

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**City of Walla Walla**  
**Walla Walla County**

Audit Period  
**January 1, 2013 through December 31, 2013**

**Report No. 1012152**

Issue Date  
**June 30, 2014**



**Washington State Auditor**  
**Troy Kelley**

Independence • Respect • Integrity



## Washington State Auditor Troy Kelley

June 30, 2014

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

### ***Report on Financial Statements and Federal Single Audit***

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

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

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Walla Walla County  
January 1, 2013 through December 31, 2013**

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# Federal Summary

## City of Walla Walla Walla Walla County January 1, 2013 through December 31, 2013

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

### ***FINANCIAL STATEMENTS***

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

#### ***Internal Control Over Financial Reporting:***

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

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

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

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

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

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

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

# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

**City of Walla Walla  
Walla Walla County  
January 1, 2013 through December 31, 2013**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2014.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

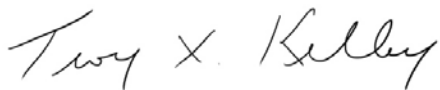
## ***COMPLIANCE AND OTHER MATTERS***

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

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

## ***PURPOSE OF THIS REPORT***

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



**TROY KELLEY**  
STATE AUDITOR

June 24, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**City of Walla Walla  
Walla Walla County  
January 1, 2013 through December 31, 2013**

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

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

We have audited the compliance of the City of Walla Walla, Walla Walla County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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



### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

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

*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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

June 24, 2014

# **Independent Auditor's Report on Financial Statements**

## **City of Walla Walla Walla Walla County January 1, 2013 through December 31, 2013**

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

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Walla Walla, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

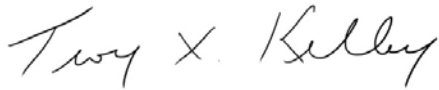
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

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

## ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

June 24, 2014

## **Financial Section**

**City of Walla Walla  
Walla Walla County  
January 1, 2013 through December 31, 2013**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –  
General Fund – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Net Position – Fiduciary Funds – 2013

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013

Notes to the Financial Statements – 2013

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

**CITY OF WALLA WALLA**  
Management's Discussion and Analysis  
December 31, 2013

As management of the City of Walla Walla, we offer readers of the City of Walla Walla's financial statements this narrative overview and analysis of the financial activities of the City of Walla Walla for the fiscal year ended December 31, 2013. This discussion and analysis should be considered in conjunction with the Letter of Transmittal as well as other components of the report. **All amounts, unless otherwise indicated, are expressed in thousands of dollars.**

**Financial Highlights**

- The assets and deferred outflows of resources of the City of Walla Walla exceeded liabilities and deferred inflows at the close of the most recent fiscal year by \$153,826 (*net position*). Of this amount, \$34,913 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$11,632. Business-type activities contributed an increase of \$5,376 while governmental-type activities contributed an increase of \$6,256. The overall financial position of the City improved during 2013, which continues a conservative growth trend over the past several years.
- At fiscal year close, the City of Walla Walla's governmental funds reported combined ending fund balances of \$7,895, an increase of \$41 in comparison with the prior year. The main contributing factor for the increase was a significant donation to the City's cemetery and control of expenditures across government functions. At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$3,887, which represents 16.45% of total General Fund expenditures.
- In 2010, the City implemented the Infrastructure Replacement and Renewal Plan (IRRP) for updating water and sewer lines in the City. A major portion of funding for the IRRP is supported by bonds to be paid by rate revenue from the Water and Wastewater Funds. The largest water and wastewater IRRP construction project was for the Pleasant/Home/Fern project and was 85% complete in 2013. Total spending for this entire project in 2013 was \$2,039 out of a total estimated project budget of \$2,520.
- Spending on governmental activities included in construction-in-progress (CIP) during 2013 totaled \$8,164. The largest project was Myra Road which was 95% complete in 2013. Project spending in 2013 was \$3,657 out of a total estimated project cost of \$4,959. The project is largely funded by a state and federal transportation grants.
- Spending on business activities included in CIP during 2013 totaled \$3,181. The largest project was for the water, sewer and storm replacement for the Pleasant/Home/Fern IRRP which was 85% complete in 2013. Project spending for business activities in 2013 was \$1,085 out of a total estimated project cost of \$1,214. Funding for this project is supported by bonds paid by rate revenue from the Wastewater Fund.

## Overview of the Financial Statements

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

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

The *statement of net position* presents the City of Walla Walla's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Increases or decreases in net position over time serve as a useful indicator of whether the City's financial position is improving or deteriorating.

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

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

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

**Governmental Funds.** Governmental funds account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of*



*spendable* resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Walla Walla maintains twenty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is a major fund as defined by the Governmental Accounting Standards Board. In 2013, the street construction fund was also a major governmental fund. Other construction funds which are currently not in use are not reported. Data from the remaining funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

### **Government-wide Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. The City of Walla Walla assets exceed liabilities and deferred inflows by \$153,826 at the close of 2013.

The largest portion of the City of Walla Walla's net position (76.6%) reflects an investment in capital assets (e.g. buildings, machinery, equipment, infrastructure, construction in progress) less related outstanding debt used to acquire those assets. The City of Walla Walla uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Walla Walla's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City of Walla Walla's net position (0.7%) represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (22.7%) totaling \$34,913, may be used to meet the government's ongoing obligations.

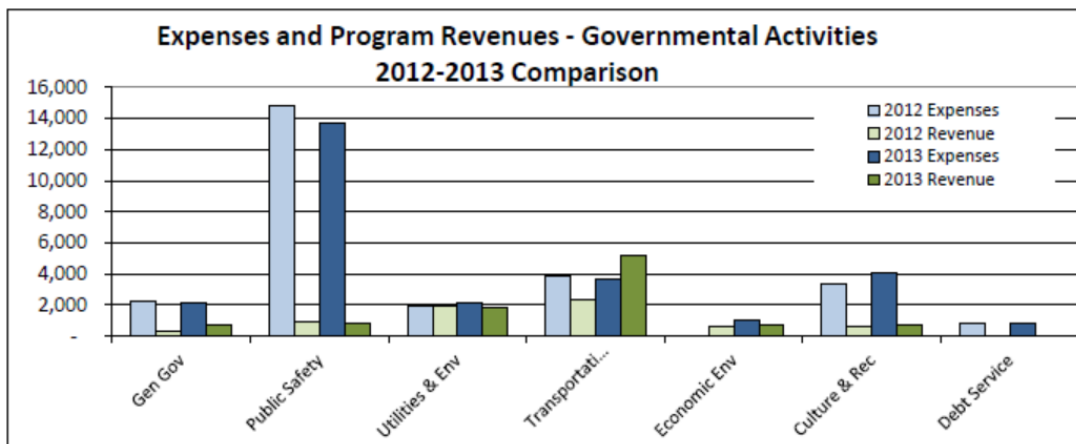
At the end of 2013, the City of Walla Walla reports positive balances in all three categories of net position for governmental, business-type activities, and the government as a whole. The City's current and other assets for governmental activities increased by \$379, primarily due to a significant donation to the City's cemetery fund. Capital assets utilized in governmental activities increased by \$5,637 primarily due to an increase in construction in progress. Non-current liabilities decreased by \$6,022 in governmental and business activities due primarily to reductions in outstanding debt.

The City's net position increased by \$11,632 during the 2013 fiscal year. This increase represents the degree to which ongoing revenues, mostly through rate increases, have exceeded expenditure increases.

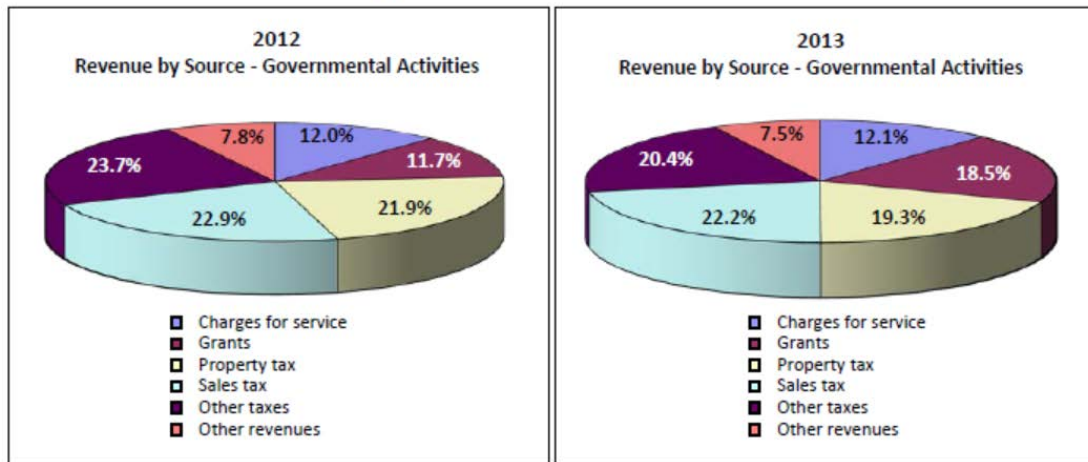
## City of Walla Walla's Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
Current & other assets	\$ 17,949	\$ 18,328	\$33,129	\$ 32,430	\$51,078	\$50,758
Capital assets	57,993	63,630	101,652	101,925	159,645	165,555
Total assets	75,942	81,958	134,781	134,355	210,723	216,313
Other liabilities	1,581	1,867	1,020	797	2,601	2,664
Non-current liabilities	19,326	18,883	46,228	40,649	65,554	59,532
Total liabilities	20,907	20,750	47,248	41,446	68,155	62,196
Special assessments	373	291	-	-	373	291
Total deferred inflows of resources	373	291	-	-	373	291
Net investment in capital assets	43,185	49,613	60,385	68,200	103,570	117,813
Restricted	916	1,100	-	-	916	1,100
Unrestricted	10,561	10,204	27,148	24,709	37,709	34,913
Total net position	\$54,661	\$60,917	\$87,533	\$92,909	\$142,194	\$153,826

**Governmental Activities.** Governmental activities increased the City of Walla Walla's net position by \$6,256, partly due to increases in capital grants and contributions of \$2,970, sales tax of \$721, property tax of \$83, charges for services, and other revenues over the previous fiscal year. Property tax revenue increased due to a statutory allowable tax levy increase, property tax levies associated with construction projects for public safety, and additional construction. Other sales-related taxes also increased due to a modest improvement in the economy. Business and occupation taxes increased for electricity, gas, and cable, but decreased for telephone. Taxes related to the tourism industry, such as lodging taxes, continue to increase in part because of increased efforts associated with the Tourism Promotion Area (TPA). The tax on natural gas continued to decrease because of the moderate temperatures during the winter months. Payment-in-lieu-of-taxes were higher in 2013 due to rate increases in water, wastewater, and stormwater to support the IRRP. This program is designed to replace the aging water, wastewater, and stormwater infrastructure over a period of years.



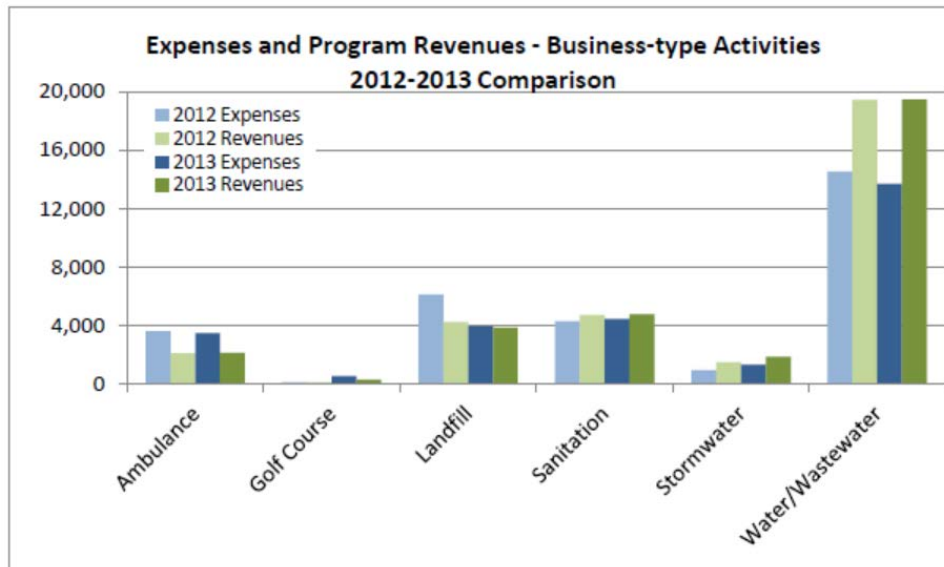
## Revenues by Source - Governmental Activities



