



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Yakima Health District

Yakima County

For the period January 1, 2016 through December 31, 2016

Published September 18, 2017

Report No. 1019847





Office of the Washington State Auditor
Pat McCarthy

September 18, 2017

Board of Health
Yakima Health District
Union Gap, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Yakima Health District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Yakima Health District
Yakima County
January 1, 2016 through December 31, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Yakima Health District 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 District.

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 District'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>
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds

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

The District did not qualify 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**

**Yakima Health District
Yakima County
January 1, 2016 through December 31, 2016**

Board of Health
Yakima Health District
Union Gap, 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 Yakima Health District, Yakima County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 11, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District's financial statements are free from material misstatement, we performed tests of the District'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 District'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 District'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.



Pat McCarthy

State Auditor

Olympia, WA

September 11, 2017

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

**Yakima Health District
Yakima County
January 1, 2016 through December 31, 2016**

Board of Health
Yakima Health District
Union Gap, Washington

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

We have audited the compliance of the Yakima Health District, Yakima 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 District's major federal programs for the year ended December 31, 2016. The District'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 District'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 District'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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District 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, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District 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 District'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 District'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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 11, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Yakima Health District Yakima County January 1, 2016 through December 31, 2016

Board of Health
Yakima Health District
Union Gap, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Yakima Health District, Yakima County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

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 District'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 District'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 financial position of the governmental activities and each major fund of the Yakima Health District, as of December 31, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 20, budgetary comparison information on page 40 and pension plan information on pages 41 through 43 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 an opinion on the financial statements that collectively comprise the District'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 11, 2017 on our consideration of the District'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 District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 11, 2017

FINANCIAL SECTION

**Yakima Health District
Yakima County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule Governmental Fund – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –
2016

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2016

Notes to the Required Supplemental Information – Pension – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Yakima Health District presents this narrative overview and analysis of its financial performance for the fiscal year ended December 31, 2016. We encourage the use of this discussion and analysis in conjunction with statements and supplemental schedules included in this report.

FINANCIAL HIGHLIGHTS

-) The District's overall financial position increased from fiscal year (FY) 2015 to 2016. Net position increased by \$729,576 during FY 2016 to \$6,542,848. The change represents an increase of 13% in net position from the prior year.
-) The final expenditure budget was adopted at \$5,741,831. The 2016 final adopted budget represents an increase of \$1.3 million from prior budget year 2015.
-) The District's net capital assets decreased by roughly \$51,000 to \$2.1 million.

Discussion of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the financial statements of Yakima Health District. The District's basic financial statements comprise of 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* consist of a *statement of net position* and a *statement of activities*. They are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements focus on type of activities, rather than type of funds. These statements provide information about the activities of the District as a whole and present a long-term financial view.

The *statement of net position* presents information on all of the District's assets deferred outflows, liabilities and deferred inflows, with the difference reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. The net position is reported in three categories: invested in capital assets, restricted, and unrestricted. Increases or decreases in the net position are indicators of the District's financial health.

The *statement of activities* is a report on the results of the District's operations. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). The statement presents the cost of each function and the extent to which each of the local government's functions, programs or services relies on taxes for funding. All changes in net position are reported using the accrual basis of accounting which requires that revenues are reported when they are earned and expenses are reported when the goods and services are received. Items such as uncollected taxes, unpaid vendor invoices for items received in 2016, pension liability changes and earned but unused vacation leave and a

portion of sick leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2016.

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 Yakima Health District, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. There are two statements required - the balance sheet and the statement of revenues, expenditures and changes in fund balance. General capital assets and general long-term liabilities are not reported in the governmental fund balance sheet. (They are reported in the government-wide financial statements.) The statement of revenues, expenditures and changes in fund net balances reports information about the inflows, outflows, and balances of current financial resources of each major governmental fund.

Notes to the financial statement. The notes are essential to fair presentation of the basic financial statements. The notes include the summary of significant accounting policies and summary disclosure of such matters as significant contingent liabilities, encumbrances outstanding, significant effects of subsequent events, pension plans, accumulated unpaid employee benefits (such as vacation and sick leave), material violations of finance-related legal and contractual provisions, and other significant commitments, any excess of expenditures over appropriations in individual funds or deficit balances of individual funds. Any other disclosures necessary in the circumstances are also included.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information called budgetary comparison schedule.

Condensed Comparative Financial Data

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Yakima Health District, assets exceeded liabilities by \$6,542,848 at the close of fiscal year 2016. This is a 13% increase from prior year.

