



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Olympic Area Agency on Aging

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

Published October 18, 2018

Report No. 1022324





**Office of the Washington State Auditor
Pat McCarthy**

October 18, 2018

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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Olympic Area Agency on Aging January 1, 2016 through December 31, 2016

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 basic 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 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 its major federal program.

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
93.778	Medicaid Cluster – Medical Assistance 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

See finding 2016-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Olympic Area Agency on Aging January 1, 2016 through December 31, 2016

2016-001 The Agency's internal controls over financial reporting were inadequate to ensure accurate reporting.

Background

The governing body, state and federal agencies, and the public rely on the information included in the financial statements to make decisions. Agency management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The Agency did not establish effective internal controls to ensure accurate preparation of the financial statements.
- Although the Agency has a process for reviewing the prepared financial statements, this review was not effective in ensuring the financial statements were accurate.

Cause of Condition

The Agency experienced turnover in key finance department positions in 2016. Management responsible for preparing the financial statements lacked the technical knowledge required to ensure accounting and financial reporting were accurate and complete under Generally Accepted Accounting Principles (GAAP) and that required Governmental Accounting Standards Board (GASB) pronouncements were applied correctly. Management did not adequately seek guidance or use available resources, and instead relied on our audit to identify misstatements.

Effect of Condition

Because of the material weakness, the Agency submitted three sets of financial statements for audit (an original and two sets of revisions). We identified numerous errors in each set of financial statements, including the following:

- The Agency incorrectly reported a Cumulative Effect of Change in Accounting Principle related to GASB 68, which is not appropriate after the year of implementation. This caused a \$2.3 million understatement of Net Position.
- The 2015 General Fund ending balance was used as the 2016 beginning Net Position for the Government-Wide Statement of Activities. This caused a \$2.5 million overstatement of Net Position.
- The Agency incorrectly included a non-current liability (Due to Other Governmental Units – Department of Social and Health Services (DSHS) Advance) totaling \$917,967 on the General Fund Balance Sheet. In an attempt to correct the error, the Agency reported it as a direct adjustment to Net Position, causing the Agency to understate Net Position.
- The Agency incorrectly classified \$2.1 million on the Governmental Funds Balance Sheet and \$1.2 million on the Statement of Net Position as restricted. These balances did not meet the criteria to be classified as restricted.
- We noted numerous presentation errors in the Management’s Discussion and Analysis, financial statements, Notes to the Financial Statements and other Required Supplementary Information. Although they were not individually material, when considered together, we determined the errors were qualitatively material to the presentation of the statements and would likely affect readers’ ability to use or understand the statements.
- Because of the number of errors identified and the time needed to make corrections, the Agency did not meet its federal single audit reporting deadline to the Federal Audit Clearinghouse by September 30, 2017.

Recommendations

We recommend the Agency:

- Establish and follow internal controls to ensure accurate financial reporting
- Provide adequate training and resources to staff responsible for preparing the financial statements
- Establish a process for technical review of the financial statements to ensure they are prepared accurately and follow GAAP and GASB criteria

Agency's Response

The Agency is committed to improving financial statement reporting.

Auditor's Remarks

We appreciate the Agency's commitment to improving controls and resolving the issue. We will follow up on the condition during the next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting, Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

The Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

Governmental Accounting, Auditing, and Financial Reporting (GAAFR), Page 115-116 details when reporting of a Cumulative Effect of Change in Accounting Principle is appropriate.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

**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
January 1, 2016 through December 31, 2016**

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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 3, 2018. As discussed in Note 9 to the financial statements, the 2015 financial statements have been restated to correct a misstatement.

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.

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

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be a material weakness.

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*.

AGENCY'S RESPONSE TO FINDINGS

The Agency's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

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

October 3, 2018

**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
January 1, 2016 through December 31, 2016**

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, 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, 2016. 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, 2016.

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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

October 3, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Olympic Area Agency on Aging January 1, 2016 through December 31, 2016

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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 18.

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, 2016, 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 – Correction of Prior Year Misstatement

As discussed in Note 9 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. 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 and required supplementary information listed on page 18 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 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 October 3, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

October 3, 2018

FINANCIAL SECTION

Olympic Area Agency on Aging 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

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental
Funds – 2016

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

Notes to the Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund – 2016

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

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

Notes to 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

Olympic Area Agency on Aging (O3A)
Management's Discussion and Analysis for the
Year Ended December 31, 2016

O3A offers this narrative overview and analysis of our financial activities for the years ended December 31, 2016. We present this information in conjunction with the information included in our financial statements, which follow.

Financial Highlights

- At the end of the year, total liabilities and deferred inflows of resources for the Olympic Area Agency on Aging (O3A) exceeded its assets and deferred outflows of resources by \$1,078,294 in 2016 (reported as total net position). This deficit net position is primarily the result of the net pension liability of \$2,468,365 for 2016. The primary objective of recognizing this liability, as per Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, was to improve accounting and financial reporting by state and local governments for items related to pensions.
- At the end of the year, O3A's fund balance for Governmental Funds was \$2,184,147. Later in this discussion is a reconciliation between the Government-wide net position (includes pension adjustments) and our Governmental Funds fund balance.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to O3A'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 also contains other supplementary information.

