



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

Olympic Area Agency on Aging

Jefferson County

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

Published September 26, 2016

Report No. 1017515





Washington State Auditor's Office

September 26, 2016

Council of Governments
Olympic Area Agency on Aging
Port Hadlock, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Olympic Area Agency on Aging's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Olympic Area Agency on Aging
Jefferson County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Olympic Area Agency on Aging 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 and each major fund 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 Agency.

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 Agency's compliance with requirements applicable to each of its major federal programs.

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 programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
93.044	Aging Cluster - Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers
93.045	Aging Cluster - Special Programs for the Aging – Title III, Part C – Nutrition Services
93.053	Aging Cluster – Nutrition Services Incentive Program

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

The Agency 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**

**Olympic Area Agency on Aging
Jefferson County
January 1, 2015 through December 31, 2015**

Council of Governments
Olympic Area Agency on Aging
Port Hadlock, 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 and each major fund of the Olympic Area Agency on Aging, Jefferson County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 20, 2016. As discussed in Note 10 to the financial statements, during the year ended December 31, 2015, the Agency implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

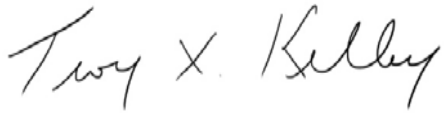
As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 Agency'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 Agency'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.

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TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 20, 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**

**Olympic Area Agency on Aging
Jefferson County
January 1, 2015 through December 31, 2015**

Council of Governments
Olympic Area Agency on Aging
Port Hadlock, Washington

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

We have audited the compliance of the Olympic Area Agency on Aging, Jefferson 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 Agency's major federal programs for the year ended December 31, 2015. The Agency'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 Agency'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 Agency'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 Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency 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

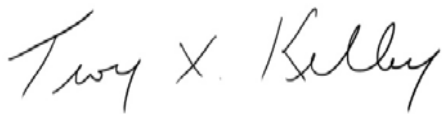
Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types 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 Agency'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 20, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Olympic Area Agency on Aging Jefferson County January 1, 2015 through December 31, 2015

Council of Governments
Olympic Area Agency on Aging
Port Hadlock, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Olympic Area Agency on Aging, Jefferson County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency'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 and each major fund of the Olympic Area Agency on Aging, as of December 31, 2015, and the respective changes in financial position thereof 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 10 to the financial statements, in 2015, the Agency adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

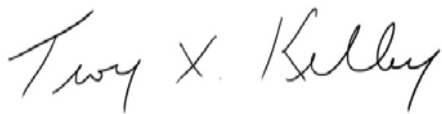
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 22, budgetary comparison information on page 40 and pension plan information on pages 41 through 42 be presented to supplement the basic financial statements. 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 Agency'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 20, 2016 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.



TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 20, 2016

FINANCIAL SECTION

**Olympic Area Agency on Aging
Jefferson County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Governmental Funds Balance Sheet – Statement of Net Position – 2015
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance
– Statement of Activities – 2015
Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund – 2015
Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –
2015
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2015

SUPPLEMENTARY AND OTHER INFORMATION

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

Olympic Area Agency on Aging
Management's Discussion and Analysis
For the Year Ended December 31, 2015

This Management's Discussion and Analysis (MD&A) of the Olympic Area Agency on Aging (OAAA or the Agency) provides an introduction, overview and analysis of OAAA's basic financial statements and financial activities for the year ended December 31, 2015.

Financial Highlights

- In fiscal year 2015, the Agency implemented two new accounting standards issued by the Governmental Accounting Standards Board (GASB), - Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB Statement No. 68*. These pronouncements impact the government-wide financial statements, but not the fund financial statements. Restatement of prior periods for the implementation of these standards was not practical for the Agency. Consequently, the cumulative effect of applying Statements 68 and 71 is reported as a restatement of beginning net position. This adjustment reduced net position at the beginning of the year by \$2,493,112, resulting in a restated net position of \$(1,969,158). See Note 10 under the notes to financial statements for additional information about the implementation of these standards.
- During 2015, OAAA programs generated a net surplus of \$223,800. This, in combination with adjustments related to pension accounting and compensated absences, improved net position by \$384,309 during the year and reduced the net position deficit to \$(1,584,849) at December 31, 2015.
- At December 31, 2015, the ending fund balance of OAAA's general fund is \$911,897, an increase of \$223,800 over the prior year.

Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to OAAA's basic financial statements. Following the MD&A are the Agency's basic financial statements, which consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of OAAA.

The Agency has only one governmental fund; it does not operate any activities that would be defined as either proprietary funds or fiduciary funds. The financial statements of OAAA present the governmental fund statements in the left column and the government-wide statements in the far right column. The adjustments column provides a reconciliation of the difference between the statements. See Note 2 for additional information on the reconciliation of the differences.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Agency's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Agency's financial status as a whole.

Olympic Area Agency on Aging
Management's Discussion and Analysis
For the Year Ended December 31, 2015

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

The statement of activities presents information showing how net position changed during the most recent 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 revenues and earned but unused leave).

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 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 year. Such information may be useful in evaluating a government's near-term financing requirements. The Olympic Area Agency on Aging only has one governmental fund, the general fund.

Condensed Comparative Financial Data

To follow is comparative financial data from the government-wide financial statements at December 31st.