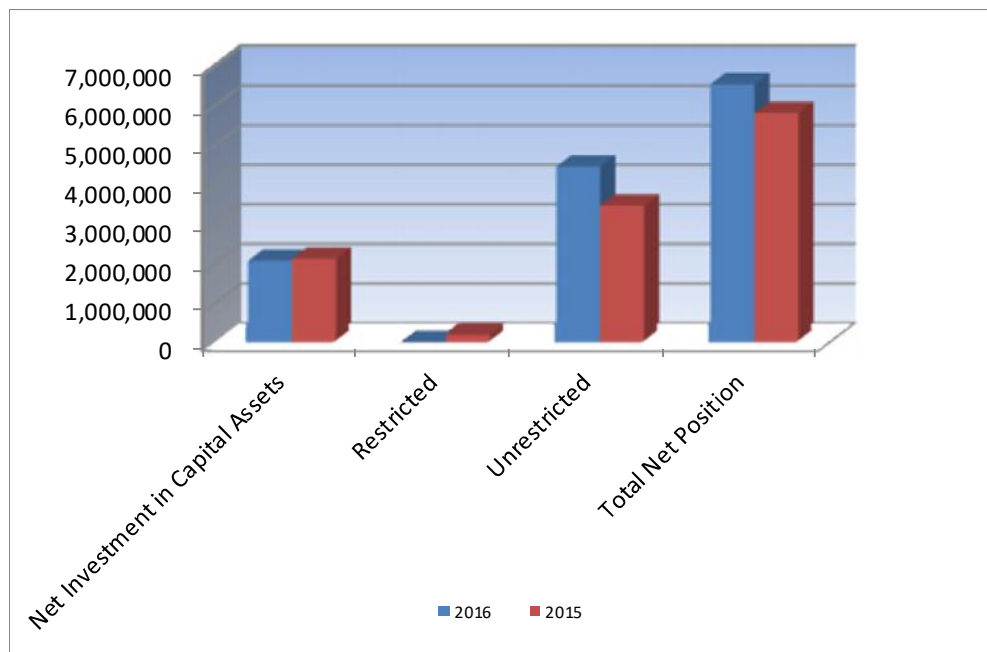
Approximately 32% or \$2.1 million reflects the district's investment in capital used to provide services to citizens. Consequently, these assets are not available for future spending. This category decreased approximately \$51,000 compared to 2015 due to accumulated depreciation and equipment additions of \$16,784.

Restricted net position can only be spent on activities in accordance with external restrictions. Restricted net position decreased to \$2,561. Unrestricted net position increased approximately \$1.0 million from the prior year, due to an increase in revenue from new contracts for services.

Current and other assets increased \$625,000 from 2015 to 2016. This comprises an increase of almost \$600,000 in cash and cash equivalents due to increased revenues on contracts for services. Current liabilities decreased 2% from 2015. Long-term liabilities increased about 6% with an increase in Net Pension Liability.

Net Position of Governmental Activities

	Governmental Activities		Variance	%
	2016	2015	Positive (Negative)	Change
Assets				
Current and Other Assets	6,280,874	5,656,220	624,654	11.04%
Capital Assets	2,080,569	2,131,946	(51,377)	-2.41%
Total Assets	8,361,443	7,788,166	573,277	7.36%
Deferred Outflows of Resources	261,318	176,303	85,015	100%
Liabilities				
Other Liabilities	542,434	555,579	(13,145)	-2.37%
Long-term Liabilities	1,494,647	1,405,064	89,583	6.38%
Total Liabilities	2,037,081	1,960,643	76,438	3.90%
Deferred Inflows of Resources	42,832	190,554	(147,722)	100%
Net Position				
Net Investment in Capital Assets	2,080,569	2,131,946	(51,377)	-2.41%
Restricted	2,561	208,440	(205,879)	-98.77%
Unrestricted	4,459,718	3,472,886	986,832	28.42%
Total Net Position	6,542,848	5,813,272	729,576	12.55%



This District's total revenues in 2016 increased by \$1.5 million or 36%. The largest contributor to increased revenue is charges for services due to a full year with the contract for developmental

disabilities program administration, which began in mid-2015. Expenditures increased by nearly \$1.2 million (31%) in comparison to fiscal year 2015 for costs related to the contract.

Changes in Net Position

	General Fund		Variance	%
	2016	2015	Positive (Negative)	Change
Revenues				
Charges for Services	3,567,458	2,350,900	1,216,558	51.75%
Operating grants and contributions	1,154,372	807,832	346,540	42.90%
General revenues				
Motor Vehicle Excise Tax	1,052,482	1,052,482	-	0.00%
Investment Earnings	22,575	43,101	(20,526)	-47.62%
Total Revenues	5,796,887	4,254,315	1,542,572	36.26%
Expenditures				
Public Health	5,067,311	3,879,954	1,187,357	30.60%
Total Expenditures	5,067,311	3,879,954	1,187,357	30.60%
Change in Net Position	729,576	374,361	355,215	94.89%
Net Position, beginning of period	5,813,272	6,861,630	(1,048,358)	-15.28%
Change in accounting principles	-	(1,472,719)	1,472,719	0.00%
Prior period adjustment	-	50,000	(50,000)	-100.00%
Net Position, end of period	6,542,848	5,813,272	729,576	12.55%

Overall Analysis of Financial Position and Result of Operations

Although the District has a significant amount of unrestricted net position, the District is carefully monitoring revenues and keeping expense in line with resources. Financial position improved in 2016 due to this policy. Total net position increased \$729,576, or 12.6%, in 2016 compared to 2015.