O3A has only one governmental fund; it does not operate any activities that would be defined as either proprietary funds or fiduciary funds.

Government-wide financial statements - The government-wide financial statements are designed to provide the reader with a broad overview of the Agency's finances.

The statement of net position presents information on the total of O3A's assets and deferred outflows of resources, as well as the total of O3A's liabilities and deferred inflows of resources, with the difference between the two totals reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of O3A is improving or deteriorating.

The statement of activities presents information showing how net position changed during the 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 be related to cash flows in future fiscal periods (e.g. uncollected revenues and earned but unused leave).

Olympic Area Agency on Aging (O3A)
Management's Discussion and Analysis for the
Year Ended December 31, 2016

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. O3A, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the agency are considered to be governmental funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike 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.

Government-wide Financial Analysis

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of O3A's financial position. O3A's net positions was (\$1.1 million) at the end of 2016. The 2016 net position represented an increase of \$507,000 over the 2015 net position of (\$1.6 million).

The following is a comparative condensed summary of O3A's Net Position for the past 2 years:

	<u>2016</u>	<u>2015</u>
Total Assets	\$ 2,447,445	2,138,283
Deferred outflows of resources	432,074	250,825
Liabilities		
Current	280,283	338,243
Non-current	1,071,191	1,037,120
Net Pension Liability	2,468,365	2,223,075
Total liabilities	3,819,839	3,598,438
Deferred inflows	137,974	375,519
Restricted		761,483
Unrestricted	(1,078,294)	(2,346,332)
Net Position	\$ (1,078,294)	(1,584,849)

Total assets consist of cash, cash equivalents, prepaid expenses and accounts receivable from governments. Other liabilities consist of accounts payable to vendors and accrued expenses. Long-term liabilities consist of accrued vacation, sick leave and advance from Department of Social and Health Services (DSHS). The increase in total assets from 2015 to 2016 and is directly related to an increase in cash and cash equivalent and accounts receivable. This directly tied to

Olympic Area Agency on Aging (O3A)
Management's Discussion and Analysis for the
Year Ended December 31, 2016

an increase in operations, as seen by the improvement of the net position in each of the three years presented.

Statement of Activities (Changes in Net Position)

For 2016, O3A presents \$507,000 in its change in net position. Below are the key elements of this in the condensed version of the Statement of Activities (Changes in Net Position) for the past 2 years:

	<u>2016</u>	<u>2015</u>
<u>Revenues</u>		
Program Revenue		
Charges for Services	\$ 251,792	170,793
Operating Grants and Contributions	6,302,880	5,862,572
General Revenue - investment earnings	3,490	
Total Revenue	<u>6,558,162</u>	<u>6,033,365</u>
<u>Expenses</u>		
Social Services	<u>6,051,607</u>	<u>5,649,056</u>
Total operational expenditures	<u>6,051,607</u>	<u>5,649,056</u>
Change in net position	506,555	384,309
Net Position beginning of the year	(1,584,849)	523,954
Change in Accounting Principle		(2,493,112)
Net Position end of the year	<u>\$ (1,078,294)</u>	<u>(1,584,849)</u>

Program Revenues have increased from 2015 to 2016 by more than \$521,000. Expenses are also on an increasing pattern increasing by \$403,000 from 2015 to 2016. This is a result of larger operating grants being received by the State of Washington. O3A 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.

The increase in Charges for Services 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. We expect a small increase in our reimbursement rate in the future, however, we are not certain about future growth for the Health Home program.

Governmental Fund Analysis

The general fund is the only operating fund of O3A. Within that fund, O3A accounts separately for transactions related to case management, contract management and proceeds from intergovernmental loans (DSHS advance). At the end of the year, the general fund balance was \$2,184,147 in 2016. Of these amounts, prepaid expenses of \$20,050 and the unemployment compensation fund of \$89,252 are unavailable to spend. All other funds are available to spend subject to the restrictions placed on them by the grant requirements. The general fund balance increased by \$368,517 in 2016 (including the prior period adjustment).

Olympic Area Agency on Aging (O3A)
Management's Discussion and Analysis for the
Year Ended December 31, 2016

The difference between the government-wide net position and governmental general fund balance of (3,262,441) in 2016, is described on the Balance Sheet – Governmental Funds.