Net Position:

	2015	2014	Increase (Decrease)
Total assets	\$ 2,138,283	1,936,817	201,466
Deferred outflows of resources	250,825	-	250,825
Current liabilities	1,241,976	1,186,216	55,760
Non-current liabilities	2,356,462	150,651	2,205,811
Total liabilities	3,598,438	1,336,867	2,261,571
Deferred inflows of resources	375,519	75,996	299,523
Net position			
Restricted	761,483	523,954	237,529
Unrestricted	(2,346,332)	-	(2,346,332)
Total net position	\$ (1,584,849)	523,954	(2,108,803)

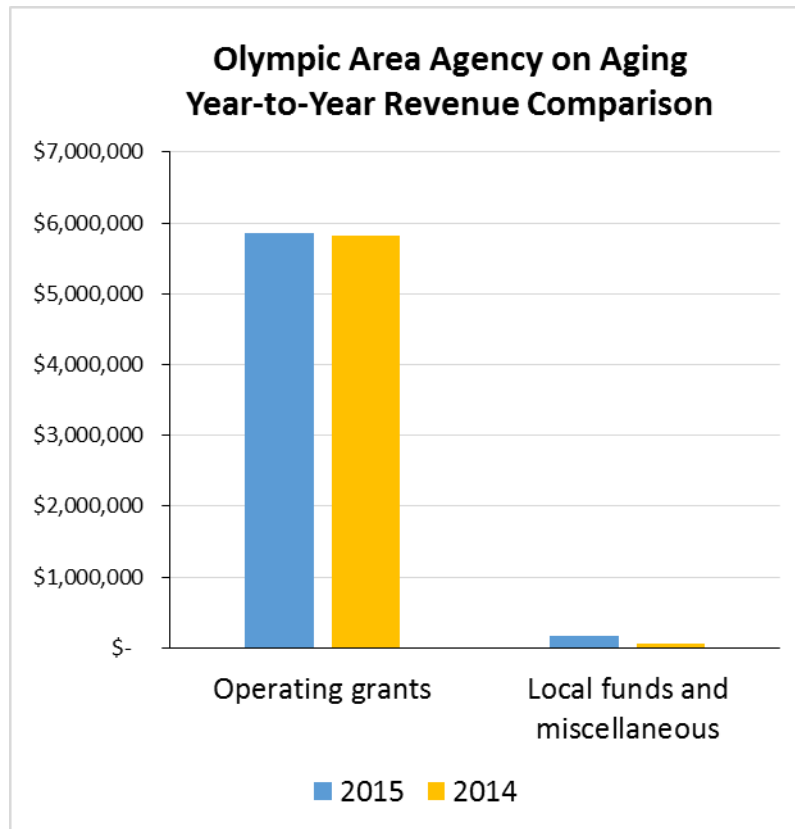
Olympic Area Agency on Aging
Management's Discussion and Analysis
For the Year Ended December 31, 2015

As explained above, in 2015 net position was significantly impacted by the implementation of GASB Statements 68 and 71. Statement 68 changes the way governmental entities calculate and report the costs and obligations of providing pension benefits to its employees. It aims to improve financial reporting by shifting from the current funding-based approach for pension reporting to an accrual accounting-based approach. Statement 71 addresses an issue regarding the transition provisions of Statement 68 related to pension contributions made after the measurement date of the government's beginning net pension liability.

In accordance with Generally Accepted Accounting Principles (GAAP), the Agency adjusted beginning net position for the cumulative effect of adopting Statements 68 and 71. This adjustment reduced net position at the beginning of the year by \$2,493,112, resulting in a restated, net position of \$(1,969,158). Under GAAP, the restricted component of net position can never be negative, and is therefore reported as unrestricted in the statement of net position.

Revenues:

	2015	2014	Increase (Decrease)
Operating grants	\$ 5,862,572	5,822,636	39,936
Local funds and miscellaneous	170,793	52,331	118,462
Total revenue	\$ 6,033,365	5,874,967	158,398