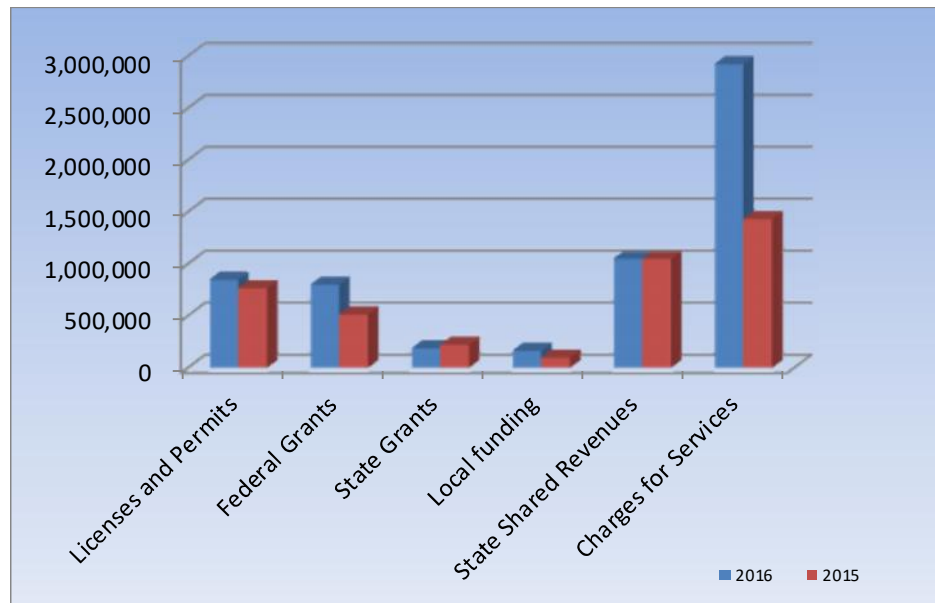
The financial policy of the Board of Health is that all programs should be completely funded by grants or other determined revenue source. Use of fund balance should be closely examined and reviewed. Prudent management of expenses and regular review of monthly financial statements by the management team contributed to improved fiscal oversight.

Fund Analysis

The general fund reported an ending net position of \$5.8 million which is an increase of \$822,013 over 2015 net position. Increased expense (24%) was due to additional services provided, which generated an increase of 46% in revenues to cover the related additional cost.

Committed fund balance remained unchanged and unassigned fund balance increased \$1.4 million due to increased license and permits and charges for services revenues.

Federal grants increased as well local funding. State grants saw a slight decrease from 2015.



The District does not believe that it has any restrictions, commitments, or other limitations that significantly affect the availability of operational fund resources in the future.

Budget Variance in the General Fund

The final 2016 expense budget was adopted at \$5,741,831. This is an increase of \$1.3 million (28%) from the 2015 budget year due to budgeting for the first full year of the new developmental disabilities program administration contract.

Management continues to reevaluate staffing needs and watch inflow of revenue. The Board of Health does not approve budget of any program when funding is uncertain.

CAPITAL ASSET AND LONG-TERM LIABILITY ACTIVITY

Capital Assets

The net capital assets decreased from the previous year due to depreciation charges. Equipment of \$16,784 was added in 2016. The following shows capital asset balances, net, as of December 31, 2016 and 2015:

	2016	2015
Land	376,742	376,742
Buildings	1,502,129	1,530,382
Improvements other than buildings	134,726	148,730
Equipment	66,972	76,092
Total capital assets (net)	2,080,569	2,131,946

See Note 5, Capital Assets.