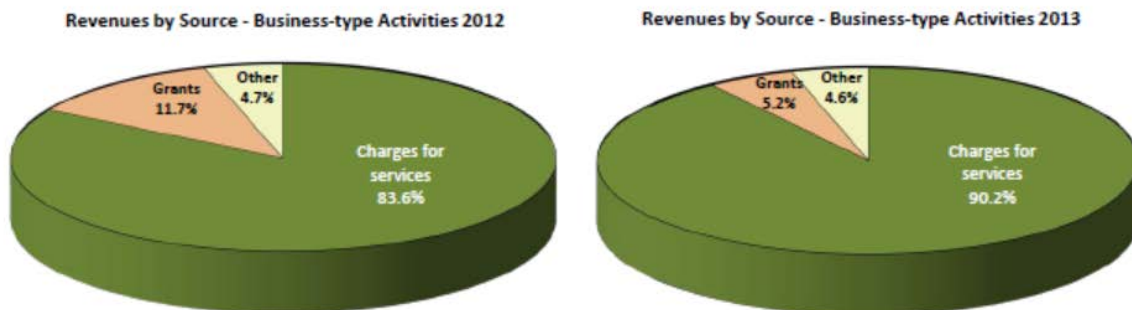
## City of Walla Walla's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
<b>Revenues:</b>						
Program revenues:						
Charges for service	\$3,409	\$3,960	\$30,401	\$30,492	\$33,810	\$34,452
Operating grants/contributions	1,001	773	1,066	601	2,067	1,374
Capital grants/contributions	2,326	5,296	524	1,169	2,850	6,465
General revenues:						
Property tax	6,254	6,337	-	-	6,254	6,337
Sales tax	6,538	7,259	-	-	6,538	7,259
Other taxes	6,740	6,684	-	-	6,740	6,684
Other revenues	2,204	2,452	1,538	1,536	3,742	3,988
Total revenues	28,472	32,761	33,529	33,798	62,001	66,559
<b>Expenses:</b>						
General government	2,211	2,156	-	-	2,211	2,156
Public safety	14,870	13,670	-	-	14,870	13,670
Utilities and environment	1,976	2,195	-	-	1,976	2,195
Transportation	3,826	3,644	-	-	3,826	3,644
Economic environment	43	1,079	-	-	43	1,079
Culture and recreation	3,329	4,044	-	-	3,329	4,044
Interest on long-term debt	795	803	-	-	795	803
Ambulance	-	-	3,600	3,476	3,600	3,476
Golf course	-	-	111	512	111	512
Landfill	-	-	6,112	3,940	6,112	3,940
Sanitation	-	-	4,282	4,434	4,282	4,434
Stormwater	-	-	930	1,289	930	1,289
Water/Wastewater	-	-	14,525	13,685	14,525	13,685
Total expenses	27,050	27,591	29,560	27,336	56,610	54,927
Increase in net position before transfers	1,422	5,170	3,969	6,462	5,391	11,632
Transfers	578	1,086	(578)	(1,086)	-	-
Increase in net position	2,000	6,256	3,391	5,376	5,391	11,632
Net position, beginning	52,661	54,661	84,142	87,533	136,803	142,194
Net position, ending	\$54,661	\$60,917	\$87,533	\$92,909	\$142,194	\$153,826

**Business-type Activities.** Business-type activities increased the City of Walla Walla's net position by \$5,376. This is due to utility rate increases for water, wastewater, and stormwater and the receipt of a grant for the costs associated with remediation and closure at the landfill. Expenses decreased by \$2,224, largely due to an updated projection for City Landfill future closure, post-closure, and remediation expenses as well as IRRP expenses.



**Revenues by Source - Business-type Activities**



Landfill expenses decreased from 2012 to 2013 by \$2,172 due to the recognition of reserve requirements for pollution remediation and landfill closure and post-closure. The increase in net position in the water/wastewater functions is useful as replacement costs of infrastructure assets are expected to be higher than the depreciation costs reflected in operating expenses. The revenue increase in water/wastewater is due to rate adjustments for replacing aging infrastructure in the City as well as regular utility rate increases. The City Council approved the issuance of bonds to be paid back over five years to initially fund the City's IRRP. The increases in rates will be used for bond principal and interest payments. The City plans to maintain the rate increases after the bonds are paid to fund the IRRP in ensuing years.

## Financial Analysis of the Government's Funds

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

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

As of the end of 2013, the City of Walla Walla's governmental funds reported combined ending fund balances of \$7,895, an increase of \$41 in comparison with the prior year. Taxes for the City increased by \$1,437 due to increases for the Transportation Benefit District Tax by \$676, payment-in-lieu-of-taxes by \$301, gambling tax by \$185, property taxes by \$176, and other miscellaneous taxes by \$99. Approximately \$2,780 constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

**General Fund.** The General Fund is the chief operating fund of the City of Walla Walla. At the end of the current fiscal year, unassigned and committed fund balances of the General Fund were \$3,887 and \$15 respectively. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total expenditures. Accordingly, the unassigned fund balance represents 16.45% of the total expenditures.

The fund balance of the City of Walla Walla's General Fund increased by \$784 during the 2013 fiscal year. A key factor is an increase in revenue of \$822 as compared to 2012. Overall revenues increased by 3.3% while total expenditures increased by 1.3%.

**Street Construction Fund.** The Street Construction Fund has a committed fund balance of \$776, committed by City Council for specific street projects and an assigned fund balance of \$11, intended for future street construction. The main revenue in 2013 for this fund was intergovernmental revenues and grants of \$4,623. Expenditures are capital outlay related to several construction projects. The two largest projects were Myra Road and Pleasant/Home/Fern IRRP with expenses in 2013 of \$3,657 and \$927 respectively.

**Other Non-major Governmental Funds.** Other non-major governmental funds include \$1,483 in restricted balance from lodging taxes, forfeitures and fines, and debt payment reserves. These funds also have a deficit unassigned balance of \$1,108 due to the Transportation Benefit District Construction Fund and LID Bond Funds. The committed fund balance for other non-major governmental funds is \$1,625 which is due to residual payments for LIDs, a City-established Cemetery Reserve Fund, and funding for housing development. The assigned fund balance for other governmental funds is \$59.

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

Sanitation	\$1,829	Ambulance	\$282
Water/Wastewater	\$14,773	Landfill	(\$962)

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

### **General Fund Budgetary Highlights**

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

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

The following are highlights of adjustments to the 2013 original budget as a result of the mid-biennium budget review, changes in the economy, and additional public contributions towards City programs:

- A decrease of \$17,000 in natural gas sales tax revenue;
- An increase of \$27,700 in law and justice sales tax;
- An increase of \$57,500 for payment in lieu of tax;
- An increase of \$44,800 for electric B&O tax;
- A decrease of \$40,000 for gas B&O tax;
- An increase of \$42,000 for television B&O tax;
- A decrease of \$86,700 for telephone B&O tax;
- An increase of \$556,000 in private donations for the Cemetery, Library, and Parks.

## Capital Asset and Debt Administration

**Capital Assets.** The City of Walla Walla's net investment in capital assets for its governmental and business-type activities as of December 31, 2013 amounts to \$117,813, net of related debt. Capital asset investments include land, buildings, improvements, machinery, equipment, park facilities, roads, and bridges. Capital assets increased by \$6,429 for governmental activities and increased by \$7,815 for business activities to increase the City's capital asset investment by \$14,244 in total for the year.

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

- State and federal transportation grants largely funded \$3,657 on the Myra Road project, which was 95% complete in 2013.
- The largest water and wastewater IRRP project was Pleasant/Home/Fern which was 85% complete in 2013, spending \$2,133 out of a \$2,520 project budget, with IRRP funding supported by water and wastewater rate revenue bonds. Spending on the City's IRRP program included in the CIP during 2013 totaled \$2,071.

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

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

	Governmental Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
Land	\$3,556	\$3,556	\$1,222	\$1,222	\$4,778	\$4,778
Construction in progress	3,851	10,435	1,509	3,236	5,360	13,671
Buildings	18,061	17,561	17,381	16,782	35,442	34,343
Improvements	3,862	3,753	6,131	5,755	9,993	9,508
Equipment	1,565	1,531	5,462	5,290	7,027	6,821
Infrastructure	27,096	26,794	69,947	69,640	97,043	96,434
Total capital assets	\$57,991	\$63,630	\$101,652	\$101,925	\$159,643	\$165,555

**Long-term Debt.** At the end of the current fiscal year, the City of Walla Walla had total bonded debt outstanding of \$31,354. Of this amount, \$21,974 is comprised of debt backed by the full faith and credit of the government. General obligation bonded debt includes \$3,450 of water and wastewater debt associated with the IRRP to be repaid by rate revenue and \$4,272 of landfill and golf course debt to be repaid by user fee revenue. The remainder of the City of Walla Walla's bonded debt is secured primarily by specified revenue sources (i.e. revenue bonds). Additionally, the water/wastewater utility has outstanding loans used for capital construction of \$16,325. The special assessment bond to be repaid by property owner levies has been funded and accounted for as an interfund loan. Additional long term liability information can be found in Note 9.



### City of Walla Walla's Outstanding Debt

	Government-type Activities		Business-type Activities		Total	
	2012	2013	2012	2013	2012	2013
General obligation bonds	\$15,099	\$14,252	\$9,827	\$7,722	\$24,926	\$21,974
Revenue bonds	-	-	11,510	9,380	11,510	9,380
Construction loans	-	-	18,197	16,325	18,197	16,325
Special assessment IF loan	515	478	-	-	515	478
Total	<u>\$15,614</u>	<u>\$14,730</u>	<u>\$39,534</u>	<u>\$33,427</u>	<u>\$55,148</u>	<u>\$48,157</u>

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

In 2012, the City adopted a biennial budget for 2013-14. After a mid-biennial review in 2013, the City adjusted the 2013 and 2014 budgets to more accurately reflect the projected revenues and to adjust salaries and benefits in 2014 to include increases in medical expenses and cost-of-labor/cost-of-living increases. Sales tax and revenue derived from areas such as utility taxes and real estate excise tax are projected to continue in 2014 at levels experienced in the last six months of 2013.

The local economy experienced a slight upturn beginning in 2011 that is expected to continue through 2015. As a result, the City was not impacted as severely as some other cities in the State of Washington. When the City of Walla Walla adopted its 2013-2014 biennial budget in 2012, City administrators and City Council used a conservative approach for estimating revenue and expenses because of the economic outlook for 2011 and 2012. The City continually reviews its practices and streamlines processes as necessary.

Based on current information from the County Assessor's Office, the 2014 property tax levy of \$5,134,851 includes an increase of \$37,430 from new construction and a reduction of \$7,722 from state assessed property improvements in 2013.

The 2014 budget assumes a number of changes in fees for services. Water rates will increase 8%; 3% for operations and management and 5% for the IRRP. Wastewater rates will increase 7%; 2% for operations and management and 5% for the IRRP. Stormwater rates will rise 5%; 2% for operations and management and 3% for the IRRP. Operations and management rate increases are due to the cost of inflation and costs of meeting federal and state requirements. Landfill rates will increase by 9.5%. Ambulance base rates are not scheduled to increase in 2014, for a third year in a row. Sanitation rates are not currently budgeted for a 2014 rate increase.

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

projects with the special rate increases paying for the principal and interest for the bonds. At the end of five years, the bonds will be paid in full and the IRRP rate revenue will be used to fund future IRRP projects.

In 2011, the City Council established a Transportation Benefit District (TBD). Citizens of the City voted for a ten-year sales tax increase of 2/10<sup>th</sup> of a percent to support transportation projects in the City. The additional sales tax became effective in July, 2012. The Transportation Benefit District is treated as a blended component in 2013.