Olympic Area Agency on Aging

Management's Discussion and Analysis

For the Year Ended December 31, 2015

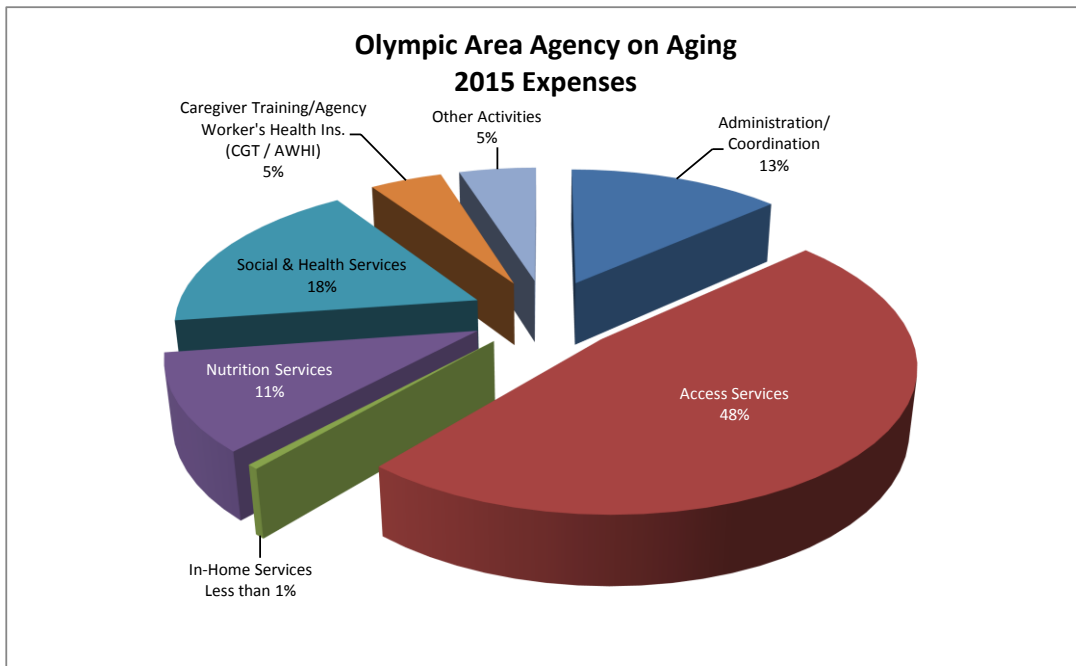
The Agency receives most of its funding through the State of Washington Department of Social and Health Services (DSHS), which includes pass-through funding from federal agencies. Much of this funding is allocated by the state to Area Agencies on Aging, like OAAA, using a funding formula driven off of U.S. Census data. Based on the results of the 2010 Census, OAAA is receiving an increase in its share of funding, phased-in over three years. 2015 is the second year of this three year phase-in.

OAAA experienced a modest caseload growth of 67 clients in our Case Management / Nursing Services program. In addition, the reimbursement rate for this program increased 10% in order to compensate the Agency for a lower, contracted casehandling ratio.

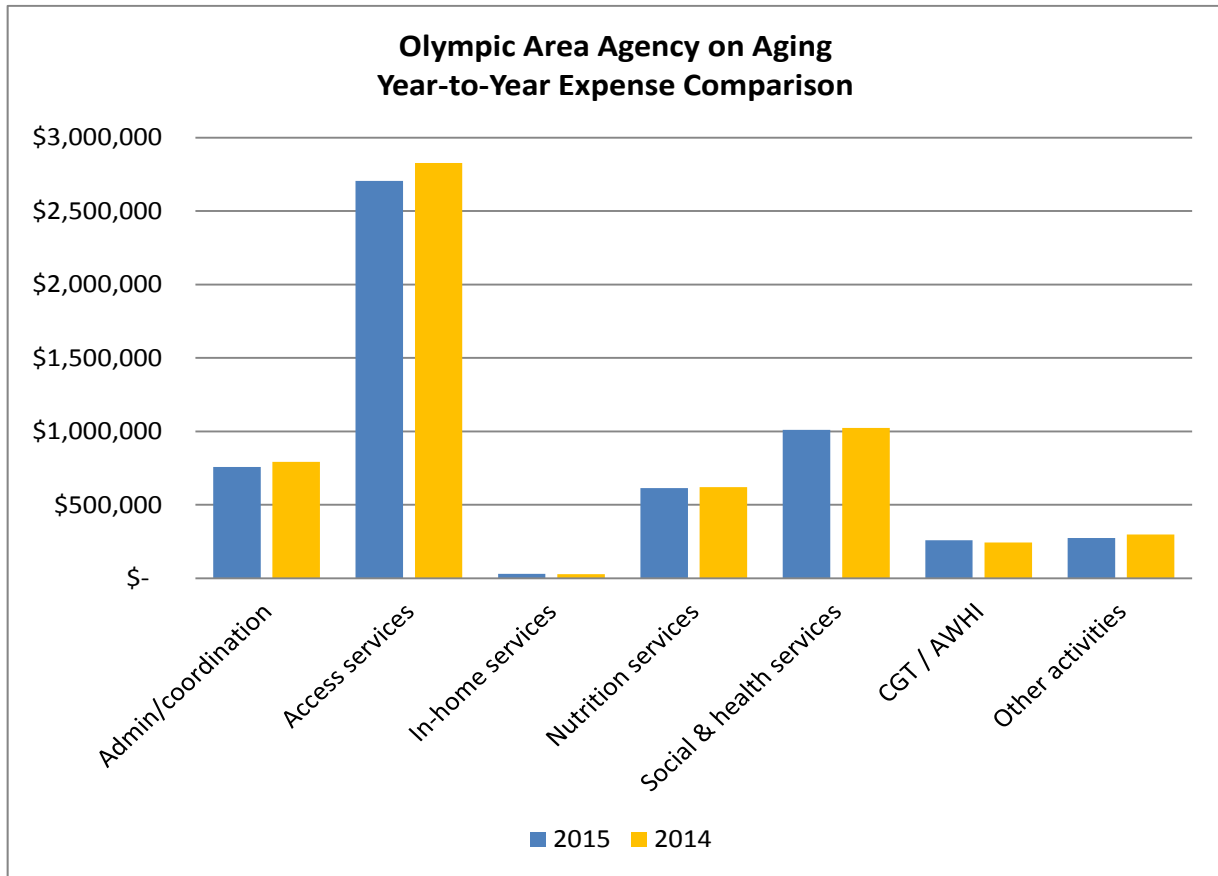
The increase in local funds and miscellaneous revenue relates to growth in our Health Home program. This program was developed as a federal-state partnership, and O3A has contracts with various lead organizations to provide intensive care coordination and management for individuals with chronic and complex health needs. A preliminary federal report on this initiative indicates that the program is achieving its performance measures and generating cost savings. Consequently we anticipate future growth in this program.