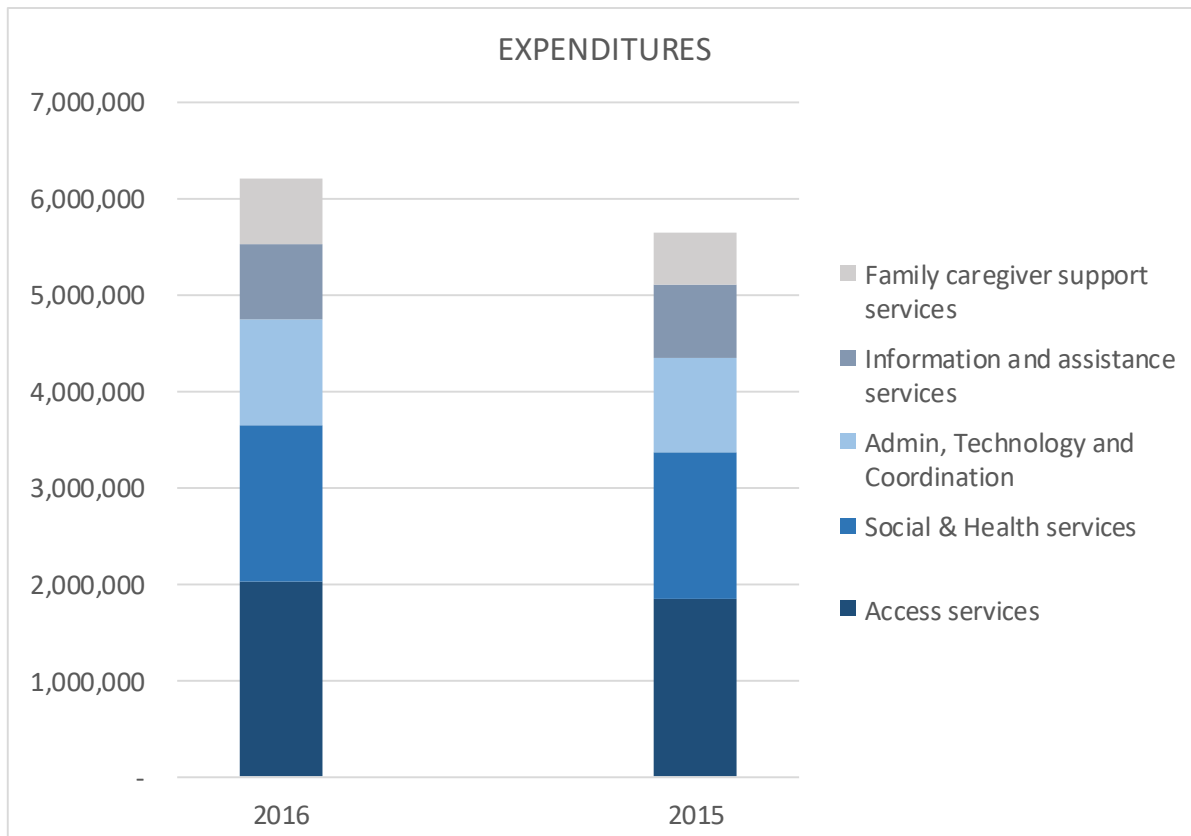
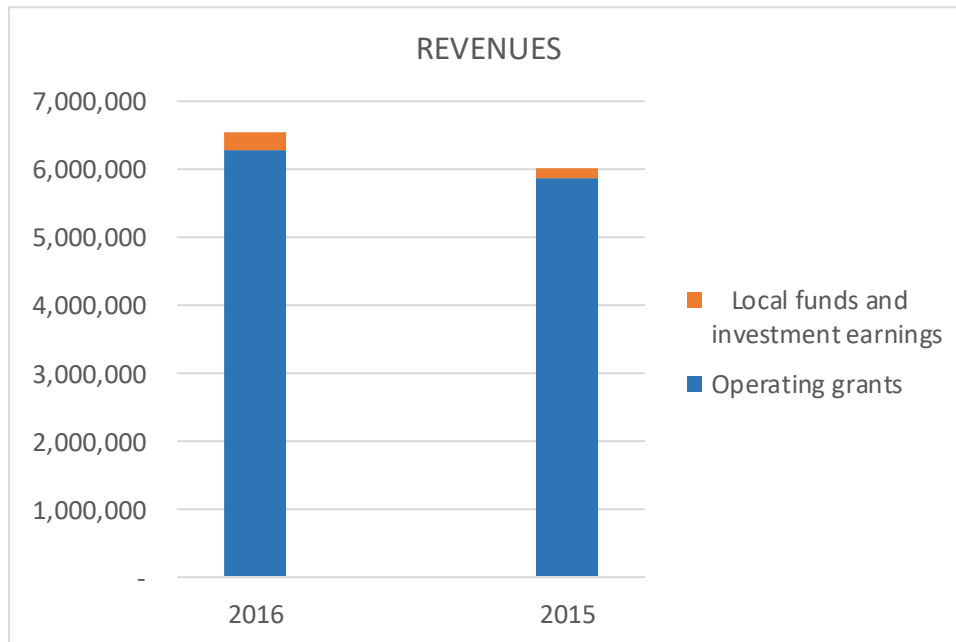
O3A's Access Services costs primarily relate to case management activities. Social & Health Services include program costs for Nutrition, Legal, Transportation, Home Care Referral Registry, Long Term Care Ombudsman, Health Homes, Title V, Kinship Care and Senior Emergency.