#### *Requests for Information*

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

**City of Walla Walla  
Statement of Net Position  
December 31, 2013**

	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Total</b>	<b>Component Unit WWJCDA</b>
<b>ASSETS</b>				
Cash and equivalents	\$ 9,201,380	\$ 21,926,866	\$ 31,128,246	\$ 159,854
Other receivables (net of allowance)	2,704,401	2,433,424	5,137,825	83,827
Prepays	73,350	1,615	74,965	-
Taxes receivables	6,860,999	-	6,860,999	-
Special assessment receivable	291,165	-	291,165	-
Notes receivable	-	18,037	18,037	-
Inventories	-	676,092	676,092	-
Unrestricted investments	-	80,513	80,513	-
Temporarily restricted investments	-	2,586,488	2,586,488	-
Restricted cash:				
Temporarily restricted	879,890	3,008,260	3,888,150	-
Permanently restricted	16,545	-	16,545	-
Interfund loans receivable (payable)	(1,873,944)	1,873,944	-	-
Internal balances receivable (payable)	174,718	(174,718)	-	-
Capital assets not depreciated:				
Land	3,556,599	1,221,574	4,778,173	-
Construction in progress	10,434,181	3,236,471	13,670,652	-
Capital assets net of accumulated depreciation:				
Buildings and structures	17,560,794	16,782,261	34,343,055	-
Other improvements	3,753,215	5,754,544	9,507,759	-
Machinery and equipment	1,531,374	5,289,719	6,821,093	-
Infrastructure	26,793,362	69,640,287	96,433,649	-
Total assets	\$ 81,958,029	\$ 134,355,377	\$ 216,313,406	\$ 243,681
<b>LIABILITIES</b>				
Accounts payable	\$ 358,228	\$ 58,487	\$ 416,715	\$ 109,325
Other accrued liabilities	1,274,366	738,840	2,013,206	25,549
Unearned revenue	234,012	-	234,012	-
Noncurrent liabilities:				
Due within one year	2,275,437	6,638,209	8,913,646	-
Due in more than one year	16,607,781	34,010,882	50,618,663	-
Total liabilities	\$ 20,749,824	\$ 41,446,418	\$ 62,196,242	\$ 134,874
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Special assessments	\$ 290,762	\$ -	\$ 290,762	\$ -
Total deferred inflows of resources	\$ 290,762	\$ -	\$ 290,762	\$ -
<b>NET POSITION</b>				
Net investment in capital assets	\$ 49,613,369	\$ 68,199,842	\$ 117,813,211	\$ -
Net position restricted for:				
Permanent funds:				
Expendable	10,924	-	10,924	-
Nonexpendable	16,545	-	16,545	-
Library donations	54,707	-	54,707	-
Parks donations	1,017,698	-	1,017,698	-
Net position unrestricted	10,204,200	24,709,117	34,913,317	108,807
Total net position	\$ 60,917,443	\$ 92,908,959	\$ 153,826,402	\$ 108,807

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

**City of Walla Walla**  
**Statement of Activities**  
**For the Year Ended December 31, 2013**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit WW/JCDA
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,155,690	\$ -	\$ -	\$ (1,473,348)		\$ (1,473,348)	
Public safety	13,669,842	375,315	24,852	(12,876,237)		(12,876,237)	
Utilities and environment	2,194,544	-	392,026	(325,646)		(325,646)	
Transportation	3,644,460	18,453	4,879,161	1,586,579		1,586,579	
Economic environment	1,078,669	15,000	-	(313,624)		(313,624)	
Culture and recreation	4,044,217	363,732	-	(3,356,368)		(3,356,368)	
Interest expense	803,031	-	-	(803,031)		(803,031)	
Total governmental activities	27,590,453	772,500	5,296,039	(17,561,676)		(17,561,676)	
Business-type activities:							
Ambulance	3,476,310	1,208	-	(1,369,665)		(1,369,665)	
Golf course	512,335	-	-	(242,085)		(242,085)	
Landfill	3,940,417	479,563	-	(92,841)		(92,841)	
Sanitation	4,433,738	-	-	317,742		317,742	
Stormwater management	1,289,337	100,000	312,327	545,428		545,428	
Water/Wastewater	13,684,629	20,000	857,105	5,766,905		5,766,905	
Total business-type activities	27,336,766	600,771	1,169,432	-	4,925,485	4,925,485	
Total primary government	\$ 54,927,219	\$ 1,373,271	\$ 6,465,471	(17,561,676)	4,925,485	(12,636,191)	
<b>Component Unit:</b>							
WW/JCDA	\$ 3,403,241	\$ -	\$ -				\$ (1,449,324)
Total component units	\$ 3,403,241	\$ -	\$ -				\$ (1,449,324)
General revenues:							
Taxes:							
Property taxes				6,336,963	-	6,336,963	-
Sales taxes				7,258,757	-	7,258,757	-
Business and occupation taxes				3,109,346	-	3,109,346	-
Payment in lieu of taxes				2,874,497	-	2,874,497	-
Gambling taxes				210,821	-	210,821	-
Real estate excise taxes				240,983	-	240,983	-
Leasehold taxes				36,791	-	36,791	-
Tourism promotion tax				211,886	-	211,886	-
Intergovernmental				2,394,927	1,258,535	3,653,462	1,366,763
Miscellaneous general revenues				51,087	266,356	317,443	39
Gain (loss) on sale of capital assets				5,990	11,528	17,518	-
Transfers				1,085,776	(1,085,776)	-	-
Total general revenues and transfers				23,817,822	450,644	24,268,465	1,366,802
Change in net position				6,256,146	5,376,128	11,632,274	(82,522)
Net position - beginning				54,661,297	87,532,831	142,194,128	191,329
Net position - ending				\$ 60,917,443	\$ 92,908,959	\$ 153,826,402	\$ 108,807

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

**City of Walla Walla  
Balance Sheet  
Governmental Funds  
December 31, 2013**

	<b>General Fund</b>	<b>Street CIP's</b>	<b>Other Governmental</b>	<b>Total Governmental</b>
<b>ASSETS</b>				
Cash and equivalents	\$ 5,762,365	\$ (1,132,562)	\$ 3,151,588	\$ 7,781,391
Restricted cash and equivalents	-	-	896,435	896,435
Taxes receivables (net)	5,627,884	-	1,233,114	6,860,998
Other receivables (net)	564,111	1,950,152	99,519	2,613,782
Prepays	56,714	-	125	56,839
Special assessments receivable	-	-	291,165	291,165
Total assets	<u>\$ 12,011,074</u>	<u>\$ 817,590</u>	<u>\$ 5,671,946</u>	<u>\$ 18,500,610</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 164,507	\$ 30,600	\$ 143,599	\$ 338,706
Other accrued liabilities	1,131,475	-	54,096	1,185,571
Interfund loans payable	-	-	1,873,944	1,873,944
Unearned revenues	234,012	-	-	234,012
Total liabilities	<u>\$ 1,529,994</u>	<u>\$ 30,600</u>	<u>\$ 2,071,639</u>	<u>\$ 3,632,233</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes	\$ 5,449,463	\$ -	\$ 1,233,114	\$ 6,682,577
Special assessments	-	-	290,762	290,762
Total deferred inflows of resources	<u>\$ 5,449,463</u>	<u>\$ -</u>	<u>\$ 1,523,876</u>	<u>\$ 6,973,339</u>
<b>FUND BALANCE</b>				
Nonspendable	\$ 56,714	\$ -	\$ 16,545	\$ 73,259
Restricted	1,072,404	-	1,483,024	2,555,428
Committed	15,058	776,173	1,625,486	2,416,717
Assigned	-	10,817	59,122	69,939
Unassigned	3,887,441	-	(1,107,746)	2,779,695
Total fund balances	<u>\$ 5,031,617</u>	<u>\$ 786,990</u>	<u>\$ 2,076,431</u>	<u>\$ 7,895,038</u>
Total liabilities, deferred inflows of resources, fund balances	<u>\$ 12,011,074</u>	<u>\$ 817,590</u>	<u>\$ 5,671,946</u>	

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

Total fund balances - governmental funds	\$ 7,895,038
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital outlays are expenditures for fund reporting but are asset additions for government wide reporting.	63,629,525
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Proceeds received from new and repayments of existing debts are recorded as resources and expenditures for fund reporting but are additions and reductions of liabilities for government wide reporting.	(18,883,218)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,682,580
Internal service funds are used by management to charge the costs of health and industrial insurance and emergency communication services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	1,593,518
Net position of governmental activities	<u>\$ 60,917,443</u>

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

**City of Walla Walla**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2013**

	<u>General Fund</u>	<u>Street CIP's</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>REVENUES</b>				
Taxes	\$ 16,760,439	\$ -	\$ 3,371,030	\$ 20,131,469
Licenses and permits	587,268	-	301,033	888,301
Intergovernmental revenues	954,934	4,623,161	856,156	6,434,251
Charges for goods and services	6,095,032	-	322,730	6,417,762
Fines and forfeitures	245,354	-	14,541	259,895
Miscellaneous revenues	846,385	338	172,334	1,019,057
Total revenues	<u>\$ 25,489,412</u>	<u>\$ 4,623,499</u>	<u>\$ 5,037,824</u>	<u>\$ 35,150,735</u>
<b>EXPENDITURES</b>				
Current:				
General government	\$ 5,907,939	\$ -	\$ -	\$ 5,907,939
Public safety	11,375,298	-	124,294	11,499,592
Utilities and environment	2,221,713	-	-	2,221,713
Transportation	-	282	1,799,936	1,800,218
Economic environment	1,080,826	-	-	1,080,826
Culture and recreation	2,928,871	-	924,856	3,853,727
Debt service:				
Principal retirement	-	-	3,594,594	3,594,594
Interest	-	-	616,826	616,826
Administrative charges	-	-	28,652	28,652
Capital outlay:				
General government	74,354	-	-	74,354
Public safety	25,529	-	41,156	66,685
Utilities and environment	19,428	-	-	19,428
Transportation	-	6,061,036	2,160,208	8,221,244
Total expenditures	<u>\$ 23,633,958</u>	<u>\$ 6,061,318</u>	<u>\$ 9,290,522</u>	<u>\$ 38,985,798</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,855,454</u>	<u>\$ (1,437,819)</u>	<u>\$ (4,252,698)</u>	<u>\$ (3,835,063)</u>

	<u>General Fund</u>	<u>Street CIP's</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 217,377	\$ 1,603,427	\$ 2,163,288	\$ 3,984,092
Transfers out	(1,288,616)	(144,308)	(1,539,059)	(2,971,983)
Insurance recoveries	-	-	18,453	18,453
Proceeds of refunding long term debt	-	-	2,840,000	2,840,000
Proceeds from sale of capital assets	-	-	5,990	5,990
Total other financing sources and uses	<u>\$ (1,071,239)</u>	<u>\$ 1,459,119</u>	<u>\$ 3,488,672</u>	<u>\$ 3,876,552</u>
Net change in fund balance	784,215	21,300	(764,026)	41,489
Fund balances -- beginning	<u>4,247,402</u>	<u>765,690</u>	<u>2,840,457</u>	<u>7,853,549</u>
Fund balances -- ending	<u><u>\$ 5,031,617</u></u>	<u><u>\$ 786,990</u></u>	<u><u>\$ 2,076,431</u></u>	<u><u>\$ 7,895,038</u></u>

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

Net change in fund balances - total governmental funds (above)	\$ 41,489
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	5,637,002
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	862,213
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	148,574
Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(419,074)
Internal service funds are used by management to charge the costs of emergency communications, vehicle maintenance and replacement to individual funds. The net revenue (loss) of certain activities of internal service funds is reported in the governmental activities.	(14,058)
Change in net position of governmental activities.	<u><u>\$ 6,256,146</u></u>

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



**City of Walla Walla**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2013**

	2013-2014 Biennial Budgeted Amounts		Actuals	Variance with Final Budget
	Original	Final	2013	Over (Under)
<b>REVENUES</b>				
Taxes	\$ 33,670,160	\$ 33,485,800	\$ 16,760,430	\$ (16,725,370)
Licenses and permits	1,110,760	1,112,760	587,270	(525,490)
Intergovernmental revenues	1,667,740	1,912,140	954,930	(957,210)
Charges for goods and services	12,573,240	12,927,060	6,095,030	(6,832,030)
Fines and forfeits	633,060	503,920	245,360	(258,560)
Miscellaneous revenues	403,790	1,165,180	846,400	(318,780)
Total revenues	50,058,750	51,106,860	25,489,420	(25,617,440)
<b>EXPENDITURES</b>				
Current:				
General government	11,752,100	12,694,970	5,907,940	(6,787,030)
Public safety	24,209,400	23,594,980	11,375,300	(12,219,680)
Utilities and environment	4,421,930	4,635,650	2,221,710	(2,413,940)
Economic environment	2,159,510	2,121,990	1,080,830	(1,041,160)
Culture and recreation	5,557,450	5,918,120	2,928,870	(2,989,250)
Capital outlay:				
General government	213,680	176,300	74,360	(101,940)
Public safety	16,460	168,770	25,530	(143,240)
Utilities and environment	7,700	660,410	19,430	(640,980)
Culture and recreation	-	164,890	-	(164,890)
Total expenditures	48,338,230	50,136,080	23,633,970	(26,502,110)
Excess (deficiency) of revenues over (under) expenditures	1,720,520	970,780	1,855,450	884,670
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	235,260	326,160	217,380	(108,780)
Transfers out	(1,802,440)	(2,495,440)	(1,288,620)	1,206,820
Total other financing sources, uses and special items	(1,567,180)	(2,169,280)	(1,071,240)	1,098,040
Net change in fund balances	153,340	(1,198,500)	784,210	1,982,710
<b>Fund balances -- beginning</b>	4,247,402	4,247,402	4,247,402	-
<b>Fund balances -- ending</b>	<u>\$ 4,400,742</u>	<u>\$ 3,048,902</u>	<u>\$ 5,031,612</u>	<u>\$ 1,982,710</u>

Figures are rounded to the nearest ten dollars.