Long Term Liabilities

Long term liabilities consists of compensated absences totaling \$119,604 and net pension liability of \$1,424,476. See Note 9, Long-Term Liabilities.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. The financial statements are audited on an annual basis by the Washington State Auditor's Office in accordance with OMB Circular A-133. Upon completion of the audit and issuance of the audit report, the report will be available by contacting the District. Other questions about additional financial information should be addressed to:

Yakima Health District
1210 Ahtanum Ridge Drive
Union Gap, WA 98903
(509) 249-6600

YAKIMA COUNTY HEALTH DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
<i>Current Assets</i>	
Cash	219,564
Revolving Fund/Petty Cash	8,000
Temporary Investments	5,444,516
Accounts Receivable	19,446
Due From Other Government	563,638
Prepaid Expenses	25,710
Total Current Assets	<u>6,280,874</u>
<i>Noncurrent Assets</i>	
Capital Assets Not Being Depreciated:	376,742
Capital Assets Being Depreciated (net)	1,703,827
Total Noncurrent Assets	<u>2,080,569</u>
Total Assets	<u>8,361,443</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Amounts Related to Pensions	261,318
Total Deferred Outflows of Resources	<u>261,318</u>
 LIABILITIES	
<i>Current Liabilities</i>	
Unearned Revenue	2,561
Accounts Payable	255,830
Wages Payable	87,292
Other Accrued Expenses	147,318
Compensated Absences	49,433
Total Current Liabilities	<u>542,434</u>
<i>Noncurrent Liabilities</i>	
Compensated Absences	70,171
Net Pension Liability	1,424,476
Total Noncurrent Liabilities	<u>1,494,647</u>
Total Liabilities	<u>2,037,081</u>
 DEFERRED INFLOWS OF RESOURCES	
Amounts Related to Pensions	42,832
Total Deferred Inflows of Resources	<u>42,832</u>
 NET POSITION	
Investment in Capital Assets	2,080,569
Restricted	2,561
Unrestricted	4,459,718
Total Net Position	<u>6,542,848</u>

The Accompanying Notes are an Integral Part of This Statement

**YAKIMA HEALTH DISTRICT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Local Contributions	Governmental Activities
Primary Government				
Public Health	5,067,311	3,567,458	1,154,372	(345,481)
Total Governmental Activities	5,067,311	3,567,458	1,154,372	(345,481)
General revenues:				
Public Health Assistance				1,052,482
Investment Earnings				22,575
Total General Revenues				1,075,057
Change in Net Position				729,576
Net Position Beginning				5,813,272
Net Position Ending				6,542,848

The Accompanying Notes are an Integral Part of This Statement

YAKIMA COUNTY HEALTH DISTRICT
Balance Sheet
Governmental Funds
December 31, 2016

	<u>General Fund</u>
ASSETS	
Cash	219,564
Revolving Fund/Petty Cash	8,000
Temporary Investments	5,444,516
Accounts Receivable	19,446
Due From Other Government	563,638
Prepaid Expenses	25,710
Total Assets	<u><u>6,280,874</u></u>
LIABILITIES	
Accounts Payable	258,391
Wages Payables	87,292
Accrued Expenses Payable	147,318
Total Liabilities	<u><u>493,001</u></u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenues	1,421
Total Deferred Inflows of Resources	<u><u>1,421</u></u>
FUND BALANCES	
Nonspendable - Prepaid	25,710
Restricted	
Public Health	2,561
Committed	
Capital Outlay	223,206
Unassigned	5,534,975
Total Fund Balances	<u><u>5,786,452</u></u>
Total Liabilities, Deferred Inflows and Fund Balances	<u><u>6,280,874</u></u>

Reconciliation of amounts reported on Fund Statement to Government-Wide Statement of Net Position

Amounts reported for governmental activities in the statement are different because amount in Balance Sheet Fund statement is:	5,786,452
Add: Capital Assets used in governmental activities are not financial resources and therefore are not reported in the fund statement	2,080,569
Add: Some Accounts receivable not collected within 60 days of year-end and therefore are not reported in the fund statement	1,421
Minus: Some liabilities are not due and payable in the current period and therefore are not reported in the fund statement. See Note 10	(1,544,080)
Add Deferred outflows related to pensions (\$261,318) and minus Deferred inflows related to pensions (\$42,832)	218,486
Net Position of Governmental Activities	<u><u>6,542,848</u></u>

The Accompanying Notes are an Integral Part of This Statement

YAKIMA HEALTH DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended December 31, 2016

	<u>General Fund</u>
Revenues	
Licenses and Permits	852,074
Federal Grants	802,759
State Grants	189,847
Local funding	166,463
Public Health Assistance	1,052,481
Fees for Services and Miscellaneous	2,926,537
Total Revenues	<u>5,990,161</u>
Expenditures	
Health	
Personnel Services	1,994,853
Supplies	79,470
Other Services and Charges	3,077,042
Capital Outlay	16,783
Total Expenditures	<u>5,168,148</u>
Net Change in Fund Balance	822,013
Fund Balance as of January 1, 2016	4,964,439
Fund Balance as of December 31, 2016	<u>5,786,452</u>

Reconciliation to the Statement of Activities

Reconciliation of amounts reported on this statement and government wide statement of activities:

Net Changes in Fund balances, total Governmental Funds	822,013
Governmental fund report capital outlays as expenditures. However, in the statement of activities the cost of those assets (\$16,783) is allocated over their estimated useful lives and reported as depreciation expense (\$68,161).	(51,378)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund-level statement.	1,421
Revenues providing current financial resources which were reported in the prior year statement of activities.	(194,696)
Expenses for employee leave accruals \$(22,119) and pension liabilities (\$130,098) incurred during the period related to liabilities that are still outstanding and not yet due at year-end, and not reported in the funds.	152,217

Change in Net Position of Governmental Activities	<u>729,576</u>
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The Accompanying Notes are an Integral Part of This Statement

YAKIMA HEALTH DISTRICT
Notes to Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Yakima Health District (District) 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 Yakima Health District was incorporated in 1911 and operates under the laws of the state of Washington applicable to public health jurisdictions. It was established by the City of Yakima and Yakima County to respond to a request by the local Board of Health. The Board operates under authority of the Revised Code of Washington 70.05. It consists of three County commissioners, two members of the city councils, and two representatives from the community. This governing board sets policies, approves appropriations and expenses, establishes local ordinances, and is generally responsible for the administration and operation of the District.

As required by generally accepted accounting principles, the financial statements present the District as the primary government with no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Yakima Health District. 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District's policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

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 Yakima Health District considers 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.

Licenses, permits, interest and other charges associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The Yakima Health District reports its one and only major governmental fund. The general fund is the Yakima Health District's operating fund. It accounts for all financial resources of the general government.

D. Budgetary Information

1. Scope of Budget

The annual appropriated budget is adopted on the full accrual basis of accounting.

All annual appropriations for general revenue (current expense) fund lapse at year-end except for capital outlay projects, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

The district's managers may transfer appropriations within related programs. The budget constitutes the legal authority for expenditures of all programs.

2. Amending the Budget

The Administrator and the Chief Fiscal Officer are authorized to transfer budgeted amounts within any object class within departments. However, any revisions that alter the total expenditures of Yakima Health District, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Board of Health.

When the Yakima Health District determines that it is in the best interest of the District to increase or decrease the appropriation for the agency, it may do so by resolution approved by a majority of the Board of Health members. A majority must include at least two county commissioners.

The budget amounts shown in the Management Discussion and Analysis (MD&A) are the final authorized amounts for the year.

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.

E. Assets, Liabilities and Net Position or Fund Balance

1. Cash and Cash Equivalents

It is the Yakima Health District's policy to invest all temporary cash surpluses. The amount is classified on the balance sheet as temporary investments. The interest on these investments is prorated to the various funds.

The Treasurer also holds cash on behalf of the District. Similar to temporary investments, the County Treasurer accounts for these funds in an agency fund.

See Note 4, Deposits and Investments.

2. Temporary Investments

As required by state law, investments of the District's funds are in obligations of the U.S. Government, the State Treasurer's Investment Pool, or deposits with Washington State Banks and Saving & Loan institutions. The District's investments 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 investments are valued at fair market value.

3. Receivables

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services including amounts owed on open account from private individuals or organizations for goods and services rendered.

4. Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, warrants, entitlements, and charges for services in the normal everyday course of business.

5. Prepayments

Prepayments made for services and supplies that will benefit a future period are recorded as prepaid items. This includes advance payments for postage machine and insurance premiums, both are expensed the following fiscal year.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental column in the government-wide financial statement. Capital assets are defined by the Yakima Health District as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation when they exceed the capitalization limit of \$3,000.

Costs for additions or improvements to capital assets are capitalized when they significantly increase the value of, enhance the performance of, or change their useful life.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The district had no construction projects ongoing in 2016.

Property, plant, and equipment are depreciated using the straight line method over their estimated useful life of such assets.

Description	Useful life	Salvage Value
Land	Unlimited	100%
Buildings	50	20%
Building Equipment & Fixtures	15	20%
Office Equipment & Furniture	10	10%
Computer Equipment and related peripherals	4	10%

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation (and sick) leave. All vacation and sick leave is accrued when earned in the government-wide financial statements.

Vacation pay, which may be accumulated up to 256 hours is payable upon resignation, retirement or death.

Sick leave policy states that outstanding sick leave is lost upon resignation. However, employees eligible for retirement benefits are allowed to receive 25% of accumulated sick leave.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits. It also includes obligations to private agencies awaiting final billings.

10. Long-Term Liabilities

In the government-wide financial statements, long term liabilities consist of compensated absences payable after one year and net pension liability.

11. 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.

12. Fund Balance Classification

On the Balance Sheet-Governmental Funds, assets in excess of liabilities are reported as fund balances and are segregated into separate classifications indicating the extent to which the District is bound to honor constraints on specific purposes for which those funds can be spent.