O3A has recorded a prior period adjustment related to the advance from the Department Health and Humans Services. See the notes to the financial statement for further discussion.

**Statement of Revenues, Expenditures and Changes in Fund
Balance**

	2016	2015
<u>REVENUES</u>		
Operating Grants and contributions	\$ 6,298,956	5,862,572
Local funds and investment earnings	255,282	170,793
Total revenue	<u>6,554,238</u>	<u>6,033,365</u>
<u>EXPENDITURES</u>		
Access services	2,018,989	1,846,563
Social & Health services	1,627,339	1,681,811
Admin, Technology and Coordination	1,091,432	964,767
Information and assistance services	794,339	772,899
Family caregiver support services	667,756	543,525
Total operational expenditures	<u>6,199,855</u>	<u>5,809,565</u>
Excess of revenues over expenditures	354,383	223,800
Proceeds from intergovernmental loan	14,134	-
Net change in fund balance	<u>368,517</u>	<u>223,800</u>
Fund balance beginning of the year	911,897	688,097
Prior period adjustment	903,733	-
Fund balance end of the year	<u>\$ 2,184,147</u>	<u>911,897</u>

Olympic Area Agency on Aging (O3A)
Management's Discussion and Analysis for the
Year Ended December 31, 2016



Olympic Area Agency on Aging (O3A)
Management's Discussion and Analysis for the
Year Ended December 31, 2016

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Other required information

In addition to this discussion and analysis, these reports also present required supplementary information on budgetary comparisons, net pension liability and pension contributions.

Budget Highlights

Area Plan public hearings are held every other year to gain public input from each of the four sub-regions. Proposed allocations to the subcontractors, by program and funding source for discretionary funds, are presented for review. Budgets are requested from the subcontractors for each program area including both discretionary and non-discretionary funding. This information is used to prepare contracts with a January 1 start date. All funding is subject to change depending on final allocations of state and federal funds. Final initial allocations of state and federal funds are known by May 1 or later after carryover is determined from the prior year. If additional funding becomes available, contract amendments are prepared and approved as needed.

The budgetary comparison schedule is located after the notes to the financial statements. Differences between the original budget and the final budget reflect adjustments to incorporate changes in available funding for specific activities. Some Federal funds not used at December 31 can likely be carried over to the following year. Unused state funds are available for use until June 30, no carry forward is allowed.

Long Term Debt

Government-Wide noncurrent liabilities consist of the advance from DSHS of \$917,867 in 2016. See Note 7 for more discussion.

Economic Factors and Next Year's Budgets and Rates

State revenue forecasts for the 2016- 2017 biennium appear to be on a small growth curve with the economy of the State improving and stabilizing. The local economy in O3A's service area, in which the agency has responsibility for providing services, continues to stabilize as well. However our more rural areas of our Counties are still having some economic problems, mostly related to the reduction in Federal funds and slow economic growth.

O3A's Older Americans Act (OAA) funding contract was flat for calendar year 2016. For 2017 total OAA funds are expected to be flat once again. Uncertainty at the Federal levels continues, however. If Federal allotments for OAA are changed, O3A's will make necessary changes to programing to comply. With any prospective OAA budget changes.

Olympic Area Agency on Aging (O3A)
Management's Discussion and Analysis for the
Year Ended December 31, 2016

Request for Information

This financial report is designed to provide a general overview of O3A'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
Statement of Net Position
December 31, 2016

	2016
<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,115,635
Accounts receivable - due from other governments	1,311,760
Prepaid expenses	20,050
Total assets	<u>2,447,445</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	432,074
Total deferred outflows	<u>432,074</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	137,691
Other accrued liabilities	121,683
Compensated absences - current	20,909
Total current liabilities	<u>280,283</u>
Noncurrent liabilities	
Compensated absences	153,324
Due to other governmental units - DSHS advance	917,867
Net pension liability	2,468,365
Total noncurrent liabilities	<u>3,539,556</u>
Total liabilities	<u>3,819,839</u>
<u>DEFERRED INFLOWS of RESOURCES</u>	
Deferred inflows related to pensions	137,974
Total Deferred inflows of resources	<u>137,974</u>
<u>NET POSITION</u>	
Restricted	
Unrestricted	(1,078,294)
Total net position	<u>\$ (1,078,294)</u>

The accompanying notes are an integral part of this statement.

Olympic Area Agency on Aging
Statement of Activities
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Social services	\$ 6,051,607	\$ 251,792	6,302,880	503,065
Total governmental activities	\$ <u>6,051,607</u>	\$ <u>251,792</u>	<u>6,302,880</u>	<u>503,065</u>
General Revenues				
Investment earnings				3,490
Change in Net Position				506,555
Net Position, Beginning				<u>(1,584,849)</u>
Net Position, Ending				<u>\$ <u>(1,078,294)</u></u>

The accompanying notes are an integral part of this statement.