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

City of Walla Walla  
Statement of Net Position  
Proprietary Funds  
December 31, 2013

	Business-type Activities - Major Enterprise Funds					
	Sanitation	Water/Wastewater	Landfill	Ambulance	Other Enterprise	Total Enterprise
ASSETS						Total Internal Service
Current assets:						
Cash and equivalents	\$ 1,643,366	\$ 10,904,909	\$ 3,184,861	\$ 362,901	\$ 1,141,259	\$ 17,237,296
Other receivables (net)	291,361	1,149,381	296,751	380,933	306,993	2,425,419
Interfund loans receivable	-	-	-	-	-	-
Inventories	-	584,101	-	-	6,000	590,101
Restricted cash and cash equivalents	-	-	1,221,306	-	-	1,221,306
Prepays	-	1,469	-	-	146	1,615
Total current assets	1,934,727	12,639,860	4,702,918	743,834	1,454,398	21,475,737
Noncurrent assets:						
Restricted cash and equivalents	-	-	1,786,954	-	-	1,786,954
Restricted investments	-	2,586,488	-	-	-	2,586,488
Unrestricted investments	-	80,513	-	-	-	80,513
Long term receivable	-	-	18,037	-	-	18,037
Interfund loans receivable	-	-	-	-	-	-
Land	-	572,495	593,664	-	-	1,166,159
Buildings and structures (net)	-	16,222,488	559,774	-	55,415	17,839,677
Improvements other than buildings (net)	-	1,434,116	3,292,873	-	1,027,554	5,754,543
Machinery and equipment (net)	13,223	291,285	74,586	38,677	44,904	462,675
Infrastructure (net)	-	67,523,768	614,166	-	1,502,354	69,640,288
Construction in progress	-	2,505,164	-	-	731,307	3,236,471
Total noncurrent assets	13,223	91,216,317	6,940,054	38,677	3,361,534	101,569,805
Total assets	\$ 1,947,950	\$ 103,856,177	\$ 11,642,972	\$ 782,511	\$ 4,815,932	\$ 123,045,542
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1,449	\$ 42,276	\$ 12,426	\$ 308	\$ 1,945	\$ 58,404
Other accrued liabilities	61,487	385,128	67,554	178,454	23,316	715,939
Industrial insurance claims	-	-	-	-	-	-
Compensated absences	43,267	95,502	48,793	170,801	16,004	374,367
Pollution remediation payable from restricted assets	-	-	307,658	-	-	307,658
Current portion long term debt	-	5,569,101	343,803	-	17,855	5,930,759
Interfund loans payable	-	-	149,231	-	35,054	184,285
Total current liabilities	106,203	6,092,007	929,465	349,563	94,174	7,571,412
Noncurrent liabilities:						
Industrial insurance claims	-	-	-	-	-	-
Compensated absences	-	10,602	-	112,323	6,161	129,086
Landfill closure payable from restricted assets	-	-	3,705,167	-	-	3,705,167
Pollution remediation payable from restricted assets	-	-	2,381,324	-	-	2,381,324
Long term debt	-	23,863,808	3,706,281	-	224,168	27,794,257
Interfund loans payable	-	-	798,058	-	458,479	1,256,537
Total noncurrent liabilities	-	23,874,410	10,590,830	112,323	688,808	35,266,371
Total liabilities	\$ 106,203	\$ 29,966,417	\$ 11,520,295	\$ 461,886	\$ 782,982	\$ 42,837,783
NET POSITION						
Net investment in capital assets	\$ 13,223	\$ 59,116,408	\$ 1,084,979	\$ 38,677	\$ 3,119,511	\$ 63,372,798
Unrestricted	1,828,524	14,773,352	(962,302)	281,948	913,439	16,834,961
Total net position	\$ 1,841,747	\$ 73,889,760	\$ 122,677	\$ 320,625	\$ 4,032,950	\$ 80,207,759
						12,701,200
						\$ 92,908,959

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Net position of business-type activities

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

**City of Walla Walla**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2013**

	Business-type Activities - Major Enterprise Funds				Other Enterprise	Total Enterprise	Total Internal Service
	Sanitation	Water/Wastewater	Landfill	Ambulance			
<b>Operating revenues:</b>							
Licenses and permits	\$ 639	\$ -	\$ -	\$ -	\$ -	\$ 639	\$ -
Intergovernmental revenues	-	-	7,955	1,250,581	-	1,258,536	1,902,078
Charges for goods and services	4,722,200	18,493,696	3,355,046	3,468,055	1,618,166	31,657,163	-
Discounts and allowances	-	-	-	(1,367,301)	-	(1,367,301)	-
Miscellaneous revenues	28,641	-	-	-	73,007	101,648	16,600
Interfund charges	-	-	-	-	-	-	7,887,663
Total operating revenues	<u>\$ 4,751,480</u>	<u>\$ 18,493,696</u>	<u>\$ 3,363,001</u>	<u>\$ 3,351,335</u>	<u>\$ 1,691,173</u>	<u>\$ 31,650,685</u>	<u>\$ 9,806,341</u>
<b>Operating expenses:</b>							
Depreciation	\$ 2,367	\$ 2,511,891	\$ 356,924	\$ 12,443	\$ 78,849	\$ 2,962,474	\$ 921,043
Bad debt expense	447	28,958	-	190,744	31,425	251,574	21,763
Salaries and wages	549,410	1,066,893	584,397	1,698,731	320,677	4,220,108	1,277,745
Personnel benefits	261,186	529,077	246,013	697,196	78,192	1,811,664	5,101,693
Supplies	86,876	466,341	35,690	118,498	56,939	764,344	1,260,308
Services and charges	1,741,836	2,871,338	603,810	68,509	381,411	5,666,904	765,082
Intergovernmental services	577,138	2,723,852	432,604	30,287	182,984	3,946,865	-
Interfund service payments	1,253,035	2,793,089	863,934	643,026	643,459	6,196,543	471,017
Total operating expenses	<u>\$ 4,472,295</u>	<u>\$ 12,991,439</u>	<u>\$ 3,123,372</u>	<u>\$ 3,459,434</u>	<u>\$ 1,773,936</u>	<u>\$ 25,820,476</u>	<u>\$ 9,818,651</u>
<b>Operating income (loss)</b>	<u>\$ 279,185</u>	<u>\$ 5,502,257</u>	<u>\$ 239,629</u>	<u>\$ (108,099)</u>	<u>\$ (82,763)</u>	<u>\$ 5,830,209</u>	<u>\$ (12,310)</u>
<b>Nonoperating revenues (expenses):</b>							
Intergovernmental revenues	\$ -	\$ -	\$ 479,563	\$ 1,208	\$ 100,000	\$ 580,771	\$ 244,000
Miscellaneous revenues	867	270,275	16,055	4,731	2,508	294,436	98,374
Gain (loss) on sale of capital assets	-	(108,008)	-	-	-	(108,008)	11,528
Insurance recoveries	-	-	-	-	-	-	5,116
Adjustment to landfill closure liability	-	-	(284,463)	-	-	(284,463)	-
Adjustment to pollution remediation liability	-	-	(350,416)	-	-	(350,416)	-
Debt service - interest	-	(631,607)	(184,387)	-	(33,873)	(849,867)	(173,477)
Total non-operating revenue (expenses)	<u>\$ 867</u>	<u>\$ (469,340)</u>	<u>\$ (323,648)</u>	<u>\$ 5,939</u>	<u>\$ 68,635</u>	<u>\$ (717,547)</u>	<u>\$ 185,541</u>
<b>Income (loss) before contributions, transfers, special items, and extraordinary items</b>	<u>\$ 280,052</u>	<u>\$ 5,032,917</u>	<u>\$ (84,019)</u>	<u>\$ (102,160)</u>	<u>\$ (14,128)</u>	<u>\$ 5,112,662</u>	<u>\$ 173,231</u>
Capital contributions	-	857,105	-	-	312,327	1,169,432	-
Transfers in	-	246,056	-	-	359,470	605,526	160,635
Transfers out	(37,960)	(1,521,817)	-	-	(52,334)	(1,612,111)	(166,158)
<b>Change in net position</b>	<u>242,092</u>	<u>4,614,261</u>	<u>(84,019)</u>	<u>(102,160)</u>	<u>605,335</u>	<u>5,275,509</u>	<u>167,708</u>
<b>Total net position -- beginning</b>	<u>1,599,655</u>	<u>69,275,499</u>	<u>206,696</u>	<u>422,785</u>	<u>3,427,615</u>	<u>74,932,250</u>	<u>16,995,853</u>
<b>Total net position -- ending</b>	<u>\$ 1,841,747</u>	<u>\$ 73,889,760</u>	<u>\$ 122,677</u>	<u>\$ 320,625</u>	<u>\$ 4,032,950</u>	<u>\$ 80,207,759</u>	<u>\$ 17,163,561</u>
Net change in net position - total proprietary funds							
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds							
Change in net position of business-type activities							
						\$ 5,275,509	
						100,619	
						<u>\$ 5,376,128</u>	

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

City of Walla Walla  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2013

	Business-type Activities - Major Enterprise Funds						
	Sanitation	Water/ Wastewater	Landfill	Ambulance	Other Enterprise	Total Enterprise	Total Internal Service
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash from customers	\$ 4,726,171	\$ 18,696,336	\$ 3,562,311	\$ 3,158,833	\$ 1,433,216	\$ 31,576,867	\$ 2,012,332
Cash from interfund services	-	-	-	-	-	-	7,887,663
Payments to suppliers	(2,412,041)	(6,078,043)	(1,080,335)	(218,045)	(631,478)	(10,419,942)	(2,010,297)
Payments to employees	(806,004)	(1,783,684)	(839,113)	(2,348,328)	(408,796)	(6,185,925)	(6,448,667)
Interfund service payments	(1,253,035)	(2,793,089)	(863,934)	(643,026)	(643,459)	(6,196,543)	(471,017)
Miscellaneous revenues	28,641	-	-	-	73,007	101,648	-
Payments for landfill closure	-	-	634,880	-	-	634,880	-
<b>Net cash provided by operating activities</b>	<b>\$ 283,732</b>	<b>\$ 8,041,520</b>	<b>\$ 1,413,809</b>	<b>\$ (50,566)</b>	<b>\$ (177,510)</b>	<b>\$ 9,510,985</b>	<b>\$ 970,014</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Operating grants received	\$ -	\$ -	\$ 431,498	\$ 1,208	\$ 100,000	\$ 532,706	\$ 244,000
Proceeds from insurance recovery	-	-	-	-	-	-	5,116
Proceeds (repayments) from interfund loan	-	-	(168,629)	-	(56,783)	(225,412)	355,012
Interfund loans disbursed	-	-	-	-	-	-	(1,100,000)
Miscellaneous revenues	-	100,087	12,967	-	1,513	114,567	10,956
Transfers in	-	246,056	-	-	359,470	605,526	160,635
Transfers out	(37,960)	(1,521,817)	-	-	(52,334)	(1,612,111)	(166,158)
<b>Total cash flows from noncapital financing</b>	<b>\$ (37,960)</b>	<b>\$ (1,175,674)</b>	<b>\$ 275,836</b>	<b>\$ 1,208</b>	<b>\$ 351,866</b>	<b>\$ (584,724)</b>	<b>\$ (490,439)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Purchase of capital assets	\$ -	\$ (2,615,379)	\$ -	\$ -	\$ (842,885)	\$ (3,458,264)	\$ (732,890)
Capital contributions and purchases	-	857,105	-	-	312,327	1,169,432	-
Principal and interest payments	-	(6,587,057)	(485,961)	-	(28,541)	(7,101,559)	(265,172)
Proceeds from sale of capital assets	-	-	-	-	-	-	25,798
Landfill closure and post-closure care	-	-	(284,463)	-	-	(284,463)	-
Pollution remediation	-	-	(350,416)	-	-	(350,416)	-
<b>Total cash flows from capital and related financing</b>	<b>\$ -</b>	<b>\$ (8,345,331)</b>	<b>\$ (1,120,840)</b>	<b>\$ -</b>	<b>\$ (559,099)</b>	<b>\$ (10,025,270)</b>	<b>\$ (972,264)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sales and maturities of investments	\$ -	\$ 561,986	\$ -	\$ -	\$ -	\$ 561,986	\$ -
Interest received	868	170,193	2,135	4,731	994	178,921	4,440
<b>Total cash flows from investing</b>	<b>\$ 868</b>	<b>\$ 732,179</b>	<b>\$ 2,135</b>	<b>\$ 4,731</b>	<b>\$ 994</b>	<b>\$ 740,907</b>	<b>\$ 4,440</b>
<b>Net increase (decrease) in cash and equivalents</b>	<b>\$ 246,640</b>	<b>\$ (747,306)</b>	<b>\$ 570,940</b>	<b>\$ (44,627)</b>	<b>\$ (383,749)</b>	<b>\$ (358,102)</b>	<b>\$ (488,249)</b>
Beginning cash and cash equivalents	\$ 1,396,726	\$ 11,652,215	\$ 5,622,182	\$ 407,528	\$ 1,525,008	\$ 20,603,659	\$ 6,597,805
Ending cash and cash equivalents	\$ 1,643,366	\$ 10,904,909	\$ 6,193,122	\$ 362,901	\$ 1,141,259	\$ 20,245,557	\$ 6,109,556
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating income (loss)	\$ 279,185	\$ 5,502,257	\$ 239,629	\$ (108,099)	\$ (82,764)	\$ 5,830,208	\$ (12,310)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation expense	2,367	2,511,891	356,924	12,443	78,849	2,962,474	921,043
Landfill closure and post-closure care	-	-	634,880	-	-	634,880	-
(Increase) decrease in accounts receivable	3,779	231,598	199,310	(1,758)	(153,525)	279,404	115,418
(Increase) decrease in inventories	-	(48,716)	-	-	(6,000)	(54,716)	(7,667)
(Increase) decrease in prepaid expenses	-	-	-	-	-	-	32,878
Increase (decrease) in accounts payable	(6,191)	32,204	(8,231)	(751)	(4,143)	12,888	(10,119)
Increase (decrease) in salaries and benefits	4,592	(187,714)	(8,703)	47,599	(9,927)	(54,153)	(69,229)
<b>Net cash provided by operating activities</b>	<b>\$ 283,732</b>	<b>\$ 8,041,520</b>	<b>\$ 1,413,809</b>	<b>\$ (50,566)</b>	<b>\$ (177,510)</b>	<b>\$ 9,510,985</b>	<b>\$ 970,014</b>
<b>No noncash investing, capital, and financing activities</b>							