Expenses:

	2015	2014	Increase (Decrease)
Admin/coordination	\$ 757,362	792,532	(35,170)
Access services	2,705,119	2,826,803	(121,683)
In-home services	29,749	27,915	1,834
Nutrition services	613,269	619,996	(6,727)
Social & health services	1,010,511	1,022,398	(11,886)
CGT / AWHI	258,346	243,051	15,296
Other activities	274,698	298,648	(23,949)
Total expenses	\$ 5,649,056	5,831,341	(182,285)



Olympic Area Agency on Aging
Management's Discussion and Analysis
For the Year Ended December 31, 2015



The Agency makes adjustments to the programs and services it offers based on the results of community input, such as Area Plan surveys, as well as changes in available funding. In general, program expenses in 2015 were consistent with 2014. The decrease in 2015 expenses as compared to 2014 is due to an accounting adjustment related to accounting for pensions under GASB Statement 68. In 2015 the Agency's proportionate share of pension liability decreased, thereby generating a significant credit in pension expense.

Change in Net Position:

	2015	2014	Increase (Decrease)
Total revenue	\$ 6,033,365	5,874,967	158,398
Total expense	5,649,056	5,831,341	(182,285)
Change in net position	\$ 384,309	43,626	340,683

Olympic Area Agency on Aging
Management's Discussion and Analysis
For the Year Ended December 31, 2015

Analysis of Financial Position and Results of Operations

As stated above, over time changes in net position may serve as a useful indicator of a government's financial position. As described earlier, in 2015 beginning net position was restated for the implementation of GASB Statements 68 and 71, resulting in a decrease of net position by \$(2,493,112). Aside from this restatement, the Agency has had a surplus each year since fiscal year 2010, and net position has been improving. In addition, the Agency generated a surplus of \$384,309 in fiscal year 2015 comprised of the following:

Title XIX Case Management /Nursing Services program surplus	\$ 273,755
Title XIX Core Services Contract Management program surplus	31,729
Health Home program deficit	(93,049)
Accounting entry for pension expense	146,780
Other	25,094
Total	<u>\$ 384,309</u>

Fund Analysis

The general fund is the only operating fund of OAAA. At the end of the fiscal year, the total fund balance for the general fund equaled \$911,897, an increase of \$223,800 over the prior year. The restricted portion of the general fund is available for future use, limited to restrictions imposed by the Aging and Long Term Support Administration (AL TSA). AL TSA requires that these funds be used in AL TSA funded programs or in support of its integration of care efforts, or implementation of Evidence Based Practices in Home & Community Based Services.

Budget Variances in the General Fund

A condensed summary of OAAA's 2015 original and final budget is presented below along with 2015 actual amounts and a calculated variance to the final budget.

	Original Budget	Final Amended Budget	Actual Amount	Variance to Final Budget Positive (Negative)
General fund balance, January 1, 2015	\$ -	-	688,097	
Revenues	5,993,488	6,355,338	6,033,365	(321,973)
Expenditures	5,993,488	6,337,788	5,809,565	528,223
General fund balance, December 31, 2015	-	17,550	<u>\$ 911,897</u>	<u>206,250</u>

Actual expenditures were less than the final amount budgeted for each program area. Since most of the Agency's programs are paid under a cost-reimbursement method, in general, actual revenues were also less than the budget amount. The favorable budget variance in the general fund balance at December 31, 2015 arises from programs that receive funding on a unit rate basis. In 2015 the primary reason for the favorable variance is the surplus from the Title XIX Case Management / Nursing Services program.

Olympic Area Agency on Aging
Management's Discussion and Analysis
For the Year Ended December 31, 2015

Economic Factors and Next Year's Budgets

As stated above, the Agency receives most of its funding through DSHS, which includes pass-through funding from federal agencies. Looking ahead, in 2016 we anticipate an increase in funding related to the third year phase-in of the funding formula reallocation. In addition, we anticipate moderate caseload growth in our Title XIX Case Management / Nursing Services program and significant caseload growth in our Health Home program.

Request for Information

This financial report is designed to provide a general overview of OAAA's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 11700 Rhody Drive, Port Hadlock, WA 98339.