Olympic Area Agency on Aging
Balance Sheet
Governmental Funds
December 31, 2016

	<u>2016</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,115,635
Accounts receivable - due from other governments	1,311,760
Prepaid expenses	<u>20,050</u>
<u>TOTAL ASSETS</u>	<u><u>2,447,445</u></u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	137,691
Other accrued liabilities	<u>121,683</u>
Total liabilities	<u>259,374</u>
<u>DEFERRED INFLOWS of RESOURCES</u>	
Unavailable revenue	<u>3,924</u>
Total Deferred inflows of resources	<u>3,924</u>
<u>FUND BALANCES</u>	
Nonspendable - Prepaid Expenses	20,050
Committed - Unemployment compensation	69,202
Unassigned	<u>2,094,895</u>
Total fund balances	<u>2,184,147</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	<u><u>\$ 2,447,445</u></u>

The accompanying notes are an integral part of this statement.

Olympic Area Agency on Aging
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
December 31, 2016

	<u>2016</u>
Fund Balance	\$ 2,184,147
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred inflows are not available to pay for current-period expenditures and, therefore are deferred in the funds	3,924
Advances for DSHS for working capital are not due and payable in the current period, therefore, they are not reported in the funds	(917,867)
Long-term liabilities (compensated absences) are not due and payable in the current period, and therefore, not reported in the funds	(174,233)
Other items related to Pension activity that are not financial resources therefore, not reported in the funds.	
Deferred Outflows	432,074
Net Pension Liability	(2,468,365)
Deferred Inflows	(137,974)
Net position of governmental activities	\$ <u><u>(1,078,294)</u></u>

The accompanying notes are an integral part of this statement.

Olympic Area Agency on Aging

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds - General Fund

For the Years Ended December 31, 2016

	2016
<u>REVENUES</u>	
Operating Grants and contributions	\$ 6,298,956
Local funds and investment earnings	255,282
Total Revenues	<u>6,554,238</u>
<u>EXPENDITURES</u>	
Access Services	2,018,989
Social and Health Services	1,627,339
Administration, technology and coordination	1,091,432
Information and assistance services	794,339
Family caregiver support services	667,756
Total expenditures	<u>6,199,855</u>
Excess of revenues over expenditures	354,383
Other Financing Sources	
Proceeds from intergovernmental loan	14,134
Total other financing sources	<u>14,134</u>
Net change in fund balance	368,517
Fund balance - beginning of year	911,897
Prior period adjustment (see note 9)	903,733
Fund balance - end of year	\$ <u><u>2,184,147</u></u>

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

Net change in fund balance for governmental funds	368,517
Revenues in the statement of activities that do not provide current financial resources are not reported as grant revenues in the fund.	3,924
Advances from DSHS are considered other financing sources in the fund statement, but a working advance in the Statement of Net Position	(14,134)
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(23,819)
Net effect of transactions involving pension items	172,067
Change in Net Position	\$ <u><u>506,555</u></u>

The accompanying notes are an integral part of this statement.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Olympic Area Agency on Aging (O3A 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

O3A was organized in 1975 under the laws of the Revised Code of Washington (RCW), Chapter 39.34, and Interlocal Cooperation Act. It serves as the Area Agency on Aging for the member counties of Clallam, Grays Harbor, Jefferson and Pacific. The governance structure of the agency changed slightly in 2016. The Agency is now governed by a council of four county commissioners (the COG), one from each of the member counties, plus a designated alternate. Prior to the 2016 change, the governance structure consisted of two commissioners from each county for a council of eight members. The change in structure was made specifically by request of the COG.

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.

Separate fund financial statements are provided for governmental funds.

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, 2016

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. Grant revenues are considered to be available when they are billed. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due. The general (or current expense) fund is the operating fund of O3A.

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 O3A's Council of Governments (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.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year and approved by O3A's COG. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the year.

E. Assets, Liabilities, Deferred Outflows/Inflows, 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

Amounts due from other governments are considered to be fully collectible and are stated at gross. Amounts due from non-governmental entities is from Managed Care Organizations (MCOs) and are considered fully collectible. They are stated at gross. No allowance for doubtful accounts has been established.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

3. Prepaid Expenses

O3A accounts for prepaid expenses using the consumption method. The purchase is reported as an asset and the recognition of the expenditure is deferred until the period in which the expense is actually incurred.

4. Due to Other Governmental Units – DSHS Advance

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

5. 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. In the Statement of Net Position, O3A has deferred outflows of resources and deferred inflows of resources related to pensions. See Note 4 for more information. Additionally, in the governmental fund Balance Sheet, O3A has deferred inflows of resources related to grant funding.