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

**City of Walla Walla  
Statement of Net Position  
Fiduciary Funds  
December 31, 2013**

	<b>Pension and Other Employee Benefits</b>
<b>ASSETS</b>	
Cash and equivalents	\$ 510,012
Total assets	<u>\$ 510,012</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 11,947
Other accrued liabilities	<u>17,538</u>
Total liabilities	<u>\$ 29,485</u>
<b>NET POSITION</b>	
Held in trust for pension benefits and other purposes	<u>\$ 480,527</u>

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

**City of Walla Walla**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2013**

	<b>Pension and Other Employee Benefits</b>
<b>ADDITIONS</b>	
Contributions:	
Intergovernmental revenues	\$ 42,955
Employer contributions	<u>764,100</u>
Total contributions	<u>807,055</u>
Investment earnings:	
Interest on investments	<u>208</u>
Total additions	<u>\$ 807,263</u>
<b>DEDUCTIONS</b>	
Personnel benefits	<u>\$ 657,242</u>
Total deductions	<u>657,242</u>
Change in net position	150,021
Net Position -- beginning of the year	<u>330,506</u>
Net Position -- end of the year	<u><u>\$ 480,527</u></u>

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

**CITY OF WALLA WALLA**  
Notes to the Financial Statements  
December 31, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

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

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

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

Blended component unit:

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

Discretely presented component unit:

The Walla Walla Joint Community Development Agency (WWJCDA) is an independent entity which resulted from a merger of the City of Walla Walla Development Services Department and the Walla Walla County Community Development Department through an interlocal agreement. The WWJCDA provides land use planning, construction inspection, and code compliance services. In 2013, the City paid a 62% operating subsidy to the WWJCDA. The WWJCDA operating budget is subject to City Council approval. The City Council sets rates and fees charged by the WWJCDA. Two of the five Board of Director members are appointed by the City Council, two are appointed by the County and the fifth member is appointed for a two year term by the City and the County jointly. Send requests for copies of the WWJCDA financial statements to the Walla Walla Joint Community Development Agency, 55 Moore Street, Walla Walla, WA 99362.

## **B. Government-Wide and Fund Financial Statements**

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

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



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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or shortly after to pay liabilities of the current period. For this purpose, the City considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of the special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as current period revenue. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

Amounts reported as *program revenues* include 1) charges to customers, 2) operation grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues for enterprise funds are charges for services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and capital asset depreciation. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## **D. Budgetary Information**

In 2008, the City of Walla Walla changed from an annual budget to a biennial budget in accordance with the Revised Code of Washington (RCW) 35.34.

### ***1. Scope of Budget***

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

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

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

### ***2. Procedures for Adopting the Original Budget***

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

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

### ***3. Amending the Budget***

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

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

#### **4. Excess of Expenditures over Appropriations**

For the year ended December 31, 2013, the General Fund as a whole did not exceed the appropriated amount.

#### **5. Deficit Fund Net Position**

The Local Improvement District (LID) Bond Fund showed a deficit fund balance of (\$272,363) at December 31, 2013. This is expected and normal since the debt related to this debt service is from an interfund loan rather than an outside funding source. With internal financing the debt is carried within the fund and therefore results in a negative fund balance. Interfund loans payable in the LID Bond Fund total \$477,749 and will be redeemed with annual assessment proceeds.

The Transportation Benefit District (TBD) Street Construction Fund showed a deficit fund balance of (\$833,249) at December 31, 2013. This is expected and normal since the debt related to this construction fund is from an interfund loan rather than an outside funding source. With internal financing the debt is carried within the fund and therefore results in a negative fund balance. Interfund loans payable in the TBD Street Construction fund total \$1,100,000 and will be repaid with sales tax proceeds within the four year loan term.

#### **E. Assets, Liabilities, Fund Balance, Net Position**

##### **1. Cash and Equivalents**

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

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

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

**2. Investments** See deposit investment information in Note 4.

##### **3. Receivables**

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

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

Accounts receivable are amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. The Ambulance Fund allowance for uncollectible accounts is 45.9% of the outstanding receivables at December 31, 2013. Notes and contracts receivable consist of amounts owed on an open account from private individuals or organizations for goods and services rendered. Since the City is unable by law to grant credit to any entity, loans receivable are related to grant monies received from other agencies which have authorized the loan as part of the grant process. Loan repayments establish revolving loan funds for future loans which match the original grant purpose.

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

Lending or borrowing arrangements between funds outstanding at the end of the fiscal year are referred to as “interfund loans payable/receivable.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” A separate schedule of interfund loans receivable and payable is furnished in Note 14.

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

#### ***5. Inventories and Prepaid Items***

Inventories are valued by the FIFO (first-in-first-out) method. Inventories in governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time individual inventory items are purchased. The inventories associated with internal service funds and enterprise funds report inventories as expenditures when they are consumed rather than when they are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate a portion of the fund balance is not available for future expenditures.

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

#### ***6. Restricted Assets and Liabilities***

Corporuses of permanent funds are included in restricted assets. Cash in the Cemetery Reserve Fund is restricted for the care and maintenance of the cemetery. The “landfill closure” account is used by the Landfill Fund and contains resources set aside to fund future landfill closure and post closure costs. The pollution remediation account contains resources for current activity on the remediation of the Landfill. Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the balance sheet because they are maintained in a separate investment account and their use is limited by applicable bond covenants. The “bond debt service” account is used by the Water/Wastewater Fund to report resources set aside to subsidize potential deficiencies from the water/wastewater operations that could adversely affect debt service payments. Restricted assets are composed of:

Restricted Assets	Temporary Restrictions	Permanent Restrictions
Esther Eyruad Trust	\$ -	\$ 3,000
Sherwood Library Trust	-	13,545
Cemetery Reserve	879,890	-
Landfill Closure	1,786,954	-
Pollution Remediation	1,221,306	-
Water/Wastewater Debt Service	2,586,488	-

## 7. Capital Assets

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

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

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

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

For capital asset details, see Note 6.

## **8. Deferred Outflows and Inflows of Resources**

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

Property taxes (General Fund)	\$5,449,463
Property taxes (Debt Service Fund)	1,233,114
Special assessments (Debt Service Fund)	<u>290,762</u>
Total governmental deferred inflow of resources	<u>\$6,973,339</u>

## **9. Compensated Absences**

Compensated absences are paid time off work, such as vacation and sick leave benefits. Vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In proprietary funds, compensated absences are recorded as an expense and liability when earned. Compensated absence expenditures are recognized in government funds when the liability becomes due and payable, specifically leave due to employees who have left active service by the end of the fiscal period.

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

## **10. Other Accrued Liabilities**

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

## **11. Long-term Debt**

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

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

## 12. Unearned Revenue

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, unearned revenue reported in the governmental funds consists of \$234,012 in prepaid cemetery services.

## 13. Fund Balance Classification

Fund balance for governmental funds is reported in the following classifications depicting the relative strength of the constraints which control how specific amounts can be spent. The City considers expenditures to be made from the most restrictive resource when more than one fund balance classification is appropriate.

- Nonspendable fund balances are either not in spendable form or are legally or contractually required to remain intact.
- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balances can only be used for specific purposes ordained by the City Council, the City's highest level of decision-making authority. Commitments may be changed, modified, or rescinded only by ordinance approved by the vote of one more than the majority of all members of the City Council.
- Assigned fund balances are constraints imposed for specific purposes by the City Manager who is authorized to assign unexpended funds per Walla Walla Municipal Code 3.03.050.
- Unassigned fund balance is the residual amount of the general fund not included in the four categories above. Also, deficit fund balances within other governmental fund types are reported as unassigned.

## 14. Fund Balance Details

Fund balances by classification for the year ended December 31, 2013 were as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Street CIP's</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>Nonspendable:</b>				
Prepays	\$ 56,714	\$ -	\$ -	\$ 56,714
Library Trusts	-	-	16,545	16,545
<b>Restricted for:</b>				
Community Services	1,072,404	-	764,179	1,836,583
Debt Service	-	-	209,166	209,166
Capital Projects	-	-	509,679	509,679
<b>Committed to:</b>				
Community Enforcement & Development	15,058	-	441,131	456,189
Cemetery	-	-	879,890	879,890
Debt Service	-	-	52,235	52,235
Streets	-	-	251,465	251,465
Capital Projects	-	776,173	765	776,938
<b>Assigned to:</b>				
UDAG Fund	-	-	45,500	45,500
Cemetery and Library	-	-	13,622	13,622
Capital Projects	-	10,817	-	10,817
<b>Unassigned:</b>	3,887,441	-	(1,107,746)	2,779,695
<b>Total Fund Balances:</b>	<b>\$5,031,617</b>	<b>\$ 786,990</b>	<b>\$ 2,076,431</b>	<b>\$ 7,895,038</b>



### 15. Minimum Fund Balance

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

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

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

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

Beginning balance of capital assets excluded from fund level:

Land	\$ 3,556,599
Construction in progress	3,851,061
Buildings	18,061,325
Other improvements	3,862,308
Equipment	1,565,080
Infrastructure	27,096,149
Current year spending in construction work in progress	8,033,569
Current year capital purchases	258,164
Current year capital asset disposals	(33,079)
Current year depreciation	(2,621,651)
Net adjustment to add to government-wide fund balance to arrive at	
<i>Net position-governmental activities</i>	<u><u>\$ 63,629,525</u></u>

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

Beginning balance of long-term liabilities excluded from fund level:	
Bonds payable	\$ (15,098,397)
Bond premiums	(144,795)
Compensated absences	(1,822,765)
Workers compensation claims	(159,613)
OPEB obligation	(2,078,603)
Net pension obligation	(22,184)
Current year principal payments reducing debt	3,686,478
Current year amortization of bond premium	15,735
Current year compensated absences earned	(1,338,770)
Current year compensated absences used	1,357,284
Current year workers compensation claim additions	(49,929)
Current year workers compensation claim reductions	135,994
Current year OPEB obligation additions	(1,415,005)
Current year OPEB obligation reductions	867,292
Current year net pension obligation additions	(300,595)
Current year net pension obligation reductions	324,655
Bonds issued	(2,840,000)
Net adjustment to add to government-wide fund balance to arrive at <i>Net position-governmental activities</i>	<u><u>\$ (18,883,218)</u></u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Current year spending in CWIP	\$ 8,033,568
Current year capital purchases	258,164
Current year loss on disposal of capital assets	(33,079)
Depreciation expense	(2,621,651)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in <i>net position</i> of governmental activities	<u><u>\$ 5,637,002</u></u>

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Amortization of bond premiums	\$ 15,735
Debt principal retirement	3,686,478
Debt proceeds on bonds issued	(2,840,000)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in <i>net position</i> of governmental activities	<u><u>\$ 862,213</u></u>

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The details of this difference are as follows:

Current year compensated absences earned	(1,338,770)
Current year compensated absences used	1,357,284
Current year OPEB obligation additions	(1,415,005)
Current year OPEB obligation reductions	867,292
Current year net pension obligation additions	(300,595)
Current year net pension obligation reductions	324,655
Current year workers compensation claim additions	(49,929)
Current year workers compensation claim reductions	135,994
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in <i>net position</i> of governmental funds	<u><u>\$ (419,074)</u></u>

#### NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

#### NOTE 4 – DEPOSITS AND INVESTMENTS

##### A. Deposits

The City's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the WPDPC. The State of Washington Public Deposit Protection Commission Act, implemented on August 11, 1969, was amended during the 2009 legislative session to fully protect public deposits in the result of bank failure. At fiscal year end, the City of Walla Walla had \$1,759,596 on deposit with Baker Boyer National Bank. The FDIC insures those deposits up to \$250,000. The remaining amount on deposit is fully protected by the WPDPC, eliminating custodial credit risk for the \$1,509,596 deposit amount over the FDIC \$250,000 limit.

##### B. Investments

As of December 31, 2013, the government had the following investments, stated at cost which approximates fair value:

	<u>Fair Value</u>	<u>Weighted Average Maturities (Years)</u>
LGIP cash equivalents	\$35,425,816	0.19
AIG matching fund investment	<u>2,667,000</u>	3.58
Total investments at fair value	\$38,092,816	
Portfolio weighted average maturity		0.43

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

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

*Credit risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City policy allows the following types of investments in accordance with state law: demand or investment deposits in qualified public depositories located within the state; United States government bonds, notes, bills, certificates of indebtedness, or interim financing warrants of a local improvement district of the City of Walla Walla which is within the protection of the local improvement guaranty fund law; mutual funds and money market funds; bonds and other obligations of a metropolitan municipal corporation; notes or bonds secured by mortgages insured by the federal agencies or corporations; notes, bonds and debentures; the Local Government Investment Pool in the State Treasury; and such other investments authorized by law and approved by ordinance or resolution of the Walla Walla City Council.