- A. Fund balance is reported as *Nonspendable* when the resources cannot be spent because they are either in a nonspendable form or are legally or contractually required to be maintained intact. Resources in nonspendable form may include inventories, certain long term contracts/ notes receivable, and prepaid items.
- B. Fund balance is reported as *Restricted* when the constraints placed on the use of resources are either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. When both

restricted and unrestricted resources are available for use, the District's policy is to use restricted resources first and then unrestricted resources, as needed. The local health jurisdiction's restricted net position at the end of the year was \$2,561. The restricted funds are related to collected but unearned revenue received from a local contributor.

- C. Fund balance is reported as Committed when the Board of Health (the government's highest level of decision-making authority) adopts a resolution that places specific constraints on how the resources may be used. Once adopted, the commitment remains until it is modified or rescinded by the adoption of a new resolution by the Board.

Board of Health resolutions approved the commitment of funds for building maintenance.

- D. Amounts in the *Assigned* fund balance category do not meet the criteria to be classified as committed, and are generally more temporary in nature. In other words, additional action does not need to be taken to remove the assignment. *Assigned* fund balance is reported when the intent to use funds for a specific purpose is formally expressed by the Board of Health or by the Board's designee.

- E. *Unrestricted* Net Position represent amounts not included in other categories.

The District's current policy only addresses restricted and unrestricted resources (as stated above). At this time the District's order of use complies with GASB Statement No. 54, which directs that committed amounts will be used first, followed by assigned amounts and then unassigned amounts.

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 fund and net position – governmental activities as reported in the government-wide statement of net position.

- B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Net Position and the Government-Wide Statement of Activities

The governmental fund's statement of revenues, expenditures, and changes in fund net position 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.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions and there have been no expenditures exceeding legal appropriations in any of the funds of the Yakima Health District.

NOTE 4 - DEPOSITS AND INVESTMENTS

As of December 31, 2016, the District cash, cash equivalents, and investments as reported on the Statement of Net Position are as follows:

Cash on hand	\$ 227,564
Yakima County Investment Pool	<u>5,444,516</u>
Total cash and investments	<u>\$ 5,672,080</u>

The District as of December 31, 2016 had investments of \$5,444,516 in the Yakima County Investment Pool, which are classified as cash equivalents. Additional cash & cash equivalents consist of \$230,468 held in interest bearing bank accounts, petty cash, and cash change drawers.

Deposits:

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The District has an adopted policy that addresses deposit custodial risk; however, the District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the District's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

Investments

Statutes authorize the District to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, county investment pool and the state treasurer's investment pool. The District is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2016.

The District is currently invested in a public funds investment pool, Yakima County Investment Pool (CCIP), reported at fair value.

The YCIP operates in accordance with appropriate state laws and regulations. Yakima County investment pool is not SEC-registered. Authority to manage the Pool is derived from the Revised Code of Washington (RCW) in RCW 36.29.022. The fair value of the position in the pool is the same as the value of the pool shares.

The weighted average maturities of the YCIP are less than three (3) months and approximately one (1) year, respectively, with cash available to the District on demand. The on demand availability of these funds defines them as cash equivalent liquid investments. Cash investments are not subject to interest rate risk or any market value reporting requirements. The investments are either fully insured or fully held by a third party custody provider in the name of the YCIP. The YCIP is audited annually by the Washington State Auditor's Office and regulated by Washington RCWs.

Investments Measured at Fair Value

The District measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

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

-) Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
-) Level 3: Unobservable inputs for an asset or liability, to the extent observable inputs are not available

As of December 31, 2016, the District had the following recurring fair value measurements.

Investments by fair value level	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Yakima County Treasurer's Investment Pool	5,444,516	-	5,444,516	-
Total Investments by Fair Value Level	\$ 5,444,516	\$ -	\$ 5,444,516	\$ -

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 376,742	\$ -	\$ -	\$ 376,742
Total Capital Assets, not being depreciated	376,742	-	-	376,742
Capital Assets, being depreciated:				
Buildings	1,765,826	-	-	1,765,826
Improvements other than buildings	262,581	-	-	262,581
Equipment	282,631	16,784	-	299,415
Total Capital Assets, being depreciated	2,311,038	16,784	-	2,327,822
Less Accumulated Depreciation for:				
Buildings	235,444	28,253	-	263,697
Improvements other than buildings	113,851	14,004	-	127,855
Machinery & Equipment	206,539	25,904	-	232,443
Total accumulated depreciation	555,834	68,161	-	623,995
Total Capital Assets, being depreciated, Net	1,755,204	(51,377)	-	1,703,827
Governmental Activities Capital Assets, Net	\$ 2,131,946	\$ (51,377)	\$ -	\$ 2,080,569