6. 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 and is recorded in the government-wide financial statements in accordance with GASB 16, as amended (using the termination method). 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.

7. 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.

8. Other Accrued Liabilities

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

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

9. 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 fund balance 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.

Committed fund balance 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.

Unassigned fund balance 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. Management has classified Title XIX funds as unassigned as these funds can be used for the general purpose of O3A.

O3A policy reserves the right to selectively spend unassigned resources first and to defer the use of the other classified funds.

NOTE 2 – DEPOSITS AND INVESTMENTS

O3A uses the office of the Jefferson County Treasurer as their fiscal agent. As such, the County Treasurer provides treasury functions for O3A, including holding funds in an investment account.

Statutes authorize O3A 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 O3A is also authorized to enter into reverse repurchase agreements but did not participate in these investments during 2016.

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. O3A has not adopted a

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

policy that addresses deposit custodial risk; however, the O3A's deposits are covered by Federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commissioner (PDPC). In the event of a bank failure, claims for O3A's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

O3A does not have a deposit policy for custodial credit risk. The bank balances held by Jefferson County are not exposed to custodial credit risks.

Investments measured at Amortized Costs

O3A is a participant in the Local Government Investment Pool (LGIP) authorized by Chapter 294, Laws of 1986 and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost, which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption rates on participant withdrawals.

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

As of December 31, 2016, the County has invested \$408,100 in the LGIP.

NOTE 3 – Related Parties

O3A has identified the following related parties:

1. Washington Department of Social and Human Services (DSHS) – O3A's cognizant agency and provides legal authority to operate. DSHS is the major source of funding and provides O3A with a working capital advance equal to approximately 2 months of operating expenditures. In accordance with the agreement, DSHS evaluates the advance yearly and decides whether to increase or decrease it. There are no terms for repayment of this advance, however, the agreement can be terminated with at least a thirty (30) calendar days' written notice, in which case the advance would be repaid to DSHS.
2. Clallam County – Member of the Interlocal Government Agreement that formed O3A. Provides one member and one alternate to our Council of Governments (COG).

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

3. Jefferson County - Member of the Interlocal Government Agreement that formed O3A. Provides one member and one alternate to our Council of Governments (COG).
4. Grays Harbor County - Member of the Interlocal Government Agreement that formed O3A. Provides one member and one alternate to our Council of Governments (COG).
5. Pacific County - Member of the Interlocal Government Agreement that formed O3A. Provides one member and one alternate to our Council of Governments (COG).

NOTE 4 - 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	\$ 2,468,365
Deferred outflows of resources	\$ 432,074
Deferred inflows of resources	\$ 137,974
Pension expense/expenditures	\$ 144,896

State Sponsored Pension Plans

Substantially all O3A 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.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

Public Employees' Retirement System (PERS)

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

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

Contributions

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

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	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%

O3A's 2016 contributions to PERS1 was \$144,834 and PERS2/3 \$172,128.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans at December 31, 2016 was determined using the most actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

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. For 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% 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.

For 2016, there were minor changes in methods and assumptions since the last valuation.

- 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 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. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

(WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, 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 Net Pension Liability

The table below presents O3A's proportionate share of the net pension liability calculated at December 31, 2016, using the discount rate of 7.5 percent, as well as what O3A'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 Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$1,423,544	\$1,180,483	\$971,314
PERS 2/3	\$2,371,223	\$1,287,882	\$(670,417)

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, O3A reported a total pension liability of \$2,468,365, respectively, for its proportionate share of the net pension liabilities as follows:

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

Plan Liability	
PERS 1	\$ 1,180,483
PERS 2/3	1,287,882

At June 30, 2016 O3A'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	0.023614%	0.021981%	-0.001633%
PERS 2/3	0.027647%	0.025579%	-0.002068%

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, 2016, 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, O3A recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (15,304)
PERS 2/3	160,200

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, O3A reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	29,723	
Contributions subsequent to the measurement date	88,462	
TOTAL	\$118,185	

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		(42,516)
Changes in proportion and differences between contributions and proportionate share of contributions	239,490	(95,458)
Contributions subsequent to the measurement date	74,399	
TOTAL	\$313,889	\$(137,974)

Deferred outflows of resources related to pensions resulting from the O3A's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	PERS 1	PERS 2/3
2017	(7,318)	(32,088)
2018	(7,318)	(32,088)
2019	27,297	95,079
2020	17,062	70,615
Thereafter	-	-

NOTE 5 - RISK MANAGEMENT

O3A 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, O3A 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

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

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 O3A's history of claims for unemployment compensation, the COG established an unemployment compensation fund. At December 31, 2016, the Agency estimated the maximum liability for probable losses at \$69,202.

