
Contributions as a percentage of covered County payroll	10.18%	9.21%
PSERS	2015	2014
Statutorily or contractually required contributions	168,395	166,012
Contributions in relation to the statutorily or contractually required contributions	168,395	166,012
Contribution deficiency (excess)	-	-
Covered County payroll	1,526,271	1,575,133
Contributions as a percentage of covered County payroll	11.03%	10.54%
LEOFF 1	2015	2014
Statutorily or contractually required contributions	-	26
Contributions in relation to the statutorily or contractually required contributions	-	26
Contribution deficiency (excess)	-	-
Covered County payroll	-	14,352
Contributions as a percentage of covered County payroll	-	0.18%
LEOFF 2	2015	2014
Statutorily or contractually required contributions	98,642	103,119
Contributions in relation to the statutorily or contractually required contributions	98,642	103,119
Contribution deficiency (excess)	-	-
Covered County payroll	1,886,085	1,971,635
Contributions as a percentage of covered County payroll	5.23%	5.23%

Notes: GASB 68 was implemented for the 2015 financial statements so only two years of data is available.
Up to ten years of history will be presented over time as the data is generated.

WALLA WALLA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2015

Federal Agency/ Pass-Through Agency	Federal Program	CFDA #	Other Award ID #	Expenditures			Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Agriculture/ Office of Superintendent of Public Instruction	School Breakfast Program	10.553	NA	\$1,808		\$1,808	\$0
U.S. Dept of Agriculture/ Office of Superintendent of Public Instruction	National School Lunch Program	10.555	NA	\$3,532		\$3,532	\$0
U.S. Dept of Agriculture/ WA St Dept of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C17131	\$201,528		\$201,528	\$0 2
U.S. Dept of Agriculture/ WA St Dept of Health	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C17131	\$41,459		\$41,459	\$0 2
U.S. Dept of Agriculture/ WA St Dept of Health	WIC Farmers' Market Nutrition Program	10.572	C17131	\$185		\$185	\$0 2
U.S. Dept of Housing and Urban Development/ WA Dept of Commerce	Community Development Block Grants/States Program Total CFDA 14.228	14.228 14.228	14-65400-014 15-62210-014	\$23,649 \$23,654 \$47,303		\$23,649 \$23,654 \$47,303	\$22,149 \$21,902 \$44,051
U.S. Dept of Housing and Urban Development	Continuum of Care Program Total CFDA 14.267	14.267 14.267	WA0093L0T011306 WA0093L0T011407		\$27,191 \$29,076 \$56,267	\$27,191 \$29,076 \$56,267	\$25,615 2 \$27,503 2 \$53,118
U.S. Dept of Justice/ WA St DSHS	Juvenile Accountability Incentive Block Grant Total CFDA 16.523	16.523	1463-17305	\$3,952		\$3,952	\$0
U.S. Dept of Justice/ WA St Patrol	National Criminal History Improvement Program (NCHIP)	16.554	K10493	\$10,769		\$10,769	\$0
U.S. Dept of Justice/ WA St Dept of Commerce	Violence Against Women Formula Grants	16.588	F14-31103-066	\$15,851		\$15,851	\$0
U.S. Dept of Justice	State Criminal Alien Assistance Program	16.606	NA	\$6,267		\$6,267	\$0

The accompanying Notes To The Schedule of Expenditures of Federal Awards are an integral part of this schedule.

WALLA WALLA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2015

Federal Agency/ Pass-Through Agency	Federal Program	CFDA #	Other Award ID #	Expenditures			Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Justice/ Walla Walla Police Dept	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Interlocal	\$8,966		\$8,966	\$0 6
U.S. Dept of Transportation/ WA St DOT	Highway Planning and Construction	20.205	LA-7927	\$10,083		\$10,083	\$0
		20.205	LA-8441	\$21,152		\$21,152	\$0
		20.205	LA-8041	\$486,213		\$486,213	\$0
		20.205	LA-8699	\$89,459		\$89,459	\$0
		20.205	LA-8701	\$73,100		\$73,100	\$0
		20.205	DTFH70-13-E-00028	\$76,858		\$76,858	\$0
	Total CFDA 20.205			\$680,007	\$76,858	\$756,865	\$0
U.S. Dept of Transportation/Washington Traffic Safety Commission	State and Community Highway Safety	20.600	14ST-20	\$25,921		\$25,921	\$0
		20.600	16ST-12	\$8,044		\$8,044	\$0
	Total CFDA 20.600			\$33,965		\$33,965	\$0
U.S. Dept of Transportation/WA Assoc of Police Chiefs	State and Community Highway Safety	20.600	NA	\$982		\$982	\$0
U.S. Dept of Health and Human Services/ WA St Dept of Health	Public Health Emergency Preparedness	93.069	C17131	\$8,912		\$8,912	\$0 2
U.S. Dept of Health and Human Services/ WA St DSHS	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1363-90050	\$10,100		\$10,100	\$9,351
		93.243	1563-42498	\$23,669		\$23,669	\$21,916
				\$33,769		\$33,769	\$31,267
U.S. Dept of Health and Human Services/ WA St Dept of Health	Immunization Grants	93.268	C17131	\$14,504		\$14,504	\$0 2
		93.268	C17131	\$53,686		\$53,686	\$0 2,4
	Total CFDA 93.268			\$68,190		\$68,190	\$0
U.S. Dept of Health and Human Services/ WA St DSHS	Promoting Safe and Stable Families	93.556	1563-42823	\$19,636		\$19,636	\$0
		93.556	1463-14154	\$19,635		\$19,635	\$0
	Total CFDA 93.556			\$39,271		\$39,271	\$0
U.S. Dept of Health and Human Services/ WA St DSHS	Child Support Enforcement	93.563	2110-80334	\$172,210		\$172,210	\$0 5
		93.563	0763-15058	\$3,791		\$3,791	\$0 5
		93.563	2110-80334	\$27,082		\$27,082	\$0 5
	Total CFDA 93.563			\$203,083		\$203,083	\$0