Olympic Area Agency on Aging
Governmental Funds Balance Sheet / Statement of Net Position
As of December 31, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,107,677		1,107,677
Accounts receivable - due from other governments (net)	1,011,639		1,011,639
Prepaid expenses	18,967		18,967
Total assets	<u>2,138,283</u>	<u>-</u>	<u>2,138,283</u>
<u>DEFERRED OUTFLOWS of RESOURCES</u>			
Deferred outflows related to pensions	-	250,825	250,825
Total assets and deferred outflows of resources	<u>2,138,283</u>	<u>250,825</u>	<u>2,389,108</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	142,500		142,500
Due to other governmental units - DSHS advance	903,733		903,733
Other accrued liabilities	178,716		178,716
Current portion of compensated absences		17,027	17,027
Total current liabilities	<u>1,224,949</u>	<u>17,027</u>	<u>1,241,976</u>
Noncurrent liabilities			
Compensated absences	-	133,387	133,387
Net pension liability	-	2,223,075	2,223,075
Total noncurrent liabilities	<u>-</u>	<u>2,356,462</u>	<u>2,356,462</u>
Total liabilities	<u>1,224,949</u>	<u>2,373,489</u>	<u>3,598,438</u>
<u>DEFERRED INFLOWS of RESOURCES</u>			
Deferred inflows related to pensions	-	374,082	374,082
Deferred grant revenue	1,437	-	1,437
Total Deferred inflows of resources	<u>1,437</u>	<u>374,082</u>	<u>375,519</u>
<u>FUND BALANCES / NET POSITION</u>			
Fund balances:			
Nonspendable	18,967	(18,967)	-
Restricted	815,732	(815,732)	-
Committed	77,198	(77,198)	-
Total fund balances	<u>911,897</u>	<u>(911,897)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,138,283</u>		
Net position			
Restricted		761,483	761,483
Unrestricted		(2,346,332)	(2,346,332)
Total net position		<u>\$ (1,584,849)</u>	<u>(1,584,849)</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Olympic Area Agency on Aging
Statement of Governmental Fund Revenues, Expenditures and Changes in
Fund Balance / Statement of Activities
For the Year Ended December 31, 2015

	General Fund	Adjustments	Statement of Activities
Expenditures:			
Administration and coordination	\$ 759,441	(28,915)	730,526
Information technology services	205,326	(6,875)	198,451
Case management services	1,562,264	(60,073)	1,502,191
Information and assistance services	772,899	(28,314)	744,585
Nursing services	284,299	(11,602)	272,697
Family caregiver support services	252,231	(8,810)	243,421
Other program services	1,973,105	(15,920)	1,957,185
	<u>5,809,565</u>	<u>(160,509)</u>	<u>5,649,056</u>
Program revenues:			
Operating grants	5,862,572	-	5,862,572
Net program income		-	213,516
General revenues:			
Local funds and miscellaneous	170,793	-	170,793
Excess of revenues over expenditures	223,800	(223,800)	-
Change in net position		384,309	384,309
Fund balances / net position:			
Beginning of the year	688,097	-	523,954
Cumulative effect of change in accounting principle principle - GASB statement 68		(2,493,112)	(2,493,112)
Net position, beginning of the year, restated			(1,969,158)
End of the year	<u>\$ 911,897</u>	<u>(2,493,112)</u>	<u>(1,584,849)</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Olympic Area Agency on Aging (OAAA or the Agency) 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

The Olympic Area Agency on Aging was organized in 1975 under the laws of the Revised Code of Washington (RCW), Chapter 39.34, Interlocal Cooperation Act. It serves as the Area Agency on Aging for the member counties of Clallam, Grays Harbor, Jefferson and Pacific. The Agency is governed by a council of eight county commissioners (the COG), two from each of the member counties.

The purpose of the organization is to assist in the development of a comprehensive and coordinated service system for senior citizens and adults with disabilities. Its major functions relate to the funding, coordinating and planning of these activities, as well as advocating for the needs of these individuals.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement or a particular function or segment.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Grant revenues are recognized as soon as they are both measurable and available. Grant 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, OAAA considers grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. The general (or current expense) fund is the operating fund of OAAA. It accounts for all financial resources of the Agency.

D. Budgetary Information

The Olympic Area Agency on Aging prepares four budgets annually: 1) the Area Plan which budgets all activities on a calendar year basis and is non-contractual; 2) the State/Federal budget which is on the state fiscal year and is contractual; 3) the Older Americans Act (OAA) budget which is on a calendar year and is contractual; and 4) the internal operations budget which is non-contractual. All budgets are prepared on the modified accrual basis.

Area Plan, State/Federal and OAA budget requirements are mandated by the Aging & Long-Term Support Administration (AL TSA), Department of Social and Health Services (DSHS). The State/Federal and OAA budgets, as adopted, constitute the legal authority for expenditures. In general, transfers or revisions are allowed up to 10 percent of the total budget, but supplemental or additional appropriations must be approved by AL TSA. The operating budget and its semi-annual update are approved by the COG. Budgeted expenditures can only exceed budgeted revenues when there is a surplus in the unrestricted fund balance or when the excess expenditures meet the constraints of the restricted fund balance.

E. Assets, Liabilities, Fund Balances and Net Position

1. Cash and Cash Equivalents

The Agency considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are reported at fair value.

2. Accounts Receivable - Due from Other Governments

Amounts due from other governments are considered to be fully collectible and are stated at gross. No allowance for doubtful accounts has been established.

3. Due to Other Governmental Units – DSHS Advance

The amount due consists of a two-month working capital cash advance from DSHS to cover operating expenditures, including payments to providers.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT.

E. Assets, Liabilities, Fund Balances and Net Position, cont.

4. Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are transactions that result in the consumption or acquisition of net assets in one period, and yet, are applicable to future periods. In other words, the recognition of revenues and expenses are deferred until the future period to which the inflows and outflows are related. The Agency has deferred outflows of resources and deferred inflows of resources related to pension accounting under GASB Statement 68. In addition OAAA has deferred inflows of resources related to grant funding received before it has been earned.