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

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

**NOTE 5 – PROPERTY TAX**

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

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

Property tax is recorded as a receivable and deferred inflow of resources when levied. Upon receipt, property tax revenue is recognized and deferred inflow of property tax revenue is reduced. Delinquent taxes total \$345,615. Subsequent collections of delinquent amounts will be recorded as revenue in the period actually received. No allowance for uncollectible tax is established, because delinquent taxes are considered fully collectible.

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

- a. State law provides that the City's operating levy may not exceed 101% of the largest single levy of the past 3 years, plus an additional dollar amount calculated by multiplying the increase in assessed value resulting from new construction, property improvements, annexed property, and an increase in the assessed value for the preceding year.
- b. Washington State Constitution and Washington State law, RCW 84.55.010, limit the property tax rate to one percent of assessed value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

The City's 2013 levy was \$2.5166 per \$1,000 on a 2012 assessed valuation of \$2,005,723,860 for a total regular levy of \$5,047,547. The City's 2014 levy is \$2.557727 per \$1,000 on a 2013 assessed valuation of \$2,007,583,808 for a total operating levy of \$5,134,851.

Special levies approved by the voters are not subject to the limitations listed above. The City voted a debt service levy for the purposes of building a fire station in 2004 and a police station in 2009. The City's 2013 voted levy was \$0.610139 per \$1,000 on a 2012 assessed valuation of \$1,977,383,060 for a total voted levy of \$1,206,479. The City's 2014 voted levy is \$0.607159 per \$1,000 on a 2013 assessed valuation of \$1,979,897,108 for a total voted levy of \$1,202,113.

## NOTE 6 – CAPITAL ASSETS

### A. Capital Assets

Capital asset activity for the year ending December 31, 2013 was as follows:

<b>Primary Government Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 3,556,599	\$ -	\$ -	\$ 3,556,599
Construction in progress	3,851,061	8,171,995	1,588,875	10,434,181
Total capital assets not being depreciated	7,407,660	8,171,995	1,588,875	13,990,781
Capital assets being depreciated:				
Buildings	23,671,200	42,089	-	23,713,289
Improvements other than buildings	5,209,554	-	-	5,209,554
Machinery and equipment	3,443,640	267,716	116,365	3,594,991
Infrastructure	54,668,392	1,398,807	165,977	55,901,221
Total depreciated capital assets	86,992,786	1,708,612	282,343	88,419,055
Less accumulated depreciation for:				
Buildings	5,609,875	542,620	-	6,152,495
Improvements other than buildings	1,347,246	109,094	-	1,456,340
Machinery and equipment	1,878,560	301,422	116,365	2,063,616
Infrastructure	27,572,243	1,668,515	132,899	29,107,860
Total accumulated depreciation	36,407,923	2,621,651	249,264	38,780,310
Capital assets being depreciated, net	50,584,863	(913,039)	33,079	49,638,745
Governmental activities capital, net	\$ 57,992,523	\$ 7,258,956	\$ 1,621,953	\$ 63,629,525

**Business-type Activities**

Capital assets not being depreciated:

Land	\$ 1,221,574	\$ -	\$ -	\$ 1,221,574
Construction in progress	1,509,400	3,049,775	1,322,704	3,236,471
Total capital assets not being depreciated	2,730,974	3,049,775	1,322,704	4,458,046

Business-type assets being depreciated:

Buildings	31,093,756	-	-	31,093,756
Improvements other than buildings	7,835,622	-	-	7,835,622
Machinery and equipment	16,480,465	734,381	637,539	16,577,307
Infrastructure	94,841,135	1,687,612	187,401	96,341,345
Total depreciated capital assets	150,250,977	2,421,992	824,940	151,848,030

Less accumulated depreciation for:

Buildings and system	13,712,860	598,634	-	14,311,495
Improvements other than buildings	1,704,566	376,511	-	2,081,077
Machinery and equipment	11,018,080	892,778	623,269	11,287,588
Infrastructure	24,894,297	1,886,153	79,393	26,701,058
Total accumulated depreciation	51,329,804	3,754,076	702,662	54,381,218
Capital assets being depreciated, net	98,921,174	(1,332,084)	122,278	97,466,812
Business-type activities capital, net	\$ 101,652,148	\$ 1,717,691	\$ 1,444,982	\$ 101,924,857

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

**Governmental Activities:**

General government	\$ 299,569
Public safety	425,519
Utilities & environment	3,336
Transportation	1,669,894
Culture & recreational environment	223,333
Total depreciation - governmental activities	<u>\$2,621,651</u>

**Business-type Activities:**

Golf course	\$ 55,184
Sanitation	2,367
Water	1,015,932
Stormwater	23,665
Wastewater	1,495,959
Landfill	356,924
Ambulance	12,443
Fleet Services	4,972
Vehicle Replacement	786,631
Total depreciation - business-type activities	<u>\$3,754,076</u>

The City of Walla Walla has active construction projects as of December 31, 2013. At year-end the government's commitments with contractors are as follows:

	Project Commitment	Spent to Date	PO Amount Remaining
Street construction	\$ 4,622,775	\$ 4,191,902	\$ 430,873
TBD street construction	421,952	341,911	80,041
Water construction	152,990	118,057	34,933
Stormwater construction	503,019	255,336	247,683
Landfill construction	1,218,182	1,031,584	186,598
Wastewater construction	484,556	467,093	17,463
	<u>\$7,403,474</u>	<u>\$6,405,883</u>	<u>\$997,591</u>

## B. Collections not Capitalized

The City of Walla Walla has the option to not capitalize historical treasures and similar items according to GASB Statement No. 34, paragraph 27. Governments are encouraged, but not required, to capitalize collections that are a) held for public exhibition, education or research (rather than financial gain); b) adequately maintained and kept unencumbered; and c) subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The City owns the following donated historical treasures not capitalized as of the December 31, 2013:

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

## NOTE 7 – PENSION PLANS

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

In addition, the City of Walla Walla requested Milliman, Inc. to perform an actuarial valuation of the City’s Firefighters Pension Fund effective January 1, 2012. For more details on the contents of the report, please see “Local Governments Pension Trust Funds” and “Other Post Employment Benefits” sections below. A copy of the actuarial valuation can be obtained from the City Clerk’s office.

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

#### Plan Description

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

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by August 31, 2002 for local government employees are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest paid service credit months. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this adjustment, the benefit is reduced.



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

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

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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

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

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

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

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

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

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

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

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

### **Funding Policy**

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

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW. The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

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

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

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

\*\*\*Plan 3 defined benefit portion only.

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

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

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$12,778	\$664,636	\$101,857
2012	\$12,077	\$569,397	\$81,787
2011	\$12,491	\$481,974	\$68,127

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

The current actuarial valuation of Firefighters Pension Fund for the City of Walla Walla was provided by Milliman, Inc. effective January 1, 2012. For more details on the contents of the report please see “Local Governments Pension Trust Funds” and “Other Post Employment Benefits” sections below. A copy of this report can be obtained from the City Clerk’s office.

### Plan Description

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS’ fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment. As of December 31, 2013, the City of Walla Walla does not have employees covered under LEOFF Plan 1.

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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

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

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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

### **Funding Policy**

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed statute. For DRS' fiscal year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW. The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

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

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

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

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

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
2013	\$0	\$383,100
2012	\$49	\$389,160
2011	\$273	\$383,983

## **C. Local Government Pension Trust Funds**

### **Plan description**

The City of Walla Walla administers the Firefighters Pension Fund, reflected as a trust fund in the City of Walla Walla financial reports. There is no stand alone financial report for the plan. The Firefighters Pension Fund is a closed, small, single-employer defined benefit plan established in conformance with RCW 41.26. Members do not make contributions. The actuarial cost method is the entry age normal cost method. The amortization period is the level dollar method for 20 year closed beginning January 1, 2008, with 15 years remaining. The current actuarial valuation of Firefighters Pension Fund for the City of Walla Walla was provided by Milliman, Inc. effective January 1, 2012, and can be obtained from the City Clerk's office.

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

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

The Firefighters Pension Fund makes two types of payments:

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

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

#### **Firefighters Pension Fund Covered Individuals**

Single Employer – Closed Plan

January 1, 2012\*

Firefighters retired	14
Firefighters disabled in the line of duty	13
Firefighters disabled not in the line of duty	5
Survivors of firefighters	8
<b>Total covered individuals</b>	<b>40</b>

\*Date of latest actuarial valuation

#### Summary of significant accounting policies

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

#### Contributions and reserves

The Firefighters Pension Fund has four revenue sources. The fire insurance premium tax is a dedicated source of revenue as authorized by RCW 41.16.050 and amounted to \$42,955 in 2013. The City's General Fund and Ambulance Funds contributed \$262,090 and \$19,610, respectively, in 2013. Interest from pooled cash and investments provides minimal income and was \$73 in 2013.

#### Funding status and progress

The Firefighters Pension Fund has been operating on a pay-as-you-go basis. Actuarial valuation of the fund is performed every two years, with the most recent valuation performed on January 1, 2012. While assumptions are made regarding mortality, inflation, and wage rates, the City uses a projected cash flow rather than an actuarial funding plan to liquidate unfunded liabilities. This

projection is used to budget annual amounts to transfer to the fund for benefits. The Annual Required Contribution (ARC) is computed using the entry age normal cost method. The amortization method is the level dollar method for a 20 year closed plan beginning January 1, 2008, with 14 years remaining at December 31, 2013. Projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of benefits not provided for by future Normal Cost payments is called the Actuarial Accrued Liability.

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

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

#### Schedule of Funding Progress

Pension Benefits (\$ in thousands)

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liabilities</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2008	\$186	\$3,884	\$3,698	5%	\$-	N/A
January 1, 2010	\$166	\$3,695	\$3,529	4%	\$-	N/A
January 1, 2012	\$62	\$3,577	\$3,515	2%	\$-	N/A

#### Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Employer Contributions</u>	<u>Fire Insurance Premiums</u>	<u>Total Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
December 31, 2008	\$256,620	\$40,054	\$296,674	\$296,674	100%
December 31, 2009	\$296,300	\$38,193	\$334,493	\$296,674	113%
December 31, 2010	\$142,505	\$40,669	\$183,174	\$278,778	66%
December 31, 2011	\$257,940	\$42,480	\$300,420	\$278,778	108%
December 31, 2012	\$272,690	\$40,451	\$313,141	\$301,626	104%
December 31, 2013	\$281,700	\$42,955	\$324,655	\$301,626	108%

(2008 is the first year of data available.)

## Annual Pension Cost and Net Pension Obligation (NPO)

Annual Required Contribution (ARC)	Fiscal Year Ending 12/31/2013
1. Annual Normal Cost, beginning of year	-
2. Amortization of UAAL, beginning of year	\$290,025
3. Interest to end of year	<u>11,601</u>
4. ARC, end of year	301,626
5. Interest on NPO	887
6. Adjustment to ARC	(1,918)
7. Annual pension cost	300,595
8. Employer contributions	<u>(324,655)</u>
9. Change in NPO	(24,060)
10. NPO, beginning of year	<u>22,184</u>
11. NPO, end of year	\$ (1,876)

### Net Pension Obligation Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2008	\$296,674	100%	\$-
December 31, 2009	\$296,674	113%	\$(37,819)
December 31, 2010	\$280,138	65%	\$59,145
December 31, 2011	\$278,778	108%	\$37,503
December 31, 2012	\$297,821	105%	\$22,184
December 31, 2013	\$300,595	108%	\$ (1,876)

(2008 is the first year of data available.)

### Annual Development of Pension Cost

Fiscal Year Ending	Arc at EOY	Interest On NPO	Arc Adjust	Annual Pension Cost (APC)	Total Employer Contributions	Change in NPO	NPO Balance	(Gain)/ Loss	Amort. Factor @ 20 years	Amort. (Gain)/ Loss	Ending Balance
12/31/2011	\$278,778	-	-	\$278,778	\$300,420	(\$21,642)	\$37,503	(\$21,642)	13.1657	\$4,492	\$37,503
12/31/2012	\$301,626	\$1,408	(\$2,904)	\$297,821	\$313,141	(\$15,320)	\$22,183	(\$11,515)	12.1184	\$3,095	\$22,183
12/31/2013	\$301,626	\$887	(\$1,918)	\$300,595	\$324,655	(\$24,060)	(\$1,876)	(\$23,029)	12.1184	\$1,831	(\$1,876)

## NOTE 8 – RISK MANAGEMENT

The City of Walla Walla maintains insurance against most normal hazards except for general liability, health insurance, and workers compensation, where it has elected to become partially insured. The City of Walla Walla is a member of the Washington Cities Insurance Authority (WCIA). Per chapter 48.62 RCW (self-insurance regulation) and chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has 162 member municipalities.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and



insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

Matrix Absence Management, Inc. manages the workers' compensation claims. Self-insurance is in effect for losses up to \$500,000 per occurrence. Those in excess of \$500,000 per occurrence or an aggregate of \$1,152,628 are insured by private insurance companies up to \$1,000,000 for aggregate claims and statutory for specific per occurrence claims.