NOTE 6 – LEASES

The Agency leases office buildings under non-cancelable operating leases. The total cost for these leases were \$ 169,354 for the year ended December 31, 2016. The future lease payments for these leases are as follows:

2017	\$152,473
2018	105,734
2019	105,734
2020	87,318
2021	87,318

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

Governmental Activities:	Beginning Balance 1/1/16	Additions	Reductions	Ending Balance 12-31-16	Due Within One Year
Net pension liability	2,223,075	245,290		2,468,365	
Compensated absences	150,414	23,819		174,233	20,909
Due to other governmental units	903,733	14,134		917,867	
Total long-term liabilities	3,277,222	283,243		3,560,465	

NOTE 8 – CONTINGENCIES AND LITIGATIONS

The Agency had been notified by an Attorney General (AG) Representative in August 2016 of a possible legal issue. Our insurance company's review of the matter determined it to be a covered issue and they assigned an attorney to represent us in this matter. Our attorney has been working with the AGs office as the matter moves through discovery. We have been notified by the attorney that matter has been closed as of March 18, 2018.

Olympic Area Agency on Aging
Notes to Financial Statements
For the Year Ended December 31, 2016

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.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

In the 2016 column of the Statement of Revenues, Expenditures and Changes in Fund Balance, O3A presents a prior period adjustment of \$903,733. This represents the amount reported as the DSHS Working Capital advance (long-term liability) in the Balance Sheet. This statement should not present long-term liabilities, therefore, it was removed.

Olympic Area Agency on Aging
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Budgetary fund balance, January 1	\$ -	-	911,897	
Revenues:				
Older Americans Act budget	\$1,326,074	\$1,374,460	1,238,575	(135,885)
State/federal budget	\$4,287,861	\$4,529,593	4,613,366	83,773
Other	678,966	634,528	702,296	67,768
Total revenue	<u>6,292,902</u>	<u>6,538,581</u>	<u>6,554,238</u>	<u>15,657</u>
Expenditures:				
Access services	1,793,362	1,953,379	2,018,989	(65,610)
Social & Health services	1,573,991	1,560,548	1,627,339	(66,791)
Administration, technology and coordination	1,136,931	1,230,469	1,091,432	139,037
Information and assistance services	920,205	919,024	794,339	124,685
Family caregiver support services	699,293	735,609	667,756	67,853
Total expenditures	<u>6,123,782</u>	<u>6,399,029</u>	<u>6,199,855</u>	<u>199,174</u>
Excess of revenues over expenditures	169,120	139,552	354,383	<u>214,831</u>
Other Financing Sources				
Proceeds from intergovernmental loan	-	-	14,134	
Total other financing sources	<u>-</u>	<u>-</u>	<u>14,134</u>	
Prior period adjustment			903,733	
Budgetary fund balance, December 31	<u>\$ 169,120</u>	<u>139,552</u>	<u>2,184,147</u>	

Numbers may not total due to rounding

The accompanying notes are an integral part of this statement.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**Olympic Area Agency on Aging**

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30

Last Three year

<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	0.021981%	1,180,483	2,712,030	43.53%	57.03%
2015	0.023614%	1,235,232	2,565,721	48.14%	59.10%
2014	0.024722%	1,245,382	2,567,458	48.51%	61.19%

The accompanying notes are an integral part of this statement.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Olympic Area Agency on Aging
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30
Last Three year

<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	0.025579%	1,287,882	2,596,677	49.60%	85.82%
2015	0.027647%	987,843	2,565,721	38.50%	89.20%
2014	0.028977%	585,730	2,567,458	22.81%	93.29%

The accompanying notes are an integral part of this statement.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Olympic Area Agency on Aging
Schedule of Employer Contributions
PERS 1
As of December 31
Last Three year

<u>Year Ended December 31,</u>	<u>Statutorily or contractually required contributions</u>	<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employer payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2016	144,834	(144,834)	-	2,881,443	5.03%
2015	120,832	(120,832)	-	2,607,680	4.63%
2014	108,891	(108,891)	-	2,563,505	4.25%

The accompanying notes are an integral part of this statement.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Olympic Area Agency on Aging
Schedule of Employer Contributions
PERS 2/3
As of December 31
Last Three year

<u>Year Ended December 31,</u>	<u>Statutorily or contractually required contributions</u>	<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employer payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2016	172,128	(172,128)	-	2,762,861	6.23%
2015	140,471	(140,471)	-	2,607,680	5.39%
2014	122,503	(122,503)	-	2,563,505	4.78%

The accompanying notes are an integral part of this statement.

Olympic Area Agency on Aging
Notes to Required Supplemental Information - Pension
As of December 31
Last Three 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. RSI will eventually contain ten years of data.

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 presented in accordance with GASB 82, *Pension Issues*. Covered payroll includes all payroll on which a contribution is based.