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 2016:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 1,424,476
Deferred outflows of resources	261,318
Deferred inflows of resources	42,832
Pension expense/expenditures	26,927

State Sponsored Pension Plans

Substantially all District 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, 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%. 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%. 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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 % and escalate to 15% 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%. 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 2016 were as follows:

PERS Plan 2/3		
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Actual Rates:	Contribution	Employer 2/3	Employee 2
PERS Plan 2/3		6.23%	6.12%
PERS Plan 1 UAAL		4.77%	
Administrative Fee		0.18%	
Employee PERS Plan 3			varies
Total		11.18%	6.12%

The District's actual PERS plan contributions were \$69,624 to PERS Plan 1 and \$87,401 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 % Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime. There were minor changes in methods and assumptions since the last valuation. For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5 %). Consistent with the long-term expected rate of return, a 7.5% 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% 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% 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% 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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% 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 the Net Pension Liability/ (Asset)

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District'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%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	805,516	667,979	549,621
PERS 2/3	1,392,847	756,497	(393,800)

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, 2016, the District reported a total pension liability of \$1,424,476 or its proportionate share of the net pension liabilities as follows:

Plan	Liability or Asset
PERS 1	667,979
PERS 2/3	756,497

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.01462%	0.01244%	-0.00218%
PERS 2/3	0.01559%	0.01503%	-0.00057%

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.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the District recognized pension expense as follows:

	Pension Expense
PERS 1	(84,041)
PERS 2/3	110,968
TOTAL	26,927

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 16,819	\$ -
Contributions subsequent to the measurement date	33,548	-
TOTAL	\$ 50,367	\$ -

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 40,283	\$ 24,973
Net difference between projected and actual investment earnings on pension plan investments	92,573	-
Changes of assumptions	7,819	-
Changes in proportion and differences between contributions and proportionate share of contributions	26,460	17,859
Contributions subsequent to the measurement date	43,816	
TOTAL	\$ 210,951	\$ 42,832

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. 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
2017	(4,141)	5,967
2018	(4,141)	5,967
2019	15,446	69,612
2020	9,655	42,758
2021	-	-
Thereafter	-	-

NOTE 7 - DEFERRED COMPENSATION PLAN

The Yakima Health District offers employees deferred compensation plans created in accordance with Internal Revenue code Section 457. These plans are with the Hartford Insurance Group, Nationwide Investment Services Corporation, and the State of Washington Deferred Compensation Program. 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.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance. The District maintains insurance against most normal hazards for commercial automobile, property loss and general liability.

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31,

2016, there are 524 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities outstanding at December 31, 2016 are as follows:

Governmental Activities:	Beginning Balance 01/01/16	Additions	Reductions	Ending Balance 12/31/16	Due within One year
Compensated Absences	\$ 141,721	\$ -	\$ 22,117	\$ 119,604	\$ 49,433
Net Pension Liability*	1,321,837	102,639	-	1,424,476	-
Governmental Activity long-term liabilities	\$ 1,463,558	\$ 102,639	\$ 22,117	\$ 1,544,080	\$ 49,433

*Beginning balance adjusted for implementation of GASB 68

NOTE 10 - CONTINGENCIES AND LITIGATIONS

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

The District 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. District's management believes that such disallowances, if any, will be immaterial.

NOTE 11 – DEFERRED INFLOWS OF RESOURCES

In addition to deferred inflows of resources related to pensions, governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but have not yet earned. At the end of the current fiscal year, the deferred inflows of resources were reported for unavailable revenues in the amount of \$1,421.

NOTE 12 – ACCOUNTING AND REPORTING CHANGES

The District implemented GASB 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and requires the application of fair value to certain investments, in order to promote comparability of government financial statements. The standard expands the level of disclosure for fair value methodology in the notes to the financial statements. The standard also changes the recorded value of contributed capital assets from fair value to acquisition value.

The District implemented GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

The District implemented GASB 82, *Pension Issues*. This statement amends GASB statements No. 67, No. 68 and No. 73 to enhance consistency in the application of financial reporting requirements related to certain pension issues. This standard made changes to how the District reported covered payroll in Required Supplementary Information.