Claims are processed by Matrix Absence Management and reviewed by the City administration for verification. Based on the claims manager estimates, the City's estimated liability for probable losses at December 31, 2013 is \$73,548.15 for the workers compensation program. The state requires \$100,000 be set aside in cash reserves for protection for the workers compensation fund. The City met this requirement. The fund's average monthly cash balance for 2013 was \$320,757. No reserves were necessary at year end as claims are estimated to fall below funded levels.

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

	Year ended 12/31/2012	Year ended 12/31/2013
Unpaid claims, beginning of fiscal year	\$ 184,815	\$ 159,613
Incurred claims (including IBNRs)	69,303	49,929
Changes in estimate for claims, prior period	(39,610)	(12,697)
Payments on claims	(54,895)	(123,297)
Unpaid claims, end of fiscal year	<u>\$159,613</u>	<u>\$73,548</u>

## NOTE 9 – LONG-TERM DEBT

### Governmental Debt

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

<b>Title</b>	<b>Purpose</b>	<b>Interest Rate</b>	<b>Original</b>	<b>Outstanding</b>
1996 GO Bond Deferred Series B	Service center construction	5.30%-6.25%	\$1,291,550	\$164,082
2005 GO Bond Street	Isaacs street improvements	3.125%-4.5%	300,000	197,837
2009 GO Bond Police Station	Police station construction	3.25%-4.375%	11,595,000	10,135,000
2010 GO Bond Fire Truck	Fire truck acquisition	3.00%-5.00%	845,000	700,000
2010 GO Refunding Bond	Refund callable LTGO 2001	3.00%-5.00%	415,000	215,000
2013 GO Refunding Bond	Refund fire station	2.72%	2,840,000	2,840,000
<b>General Obligation Bonds</b>			<b>\$17,286,550</b>	<b>\$14,251,919</b>
2009-1 Bond (Taxable)	LID interfund loan	4.40%	551,000	477,749
<b>Special Assessment Bond</b>			<b>\$551,000</b>	<b>\$477,749</b>

The annual debt service requirements to maturity are as follows:

<b>Year Ending 12/31/2013</b>	<b>Government Activities</b>		<b>Special Assessment</b>	
	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>
2014	\$ 712,077	\$ 915,307	\$ 21,021	\$ 39,060
2015	674,971	942,964	19,302	40,779
2016	461,430	796,216	17,508	42,573
2017	435,150	831,216	15,635	44,446
2018	407,395	857,838	13,679	46,402
2019-2023	1,575,585	4,965,676	35,914	264,489
2024-2028	725,541	4,022,702	-	-
2029-2033	40,250	920,000	-	-
<b>Total</b>	<b>\$ 5,032,399</b>	<b>\$ 14,251,919</b>	<b>\$123,059</b>	<b>\$477,749</b>

### Special Assessment Bond

The City issued a special assessment bond in 2011 for capital construction related to streets in an existing commercial area. The \$551,000 bond will be repaid from amounts levied against the property owners who benefited by the construction. If a deficiency exists because of an unpaid or delinquent special assessment, the City will provide the resources to cover the deficiency until the proceeds are received. As of December 31, 2013, the LID special assessment delinquency equals zero, all special assessments are current. The bond interest rate is 4.4% with a twelve year repayment schedule. This special assessment bond has been funded and accounted for as an interfund loan from the Equipment Replacement fund, mentioned by reference in Note 11, but accounted for as illustrated in Note 13.

### Refunding Bond Issued in 2013

The City issued a \$2.84 million Unlimited Tax General Obligation Refunding Bond maturing December 2023 at a 2.72% interest rate. The purpose was to refund the variable interest rate General Obligation Bond Series 2004 maturing in December 2023, for a net savings of more than \$100,000.

### Business-type Debt

The City issues revenue bonds to finance acquisition and construction of major capital facilities. The revenue bonds are repaid by proprietary fund revenues. General obligation bond proceeds utilized by golf course, landfill, and water/wastewater activities are expected to be repaid by the revenues generated from those enterprise activities and have been included as revenue bonds in the business debt. The City also issues bonds where the government pledges 100% of Water and Wastewater Fund revenue. Total water and wastewater pledged revenues in 2013 were \$11,036,134 and total debt service collateralized was \$6,834,749. Standard and Poor's has affirmed an A+ rating for the City's water and wastewater revenue bonds as of August 2013.

Title	Purpose	Interest Rate	Original	Outstanding
Water/Wastewater Rev. Bond 2005	Capital construction	3.00%-4.25%	\$12,595,000	\$9,380,000
Landfill Revenue Bond 2005	Capital construction	3.13%	3,073,000	1,550,141
Golf Course Revenue Bond 2005	Capital construction	3.13%	367,000	242,022
Water/Wastewater Rev. 2010 Bond	Capital construction	3.00%-5.00%	8,105,000	3,450,000
Landfill Revenue 2010 Bond	Capital construction	3.00%-5.00%	2,805,000	2,480,000
97-78897-038 Loan Water	Capital construction	1.00%	1,030,000	271,053
L9900019A Loan Wastewater	Capital construction	4.10%	14,220,127	5,909,103
PW-99-791-038 Loan Wastewater	Capital construction	1.00%	7,000,000	2,237,390
PW-02-691-060 Loan Wastewater	Capital construction	0.50%	5,159,197	2,503,568
PW-06-962-PRE-103 Loan Wastewater	Capital construction	1.00%	531,399	363,589
PW-07-962-018 Loan Wastewater	Capital construction	1.00%	6,823,104	5,040,202
<b>Revenue Bonds &amp; Notes</b>			<b>\$61,708,827</b>	<b>\$33,427,068</b>

The annual debt service requirements to maturity are as follows:

Year Ending 12/31/2013	Business-Type Activities	
	Interest	Principal
2014	\$ 1,021,669	\$5,784,460
2015	816,040	6,738,043
2016	562,238	4,751,396
2017	410,656	4,902,819
2018	250,232	2,464,129
2019-2023	550,406	6,129,961
2024-2028	185,827	2,456,260
2029-2033	8,000	200,000
<b>Total</b>	<b>\$ 3,805,068</b>	<b>\$ 33,427,068</b>

### **NOTE 10 - LEASES**

#### **Operating Leases**

The City leases a building, office equipment and other equipment under non-cancelable operating leases. Total costs for such leases were \$94,121 for the year ended December 31, 2013. The future minimum lease payments for these leases are as follows:

Year Ending 12/31/2013	Amount
2014	\$ 33,821
2015	14,143
2016	10,631
2017	9,100
2018	8,550
2019-2023	23,667
<b>Total</b>	<b>\$ 99,912</b>

## NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity is reported by governmental activities and business-type activities, as applicable. Long-term liability activity for governmental activities for the fiscal year 2013:

Governmental Activities	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
1996 GO Bonds Deferred Series B	\$255,965	-	\$91,883	\$164,082	\$85,712
2004 GO Bond Fire Station	3,035,000	-	3,035,000	-	-
2005 GO Bond Street Construction	212,432	-	14,595	197,837	14,595
2009 GO Bond Police Station	10,530,000	-	395,000	10,135,000	415,000
2009 GO Bond Premiums	107,770	-	6,339	101,431	6,339
2010 GO & Refunding Bond Series	1,065,000	-	150,000	915,000	160,000
2010 GO Bond Premiums	37,025	-	9,396	27,629	9,396
2013 GO Refund Bond Fire Station	-	2,840,000	-	2,840,000	240,000
<b>General Obligation Bonds</b>	<b>15,243,192</b>	<b>2,840,000</b>	<b>3,702,213</b>	<b>14,380,979</b>	<b>931,042</b>
Bond LID Taxable 2011 Interfund	515,163	-	37,414	477,749	39,060
<b>Special Assessment Bonds</b>	<b>515,163</b>	<b>-</b>	<b>37,414</b>	<b>477,749</b>	<b>39,060</b>
Compensated Absences	1,822,765	1,338,770	1,357,284	1,804,251	1,334,803
Workers Compensation Claims	159,613	49,929	135,994	73,548	9,593
Net Pension Obligation	22,184	300,595	324,655	(1,876)	-
Net OPEB Obligation	2,078,603	1,415,005	867,292	2,626,316	-
<b>Government Liabilities</b>	<b>\$19,841,520</b>	<b>\$5,944,299</b>	<b>\$6,424,852</b>	<b>\$19,360,967</b>	<b>\$2,314,498</b>

The General Fund, Emergency Services, and Service Center governmental funds are responsible for liquidating compensated absence liabilities in future periods. The Fire Medical and Pension fiduciary funds which incurred the pension and OPEB liabilities are responsible for liquidating them in future periods.

Long-term liability activity for business-type activities for the fiscal year 2013:

Business-type Activities	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Water Bond 2005	\$10,725,000	-	\$1,985,000	\$8,740,000	\$2,055,000
Water GO Bond 2010	2,503,200	-	847,200	1,656,000	631,200
Wastewater Bond 2005	785,000	-	145,000	640,000	150,000
Wastewater GO Bond 2010	2,711,800	-	917,800	1,794,000	683,800
Landfill GO Bond 2005	1,762,692	-	212,551	1,550,141	222,551
Landfill GO Bond 2010	2,590,000	-	110,000	2,480,000	120,000
Golf Course GO Bond 2005	259,876	-	17,854	242,022	17,854
2010 Bond Premiums	444,244	-	146,298	297,946	146,298
<b>Revenue Bonds</b>	<b>21,781,812</b>	<b>-</b>	<b>4,381,703</b>	<b>17,400,109</b>	<b>4,026,703</b>
Water 9778897038	325,263	-	54,211	271,052	54,211
Wastewater L9900019A	6,687,645	-	778,542	5,909,103	810,789
Wastewater PW99791038	2,610,289	-	372,898	2,237,391	372,898
Wastewater PW02691060	2,781,742	-	278,174	2,503,568	278,174
Wastewater PW06962PRE103	391,557	-	27,968	363,589	27,968
Wastewater PW07962018	5,400,217	-	360,014	5,040,203	360,014
<b>Revenue Loans</b>	<b>18,196,713</b>	<b>-</b>	<b>1,871,807</b>	<b>16,324,906</b>	<b>1,904,055</b>
Landfill Closure	3,420,704	451,719	167,256	3,705,167	-
Pollution Remediation	2,338,566	350,416	-	2,688,982	307,658
Compensated Absences	490,256	466,706	427,035	529,927	399,793
<b>Business-type Liabilities</b>	<b>\$46,228,051</b>	<b>\$1,268,841</b>	<b>\$6,847,801</b>	<b>\$40,649,091</b>	<b>\$6,638,209</b>

**Rebatable Arbitrage.** Arbitrage occurs when the City invests funds borrowed at tax-exempt interest rates in higher yielding taxable securities. Excess interest must be remitted to the federal

government under IRS section 148(f) of the Internal Revenue Code. The City recognizes this liability when due and payable. The City had no arbitrage excess earnings liability to report in 2013. The City remitted an arbitrage rebate of \$179,625 on revenue bonds in 2012.

## **NOTE 12 – CONTINGENCIES AND LITIGATIONS**

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

A former Walla Walla employee who was terminated for cause on October 7, 2010 made a public records request for certain documents related to his termination and other documents on October 14, 2010. The requestor filed an action against the City of Walla Walla claiming that the time needed for the City to review the records is unreasonable. The City disputes the action and is defending against it. While the action has been pending, the City has disclosed all additional responsive documents requested by the individual. The last installment of records was made available on May 23, 2011, and the records were picked up on June 27, 2011. No further action has been taken by the former employee in the proceeding, but it remains pending. Liability is unlikely. The City could, however, be held responsible for undetermined costs, attorney's fees, and costs if its defense is unsuccessful. The estimated maximum exposure on the present action is \$25,000. The City also reasonably anticipates that the individual may make a wrongful termination claim against the City. Such claim is presently unasserted, and any potential liability presently would be disputed. The likelihood of a favorable or unfavorable outcome in this matter cannot be evaluated at the present time.

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

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

## **NOTE 13 – INTERFUND BALANCES AND TRANSFERS**

Interfund loans provide upfront, one-time funding for physical improvements from otherwise idle equipment replacement funds. The loans will be fully repaid over time from the fund receiving the physical improvement benefit and tend to be shorter-term in nature. Of the total interfund loan balances, \$553,907 are due within one year and \$2,760,858 are due in more than one year from the date of the financial statements.