5. Compensated Absences

Compensated absences are absences for which employees will be paid, such as annual (vacation) and sick leave. Annual leave, which is payable upon resignation, retirement or death, is accrued when earned in the government-wide financial statements. Up to 200 hours of annual leave may be carried over to the next calendar year. Upon resignation or retirement, any outstanding sick leave is lost and therefore not accrued in the government-wide financial statements.

6. 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.

7. Other Accrued Liabilities

Other accrued liabilities consist of accrued wages and accrued employee benefits.

8. Fund Balance Classification and Details

As required under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Agency's fund balance is classified according to the relative strength of the spending constraints placed on the purpose for which resources can be used:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Management has classified prepaid expenditures as being nonspendable as this item is not expected to be converted to cash.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT.

E. Assets, Liabilities, Fund Balances and Net Position, cont.

8. Fund Balance Classification and Details, cont.

Restricted: This classification includes amounts for which constraints have been placed on the use of resources from either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.

Management has classified the fund balance related to the Medical Assistance Program (Title XIX) and the Home Care Referral Registry as restricted.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the Agency's COG, which is the Agency's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the COG removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. Management has classified the Agency's reserve for unemployment compensation as committed.

Assigned: This classification includes spendable amounts that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for a specific purpose in accordance with the provisions of GASB Statement 54. The intent of an assigned fund balance should be expressed by either the Agency's COG, or a subordinate high-level body, such as a finance committee, or an official, such as the executive director, that has the authority to assign amounts to be used for specific purposes. The Olympic Area Agency on Aging did not have any assigned resources at year end.

Unassigned: This classification is the residual fund balance for the general fund. It also represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The accounting policies of the Agency consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when fund balance resources are available for a specific purpose in multiple unrestricted classifications, the Agency would use funds first in the following order: committed, assigned, and unassigned as they are needed. However, it reserves the right to selectively spend unassigned resources first and to defer the use of the other classified funds.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

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

Items not recorded in the governmental fund balance sheet:

Deferred outflows of resources related to pensions	\$250,825
Compensated absences	\$150,414
Net pension liability	\$2,223,075
Deferred inflows of resources related to pensions	\$374,082

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

Decrease in compensated absences	\$13,729
Decrease in pension expense - GASB Statement 68	\$146,780

NOTE 3 - DEPOSITS AND INVESTMENTS

The Olympic Area Agency on Aging's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The office of the Jefferson County Treasurer provides treasury functions for OAAA, including holding funds in an investment account. The Agency does not hold any other investments and therefore does not have a policy for custodial risk.

NOTE 4 – PREPAID EXPENSES

Prepaid expenses in the governmental fund consist of unamortized insurance premiums. The cost is recorded as an expenditure at the time insurance policy premiums are paid.

NOTE 5 - 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	\$2,223,075
Pension assets	\$0
Deferred outflows of resources	\$250,825
Deferred inflows of resources	\$374,082
Pension expense/expenditures	\$114,523

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PENSION PLANS, CONT.

State Sponsored Pension Plans

Substantially all OAAA 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.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PENSION PLANS, CONT.

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%

The Olympic Area Agency on Aging's actual contributions to the plan were \$120,832 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.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PENSION PLANS, CONT.

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

The Olympic Area Agency on Aging's actual contributions to the plan were \$140,471 for the year ended December 31, 2015.

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.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PENSION PLANS, CONT.

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 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. 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 employers, whose rates include a component for the PERS 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.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PENSION PLANS, CONT.

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 OAAA's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what OAAA'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	\$1,503,898	\$1,235,232	\$1,004,204
PERS 2/3	\$2,888,504	\$987,843	\$(467,422)

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, OAAA reported a total pension liability of \$2,223,075 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$1,235,232
PERS 2/3	\$987,843

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PENSION PLANS, CONT.

At June 30, OAAA'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	0.024722%	0.023614%	-0.001108%
PERS 2/3	0.028977%	0.027647%	-0.001330%

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*.

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, OAAA recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 10,231
PERS 2/3	104,292
TOTAL	\$114,523

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, OAAA 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		
Net difference between projected and actual investment earnings on pension plan investments		\$67,581
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$66,098	
TOTAL	\$66,098	\$67,581

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 5 - PENSION PLANS, CONT.

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$105,008	
Net difference between projected and actual investment earnings on pension plan investments		\$263,707
Changes of assumptions	\$1,592	
Changes in proportion and differences between contributions and proportionate share of contributions		\$42,794
Contributions subsequent to the measurement date	\$78,127	
TOTAL	\$184,727	\$306,501

Deferred outflows of resources related to pensions resulting from OAAA'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
2016	\$(26,192)
2017	\$(26,192)
2018	\$(26,192)
2019	\$10,995
2020	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2016	\$(84,185)
2017	\$(84,185)
2018	\$(84,185)
2019	\$52,653
2020	\$0
Thereafter	\$0

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 6 - RISK MANAGEMENT

The Olympic Area Agency on Aging maintains insurance policies against most normal hazards and has elected to be self-insured for unemployment insurance.