The accompanying Notes To The Schedule of Expenditures of Federal Awards are an integral part of this schedule.

WALLA WALLA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2015

Federal Agency/ Pass-Through Agency	Federal Program	CFDA #	Other Award ID #	Expenditures			Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Health and Human Services/ Grant County Health District	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	Letter of Agreement	\$4,075		\$4,075	\$0 2
U.S. Dept of Health and Human Services/WA St Health Care Authority	Medical Assistance Program	93.778	1166-35275	\$53,029		\$53,029	\$0
	Total CFDA 93.778	93.778	K777	\$11,864		\$11,864	\$1,418 2
				\$64,893		\$64,893	\$1,418
U.S. Dept of Health and Human Services/ WA St DSHS	Block Grants for Prevention & Treatment of Substance Abuse	93.959	1163-27331	\$37,332		\$37,332	\$33,685
	Total CFDA 93.959	93.959	1563-42498	\$7,608		\$7,608	\$7,608
			1563-43896	\$26,467		\$26,467	\$24,206
				\$71,407		\$71,407	\$65,499
U.S. Dept of Health and Human Services/ WA St Dept of Health	Maternal and Child Health Services Block Grant to States	93.994	C17131	\$67,323		\$67,323	\$0 2
U.S. Dept of Homeland Security/WA State Parks & Rec	Boating Safety Financial Assistance	97.012	Letter of Award	\$13,069		\$13,069	\$0 2
U.S. Dept of Homeland Security/ WA St Military Dept	Emergency Management Performance Grants	97.042	E15-158	\$32		\$32	\$0
	Total CFDA 97.042	97.042	E16-116	\$11,668		\$11,668	\$0
				\$11,700		\$11,700	\$0
U.S. Dept of Homeland Security/ WA St Military Dept	Homeland Security Grant Program	97.067	E15-120	\$27,378		\$27,378	\$0
	Total CFDA 97.067	97.067	E15-245	\$4,066		\$4,066	\$0
			E14-155	\$26,290		\$26,290	\$0
				\$57,734		\$57,734	\$0
TOTAL FEDERAL AWARDS EXPENDED				\$1,693,733	\$139,392	\$1,833,125	\$195,353

The accompanying Notes To The Schedule of Expenditures of Federal Awards are an integral part of this schedule.

WALLA WALLA COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the county's financial statements. The county uses the modified accrual basis of accounting as described in Note 1C of the Notes to The Financial Statements.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - REVOLVING LOAN – PROGRAM INCOME

The county had a revolving loan program for low income housing renovation which ended September 30, 2005. Under this federal program, repayments to the county are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$0. The loans are due and payable upon the recipient's sale of the housing unit. The amount of principal and interest received in loan repayments for the year was \$0.

NOTE 4 - NONCASH AWARDS - VACCINATIONS

The amount of vaccine and commodities reported on the schedule is the value of the vaccine and commodities received by the county during current year and priced as prescribed by the Washington State Department of Health and the Office of the Superintendent of Public Instruction, respectively.

NOTE 5 – INDIRECT COST RATE

The amount expended includes \$11,349 claimed as an indirect cost recovery using an approved indirect cost rate of 9.2 percent. The county has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

NOTE 6 – UNDER REPORTED 2014 EXPENDITURES

Expenditures of \$4,854, reported under CFDA 16.738 "Edward Byrne Memorial Justice Assistance Grant Program" on the 2015 Schedule of Expenditures of Federal Awards, were expenditures incurred in 2014 but not included on the 2014 Schedule of Expenditures of Federal Awards.

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.

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