Required Supplementary Information
Yakima Health District
Budgetary Comparison Schedule
Governmental Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actuals	Budget Variance Over (Under)
Revenues:				
Licenses and Permits	\$ 874,229	\$ 874,229	\$ 852,074	\$ (22,155)
Federal Grants	685,595	685,595	802,759	117,164
State Grants	263,663	263,663	189,847	(73,816)
Local Funding	150,000	150,000	166,463	16,463
Public Health Assistance	1,052,481	1,052,481	1,052,481	-
Fees for Services and Miscellaneous	2,715,863	2,715,863	2,926,537	210,674
Total Revenues	5,741,831	5,741,831	5,990,161	248,330
Expenses				
General				
Personnel Services	2,381,892	2,381,892	1,994,853	387,039
Supplies	69,008	69,008	79,470	(10,462)
Other Services and Charges	3,290,931	3,290,931	3,077,042	213,889
Capital Outlay	-	-	16,783	(16,783)
Public Health Expenses	5,741,831	5,741,831	5,168,148	573,683
Revenues Over (Under) Expenses	0	0	822,013	822,013
Fund Balance as of January 1, 2016	4,986,528	4,986,528	4,964,439	22,089.00
Fund Balance as of December 31, 2016	\$ 4,986,528	\$ 4,986,528	\$ 5,786,452	\$ 799,924

Yakima Health District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30
Last 3 Fiscal Years

<u>Year Ended June 30,</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability</u>	<u>Employer's covered employee payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2016	0.012438%	\$ 667,979	\$ 1,456,123	45.87%	57.03%
2015	0.014620%	764,762	1,513,213	50.54%	59.10%
2014	0.016587%	835,578	1,516,463	55.10%	61.19%

PERS 2/3
As of June 30
Last 3 Fiscal Years

<u>Year Ended June 30,</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability</u>	<u>Employer's covered employee payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2016	0.015025%	\$ 756,497	\$ 1,413,404	53.52%	85.82%
2015	0.015591%	557,075	1,383,446	40.27%	89.20%
2014	0.014426%	291,602	1,247,528	23.37%	93.29%

Yakima Health District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Employer Contributions
PERS 1
As of December 31
Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 69,624	\$ (69,624)	\$ -	\$ 1,427,504	4.88%
2015	70,235	(70,235)	-	1,497,120	4.69%
2014	72,359	(72,359)	-	1,516,777	4.77%

PERS 2/3
As of December 31
Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 87,401	\$ (87,401)	\$ -	\$ 1,402,911	6.23%
2015	79,762	(79,762)	-	1,414,231	5.64%
2014	67,284	(67,284)	-	1,321,274	5.09%

Yakima Health District
Notes to Required Supplemental Information - Pension

As of December 31
Last Three Fiscal Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3: Covered payroll

Covered payroll has been retrospectively presented in accordance with GASB 82, *Pension Issues*. Covered payroll now includes all payroll on which a contribution is based. In prior reports, Plan 1 UAAL covered payroll was included for plans other than PERS 1.

**Yakima Health District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
SNAP Cluster								
Food And Nutrition Service, Department Of Agriculture (via Department of Health)	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C17134	22,579	-	22,579	-	1, 2, 3
				22,579	-	22,579	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Department of Health)	Public Health Emergency Preparedness	93.069	C17134	102,785	-	102,785	10,000	1, 2, 3
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Department of Health)	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	C17134	24,376	-	24,376	-	1, 2
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Department of Health)	Immunization Cooperative Agreements	93.268	C17134	62,413	-	62,413	-	1, 2, 3
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Department of Health)	Centers for Disease Control and Prevention_ Investigatio ns and Technical Assistance	93.283	C17134	144,826	-	144,826	-	1, 2, 3

The accompanying notes are an integral part of this schedule.

**Yakima Health District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Expenditures					Passed through to Subrecipients	Note
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Department of Health)	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	93.733	C17134	4,317	-	4,317	1, 2, 3
	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	93.752	C17134	209,219	-	209,219	1, 2, 3
Medicaid Cluster							
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via WA State Health Care Authority)	Medical Assistance Program	93.778	K1424	202,196	-	202,196	1, 2
	Total Medicaid Cluster:			202,196	-	202,196	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Department of Health)	Organized Approaches to Increase Colorectal Cancer Screening	93.800	C17134	21,388	-	21,388	1, 2, 3
	Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977	C17134	7,767	-	7,767	1, 2, 3
Total Federal Awards Expended:						801,866	10,000

The accompanying notes are an integral part of this schedule.

Yakima Health District

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the District's financial statements. The District 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 the District's portion, may be more than shown.

The Medicaid Administrative Claiming (MAC) program, which provides funding for a portion of the expenditures for medical assistance, a reimbursement of \$96,330 was received in 2016 for prior years. The approval of a new MAC Cost Allocation Plan resulted in revision and reconciliation of invoices from 3rd quarter 2012 to 1st quarter 2015.

Note 3 – Indirect Cost Rate

The District has not elected, for most programs, to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

The amount expended includes \$29,548 claimed as an indirect cost recovery using the approved indirect cost rate of 47.6 percent. That rate was applicable for most programs except Breast, Colon & Cervical Health Program (BCCHP) and STD Prevention.

The amount expended includes \$34,836 claimed as an indirect cost recovery for BCCHP and STD Prevention programs using the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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.

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