The Agency has insurance coverage from three commercial carriers. General liability and professional liability coverage has limits of \$1,000,000 per occurrence and \$3,000,000 in aggregate, with a \$1,000 deductible. Automobile coverage is limited to \$1,000,000 for each accident with a \$1,000 deductible. In addition, OAAA has a \$4,000,000 (each occurrence and in aggregate) commercial umbrella policy with a \$10,000 retention. Commercial property coverage is in the amount of \$330,770 with a \$1,000 deductible and commercial crime coverage has a maximum limit of \$1,000,000 with a \$1,000 deductible. Directors & Officers and Employment Practices policies have limits of \$5,000,000 for each claim and in aggregate, with a \$10,000 deductible.

Insurance settlements have not exceeded insurance coverage in the past three years.

Based on OAAA's history of claims for unemployment compensation, the COG established an unemployment compensation fund. At December 31, 2015, the Agency estimated the maximum liability for probable losses at \$77,198.

NOTE 7 - LEASES

The Agency leases office buildings under non-cancelable operating leases. The total cost for such leases was \$94,272 for the year ended December 31, 2015. The future minimum lease payments for these leases are as follows:

Year Ended December 31	Amount
2016	\$ 94,272
2017	16,446
2018	-
2019	-
2020	-
Thereafter	-
Total	\$ 110,718

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Governmental Activities:					
Pension obligations	\$ 1,831,112	391,963	0	2,223,075	-
Compensated absences	164,143	-	13,729	150,414	17,027
Governmental activity long-term liabilities:	\$ 1,995,255	391,963	13,729	2,373,489	17,027

NOTE 9 – RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$761,483 of restricted component of net position. This entire amount is subject to legally enforceable restrictions from the Agency's cognizant entity, ALTA.

NOTE 10 – NEW ACCOUNTING STANDARDS

In June 2012, the GASB issued new standards for pension accounting and reporting. These standards significantly change the way state and local governments calculate and report the costs and obligations associated with providing pension benefits to their employees. Those standards applicable to the Agency are GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Statement 68 is effective for fiscal years beginning after June 15, 2014 and Statement 71 is to be applied simultaneously with Statement 68. The Agency implemented these standards in 2015.

Statement 68 establishes accounting and financial reporting requirements for government employers that prepare GAAP-compliant financial statements. Included in Statement 68 is the requirement that employers recognize their proportionate share of any unfunded pension obligation (also called the net pension liability) as a balance sheet liability in their financial statements. In addition, employers are required to recognize deferred outflows and deferred inflows related to pensions as well as certain pension expenses immediately rather than extending them over a period of time. Statement 71 addresses an issue regarding the transition provisions of Statement 68 associated with pension contributions made after the measurement date of the government's beginning net pension liability.

Restatement of prior periods for the implementation of these standards was not practical for the Agency. Consequently, the cumulative effect of applying Statements 68 and 71 is reported as a restatement of beginning net position. This adjustment reduced net position at the beginning of the year by \$2,493,112, resulting in a restated, net position of \$(1,969,158). Under GAAP, the restricted component of net position can never be negative, and is therefore reported as unrestricted in the statement of net position.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2015

NOTE 11 – CONTINGENCIES AND LITIGATIONS

The Agency has no known legal obligations which would materially impact the financial position of the Agency.

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

Olympic Area Agency on Aging
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2015

Source / Use	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Budgetary fund balance, January 1	\$ -	-	688,097	
Revenues:				
Older Americans Act budget	1,290,605	1,293,563	1,266,191	(27,372)
State/federal budget	3,871,340	4,084,773	3,860,604	(224,169)
Agency Worker's Health Ins. & Caregiver Training	260,000	269,157	269,157	-
Miscellaneous grants	474,125	487,521	466,620	(20,901)
Other	97,418	220,324	170,793	(49,531)
Total revenue	<u>5,993,488</u>	<u>6,355,338</u>	<u>6,033,365</u>	<u>(321,973)</u>
Expenditures:				
Administration and coordination	812,781	862,195	759,441	102,754
Information technology services	209,021	211,272	205,326	5,946
Case management services	1,559,547	1,634,656	1,562,264	72,392
Information and assistance services	785,223	825,767	772,899	52,868
Nursing services	439,253	352,187	284,299	67,888
Family caregiver support services	269,694	295,249	252,231	43,018
Other program services	1,917,969	2,156,462	1,973,105	183,357
Total expenditures	<u>5,993,488</u>	<u>6,337,788</u>	<u>5,809,565</u>	<u>528,223</u>
Net change	-	17,550	223,800	<u>206,250</u>
Budgetary fund balance, December 31	<u>\$ -</u>	<u>17,550</u>	<u>911,897</u>	

The Budgetary Comparison Schedule is prepared on the same basis of accounting as the Olympic Area Agency on Aging's (OAAA) financial statements. The OAAA uses the modified accrual basis of accounting.