**Olympic Area Agency on Aging
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	
Food And Nutrition Service, Department Of Agriculture (via DSHS)	Senior Farmers Market Nutrition Program	10.576	1569-41578	1,133	-	1,133	3 4a
Food And Nutrition Service, Department Of Agriculture (via DSHS)	Senior Farmers Market Nutrition Program	10.576	1669-68405	10,240	-	10,240	3 4a
			Total CFDA 10.576:	11,373	-	11,373	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_ Title III, Part D_Disease Prevention and Health Promotion Services	93.043	1669-53809	11,906	-	11,906	-
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	1669-53809	616,725	-	616,725	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	1669-53809	454,769	-	454,769	4c
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Nutrition Services Incentive Program	93.053	1669-53809	88,517	-	88,517	4d
			Total Aging Cluster:	1,160,011	-	1,160,011	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Alzheimer's Disease Demonstration Grants to States	93.051	1669-53809	3,563	-	3,563	-

**Olympic Area Agency on Aging
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Expenditures				Passed through to Subrecipients	Note
			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	1669-53809	151,602	-	151,602	-	
	Medicare Enrollment Assistance Program	93.071	1569-41578	6,041	-	6,041	-	
	Medicare Enrollment Assistance Program	93.071	1669-68405	6,138	-	6,138	-	
			Total CFDA 93.071:	12,179	-	12,179	-	
(via DSHS)	ADRC	93.517	1569-41578	9,352	-	9,352	-	
(via DSHS)	ADRC	93.517	1669-68405	4,721	-	4,721	-	
			Total CFDA 93.517:	14,073	-	14,073	-	
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	1669-68405	-	-	-	-	
	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self- Management Education Programs – financed by Prevention and Public Health Funds (PPHF)	93.734	1569-41578	4,705	-	4,705	-	
			Total CFDA 93.734:	4,705	-	4,705	-	

Olympic Area Agency on Aging
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

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		
Medicaid Cluster								
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Medical Assistance Program	93.778	1669-68405	846,859	-	846,859	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Medical Assistance Program	93.778	1569-41578	823,641	-	823,641	-	
		Total Medicaid Cluster:		1,670,500	-	1,670,500	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Money Follows the Person Rebalancing Demonstration	93.791	1569-41578	4,309	-	4,309	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Money Follows the Person Rebalancing Demonstration	93.791	1669-68405	4,663	-	4,663	-	
		Total CFDA 93.791:		8,972	-	8,972	-	
		Total Federal Awards Expended:		3,048,883	-	3,048,883	632,646	

Olympic Area Agency on Aging
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 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 \$11,373 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	\$11,373
4b	Title III, Part B, Grants for Supportive Services and Senior Centers	\$122,105
4c	Title III, Part C, Nutrition Services	\$410,651
4d	Nutrition Services Incentive Program	\$88,517

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.



Olympic Area Agency on Aging

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CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Olympic Area Agency on Aging
January 1, 2016 through December 31, 2016

This schedule presents the corrective action planned by the Agency for findings reported in this report 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).

Finding ref number: 2016-001	Finding caption: The Agency's internal controls over financial reporting were inadequate to ensure accurate reporting.
Name, address, and telephone of Agency contact person: Paul Scott, 11700 Rhody Drive, Port Hadlock, WA 98389, 360-316-6461	
Corrective action the auditee plans to take in response to the finding: <i>It should be noted that O3A did not receive the 2016 report of finding until September 24, 2018. Most of this corrective action plan has already been established in O3A's ongoing efforts to improve internal controls and comply with the Corrective action plan O3A has provided ALTSA, our cognizant entity.</i> Recommendation: <ol style="list-style-type: none"> 1. <i>Establish and follow internal controls to ensure accurate financial reporting.</i> <ol style="list-style-type: none"> a. <i>Re-evaluate O3A's transactional accounting processes to assure all transactions are recorded in accordance with accounting and reporting standards (e.g. GAAP, GASB, Uniform Guidance (2 CFR 200), the State BARS and the WA AAA Policy and Procedures Manual (Ch 9).</i> b. <i>Execute the 7/30/18 corrective action plan submitted to ALTSA, our cognizant agency, and review periodically to assure compliance.</i> 	

- c. Continue upgrades to internal reporting documents (e.g. Revenue & Expense Report & Program Budget Reports), internal management's reviews and external reviews from our COG.*
- 2. Provide adequate training and resources to staff responsible for preparation of the financial statements.*
 - a. Regarding resources, hire additional staff with more experience and accounting knowledge than the accounting specialist. Hire additional accounting support staff to maintain adequate depth in the fiscal department for review of transactions.*
 - b. Attend training & development provided by SAO and other organizations (e.g. W4A, WFOA, WCIF) that provide continuing education related to fiscal operations.*
- 3. Establish a process for technical review of the financial statements to ensure they are prepared accurately and follow GAAP and GASB criteria.*
 - a. Engage outside expertise to review financial statements for GAAP and GASB compliance.*
 - b. Communicate activities & key information to outside consultants to enhance review and assistance with reporting requirements.*
 - c. Continue internal reviews by the Administrative Systems Manager and Executive Director and keep comments and review notes for audit purposes.*

Anticipated date to complete the corrective action: September 2018

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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