Olympic Area Agency on Aging
Schedule of Proportionate Share of the Net Pension Liability

PERS 1
As of June 30

	<u>2015</u>	<u>2014</u>
<u>OAAA's proportion of the net pension liability (asset)</u>	0.023614%	0.024722%
<u>OAAA's proportionate share of the net pension liability</u>	\$ 1,235,232	\$ 1,245,382
<u>OAAA's covered employee payroll</u>	\$ 2,565,721	\$ 2,567,458
<u>OAAA's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	48.14%	48.51%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	59.10%	61.19%

PERS 2
As of June 30

	<u>2015</u>	<u>2014</u>
<u>OAAA's proportion of the net pension liability (asset)</u>	0.027647%	0.028977%
<u>OAAA's proportionate share of the net pension liability</u>	\$ 987,843	\$ 585,730
<u>OAAA's covered employee payroll</u>	\$ 2,565,721	\$ 2,567,458
<u>OAAA's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	38.50%	22.81%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	89.20%	93.29%

Olympic Area Agency on Aging Schedule of Employer Contributions

PERS 1 As of December 31

	<u>2015</u>	<u>2014</u>
<u>Statutorily or contractually required contributions</u>	\$ 120,832	\$ 108,981
<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>\$ (120,832)</u>	<u>\$ (108,981)</u>
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 2,607,680	\$ 2,563,505
<u>Contributions as a percentage of covered employee payroll</u>	4.63%	4.25%

PERS 2 As of December 31

	<u>2015</u>	<u>2014</u>
<u>Statutorily or contractually required contributions</u>	\$ 140,471	\$ 122,503
<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>\$ (140,471)</u>	<u>\$ (122,503)</u>
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 2,607,680	\$ 2,563,505
<u>Contributions as a percentage of covered employee payroll</u>	5.39%	4.78%

**Olympic Area Agency on Aging
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
Food And Nutrition Service, Department Of Agriculture (via DSHS)	Senior Farmers Market Nutrition Program	10.576	1469-14525	11,025	-	11,025	11,025	3 4a
Employment Training Administration, Department Of Labor (via DSHS)	Senior Community Service Employment Program	17.235	1469-14525	53,605	-	53,605	-	
Employment Training Administration, Department Of Labor (via DSHS)	Senior Community Service Employment Program	17.235	1569-41578	56,820	-	56,820	-	
	Total CFDA 17.235:		110,424	110,424	-	110,424	-	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_ Title VII, Chapter 3_ Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	1569-41578	3,540	-	3,540	-	
Aging Cluster								
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_ Title III, Part B_ Grants for Supportive Services and Senior Centers	93.044	1569-41578	494,992	-	494,992	91,896	4b
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045	1569-41578	541,183	-	541,183	489,180	4c
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Nutrition Services Incentive Program	93.053	1569-41578	85,303	-	85,303	85,303	4d
	Total Aging Cluster:		1,121,477	1,121,477	-	1,121,477	666,379	

The accompanying notes are an integral part of this schedule.

**Olympic Area Agency on Aging
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
Administration For Community Living, Department Of Health And Human Services (via DSHS)	National Family Caregiver Support, Title III, Part E	93.052	1569-41578	141,173	-	141,173	-	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Medicare Enrollment Assistance Program	93.071	1469-14525	15,605	-	15,605	-	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Affordable Care Act – Aging and Disability Resource Center	93.517	1369-78478	22,926	-	22,926	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via CHOICE Regional Health Network)	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	HBE-075-09	10,368	-	10,368	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	93.628	1469-14525	2,304	-	2,304	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	93.628	1569-41578	389	-	389	-	
Total CFDA 93.628:				2,693	-	2,693	-	

The accompanying notes are an integral part of this schedule.

**Olympic Area Agency on Aging
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self- Management Education Programs – financed by Prevention and Public Health Funds (PPHF)	93.734	1269-63881	11,215	-	11,215	-	
Medicaid Cluster								
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Medical Assistance Program	93.778	1469-14525	692,059	-	692,059	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Medical Assistance Program	93.778	1569-41578	784,399	-	784,399	-	
		Total Medicaid Cluster:		1,476,458	-	1,476,458	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Money Follows the Person Rebalancing Demonstration	93.791	1469-14525	5,415	-	5,415	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Money Follows the Person Rebalancing Demonstration	93.791	1569-41578	5,041	-	5,041	-	
		Total CFDA 93.791:		10,455	-	10,455	-	
		Total Federal Awards Expended:		2,937,360	-	2,937,360	677,404	

Olympic Area Agency on Aging
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 Olympic Area Agency on Aging's (OAAA) financial statements. The Olympic Area Agency on Aging uses the modified accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – NONCASH AWARDS – SFMNP VOUCHERS

The amount reported as current year expenditures for the Senior Farmers Market Nutrition Program (SFMNP) includes \$9,960 of food vouchers, for which OAAA is responsible for distribution oversight. The vouchers are priced by the state of Washington Aging & Long-Term Support Administration.

NOTE 4 – AMOUNTS AWARDED TO SUBRECIPIENTS

The following chart details the amount of total federal expenditures that were passed through to a subrecipient that administered its own project:

Footnote Reference	Program Name	Amount Passed Through to Subrecipient
4a	Senior Farmers Market Nutrition Program	\$11,025
4b	Title III, Part B, Grants for Supportive Services and Senior Centers	\$91,896
4c	Title III, Part C, Nutrition Services	\$489,180
4d	Nutrition Services Incentive Program	\$85,303

NOTE 5 – INDIRECT COST RATE

The amount expended includes an indirect cost recovery using an approved cost allocation plan. OAAA has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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