Purpose	Interfund Loans Due From				Due To
	Non-major Special Rev.	Non-major Government	Landfill	Non-major Enterprise	Equipment Replacement
Driving Range				\$109,565	\$109,565
LED Stoplights	120,571				120,571
Irrigation System				383,967	383,967
Landfill Area 7			947,289		947,289
Street Light Retrofit	175,624				175,624
LID Abadie St.		477,749			477,749
Transportation Benefit		1,100,000			1,100,000
Interfund Loans	\$296,195	\$1,577,749	\$947,289	\$493,532	\$3,314,765

Transfers between funds during the year ended December 31, 2013 are as follows:

Transfers	Transfers To:							
	General Fund	Street/TBD CIP	General CIP	Non-Major Gov't	Water/ Wastewater	Other Enterprise	Internal Service	Transfers From:
General Fund	-	\$263,032	\$14,338	\$725,399	-	\$259,512	\$26,335	\$1,288,616
Street CIP	1,583	-	-	-	142,725	-	-	144,308
General CIP	8,647	-	-	-	-	-	-	8,647
Non-Major Gov't	24,985	1,131,791	-	293,560	-	9,822	70,255	1,530,412
Water/Wastewater	-	1,337,888	-	-	51,704	90,136	42,089	1,521,817
Sanitation	37,960	-	-	-	-	-	-	37,960
Non-Major Ent.	-	707	-	-	51,627	-	-	52,334
Internal Services	144,202	-	-	-	-	-	21,956	166,158
<b>Transfers From:</b>	<b>\$217,377</b>	<b>\$2,733,418</b>	<b>\$14,338</b>	<b>\$1,018,959</b>	<b>\$246,056</b>	<b>\$359,470</b>	<b>\$160,635</b>	<b>\$4,750,252</b>

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

#### NOTE 14 – RECEIVABLE AND PAYABLE BALANCES

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

As of December 31, 2013 the City's individual major funds and non-major enterprise funds receivable balances include the applicable allowances for uncollectible accounts as follows:

Other Receivables											
	General	Major CIP	Nonmajor Gov't	Internal Serv Gov	Sanitation	Water/ Wstwr	Landfill	Amb	Nonmajor Ent	Internal Serv Bus	Total
Accts recvbl	\$564,111	\$1,950,152	\$99,519	\$90,619	\$291,361	\$1,089,980	\$296,751	\$380,933	\$306,993	\$8,006	\$5,078,425
Accrued int	-	-	-	-	-	59,401	-	-	-	-	59,401
<b>Total</b>	<b>\$564,111</b>	<b>\$1,950,152</b>	<b>\$99,519</b>	<b>\$90,619</b>	<b>\$291,361</b>	<b>\$1,149,381</b>	<b>\$296,751</b>	<b>\$380,933</b>	<b>\$306,993</b>	<b>\$8,006</b>	<b>\$5,137,826</b>

Receivables for the Ambulance Fund are reported net of allowance for uncollectible accounts. Using historical collection rates, it is estimated that 45.9% of the receivables or \$314,681 at December 31, 2013 will ultimately prove uncollectible for the Ambulance Fund.

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

### A. LEOFF I Health Plan

#### Plan Description

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

#### Funding Policy

The LEOFF 1 medical benefit requirements are established by RCW 41.26.150(1) with local disability boards administering the LEOFF 1 medical service expenses. LEOFF 1 retirees are not required to contribute to the Health Plan. Amounts contributed in 2013, 2012, and 2011 were \$482,400, \$696,080, and \$628,240, respectively. The City's contribution was to fund "pay-as-you-go" costs under the Health Plan and not to pre-fund benefits.

#### Annual OPEB Cost and Net OPEB Obligation

The basis for the City's annual OPEB cost (expense) is the annual required contribution (ARC), which represents a level of funding, if paid on an ongoing basis, will cover normal costs each year and amortize unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The components of the City's annual OPEB cost, the estimated amount contributed to the Health Plan, and the changes in the City's net OPEB obligation to the Health Plan for the year ended December 31, 2013:

Amortization of unfunded actuarial accrued liability	<u>\$1,321,468</u>
Annual required contribution (ARC)	1,321,468
Interest on net OPEB obligation	93,537
Adjustment to ARC	<u>(193,547)</u>
Annual OPEB cost (expense)	1,221,458
Employer contributions	<u>(673,745)</u>
Change in net OPEB obligation	547,713
Net OPEB obligation, beginning of year	<u>2,078,603</u>
Net OPEB obligation, end of year	<u><u>\$2,626,316</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2011	\$1,256,807	76.5%	\$1,764,975
12/31/2012	\$1,325,550	76.3%	\$2,078,603
12/31/2013	\$1,221,458	55.2%	\$2,626,316

#### Funded Status and Funding Progress

The funded status of the Health Plan as of December 31, 2013 is shown below:

Actuarial accrued liability (AAL)	\$14,191,964
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	14,191,964
Funded ratio (actuarial value of plan assets ÷ AAL)	0%
Covered payroll	-
UAAL as a percentage of covered payroll	0%

#### Actuarial methods and assumptions

The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years.

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

#### **REQUIRED SUPPLEMENTARY INFORMATION** **Schedule of Funding Progress for the Plan**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a÷b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)÷c)</u>
12/31/2011	-	\$14,426,092	\$14,426,092	0.0%	\$280,572	5142%
12/31/2012	-	\$15,147,809	\$15,147,809	0.0%	\$62,945	24065%
12/31/2013	-	\$14,191,964	\$14,191,964	0.0%	\$0	0%



## Pension and Other Post Employment Benefit Financial Statements

Pension and Other Employee Benefit Trust Funds

Statement of Net Position

December 31, 2013

	Fire Other Benefits	Fire Pension Benefits	Pension & Other Employee Benefits
Cash and equivalents	\$ 280,500	\$ 229,512	\$ 510,012
Total assets	<u>280,500</u>	<u>229,512</u>	<u>510,012</u>
Accounts payable	11,947	-	11,947
Other accrued liabilities	-	17,538	17,538
Total liabilities	<u>11,947</u>	<u>17,538</u>	<u>29,485</u>
Net position held in trust for pension and medical benefits	<u>\$ 268,553</u>	<u>\$ 211,974</u>	<u>\$ 480,527</u>

## Pension and Medical Employee Benefit Trust Funds

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2013

	Fire Other Benefits	Fire Pension Benefits	Pension & Other Employee Benefits
Intergovernmental revenues	\$ -	\$ 42,955	\$ 42,955
Employer contributions	482,400	281,700	764,100
Contributions	482,400	324,655	807,055
Interest on investments	135	74	208
Total additions	<u>482,535</u>	<u>324,729</u>	<u>807,262</u>
Personnel benefits	436,306	220,936	657,242
Total deductions	<u>436,306</u>	<u>220,936</u>	<u>657,242</u>
Change in net position	<u>46,229</u>	<u>103,793</u>	<u>150,021</u>
Net position, beginning of year	222,324	108,181	330,506
Net position, end of year	<u>\$ 268,553</u>	<u>\$ 211,974</u>	<u>\$ 480,527</u>

### B. Deferred Compensation Plan

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

## NOTE 16 – CLOSURE AND POSTCLOSURE CARE COSTS

*Background:* The City of Walla Walla owns the regional municipal landfills. The Sudbury Landfill is located on 923 acres of which 175 acres are currently active and permitted for disposal of solid waste or have been used and are now closed. Area 7 is the current designated landfill area with a total of 3 cells with Cells 1 and 2 currently in use. The active area has an estimated capacity at the current fill rate of approximately 10 years. The site however, has a conceptually approved plan for Area 7, cell 3, and when Area 7 reaches capacity, a new area between Area 6 (closed in 2011) and Area 7, which has been defined as the “V” or Area 6/7. The total fill date for Area 7, cells 1-3 is projected to be in the year 2038. The fill date for Area 6/7 (the “V”) is projected to be in the year 2051. The active and permitted portion has an estimated remaining life of 38 years.

Area 7 is the current designated landfill area with a total of 3 cells with Cells 1 and 2 currently in use. Construction of this new lined site began in 2005 and was completed in February 2006. Cell 2 was constructed in 2008. Once the Area 6 capacity was reached, the City was required by State and Federal laws and regulations to cover that area and perform post-closure care as well as monitoring functions at the site in accordance with WAC 173-304.

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

*Closure and post closure costs:* Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste in a designated area, the City must record a portion of these closure and post-closure costs each year as an expense. That expense calculation is based upon the landfill capacity used in the reported period. The City must also recognize a liability that is directly related to the cumulative capacity consumed at the landfill. As of December 31, 2011, 100% of the landfill’s total capacity of Area 6 has been consumed. The latest designs for area 7 cells 1 and 2 indicate approximately 54% of the existing lined area has been filled as of December 31, 2013 based on a survey performed by USKH in October 2013 and landfill tipping records for 2013.

The City’s closure and post-closure operations plan for Area 6 was approved by the Department of Ecology in 2004. This plan was prepared by a consultant and includes cost estimates for closing the landfill areas and providing for post-closure care. Area 6 was closed in 2011 with five feet of soil cover, a gas collection system, and a landfill flare. In 2008, the Department of Ecology approved a change in design concept to fill the “V” space between Area 6 and Area 7 with the understanding that a geomembrane liner will be used to construct the common side between the two areas. The installation of the geomembrane for the common side is considered a construction cost for Area 7. Due to the closure of area 6, the total long term closure and post-closure costs for Area 7 and joint portion (“V”) of Area 6 and Area 7 are estimated in current dollars at \$5,363,755. As of December 31, 2013, cash of \$1,786,954 has been accumulated and set aside for estimated closure and post-closure costs. The financial assurance plan for the City has been updated. Closure and post-closure costs will be met through rate revenues and the potential for grant funding.

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

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

#### **NOTE 17 – TERMINATION BENEFITS**

Termination benefits are determined on a case by case basis. The City of Walla Walla did not enter into any termination commitments or arrangements during fiscal year 2013.

#### **NOTE 18 – POLLUTION REMEDIATION OBLIGATIONS**

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

The Sudbury Road Landfill is a City-owned and operated landfill which the Washington State Department of Ecology determined required remediation in 2008 pursuant to MTCA. The City of Walla Walla entered into agreed order no. 8456 with the Washington State Department of Ecology in 2011. The remediation liability is calculated based on a planning-level cost estimate for remedial investigation/feasibility study, anticipated internal engineering costs, legal fees, and payments to the Department of Ecology. The City is funding the remediation costs with rate revenues, grant funding under a MTCA remedial action grant and insurance proceeds with the potential for third party contributions.

Pursuant to GASB Statement 49, the City is reporting a \$1,843,982 liability in its Landfill Fund for its estimated liability due to its standing as a potentially liable person for groundwater contamination at the Sudbury Road Landfill site. The obligation is an estimate subject to changes resulting from price increases or reductions, technology, Ecology requirements, or laws and regulations. Included as an offset to the total liability of \$2,327,379 is an estimated amount of \$483,397 from insurance recoveries. The remediation liability is calculated based on a planning-level cost estimate for investigation and remedial action activities, anticipated internal engineering costs, legal fees, and payments to the Washington State Department of Ecology for required oversight.

The ultimate cost of remediation activities of the Landfill Fund reported in the preceding paragraph may be reduced by receipt of grant funding and insurance coverage reimbursement payments. Remedial Action Grant Agreement No. G1200173 dated January 1, 2004 (the "Agreement") between the City and Ecology, and as amended in September 2012, provides a 75% state-funded

grant share with a 25% recipient contribution to cover remediation costs through the scheduled completion of the Remedial Investigation/Feasibility Study in September 2014. Ecology has indicated that a new remedial action grant will likely be available to provide a state-funded share of remediation costs beyond September 2014 to cover remedial action design, construction and one year of required compliance monitoring. Assuming the cost share remains the same (75% Ecology - 25% City), the City's potential share of the cost would be \$581,845 (25% of \$2,327,379). It is likely that at least some portion of that cost would be reimbursed through insurance proceeds.

The Tausick Way Landfill is a closed, formerly permitted municipal waste landfill which was operated by the City between the 1940s and 1970s. On May 30, 2013, the City of Walla Walla received an Early Notice from Ecology for its Tausick Way Landfill property. Ecology subsequently decided the Tausick Way Landfill property will be added to the Confirmed and Suspected Contaminated Sites database and that a Site Hazard Assessment will be conducted. At this time, the associated pollution remediation liability, if any, cannot be reasonably estimated. Preliminary costs to investigate potential off-site migration of landfill gas are estimated to be \$150,000.

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

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

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

## NOTE 19 – OTHER DISCLOSURES

### A. Prior Period Adjustments

<u>Description</u>	<u>Governmental Activities</u>	<u>Business Activities</u>
Assets – <i>land</i>	(\$122,647)	-
Assets – <i>buildings</i>	730,984	-
Assets – <i>infrastructure</i>	(480,160)	-
Accumulated depreciation	(165,833)	-
Claims payable	-	(204,211)
<b>Total net effect on beginning</b>	<b>\$ (37,656)</b>	<b>\$ (204,211)</b>

### **Asset Adjustments**

During the annual asset verification, the City of Walla Walla identified a parcel of land that was not maintained by the City. After research, the City found the Washington Department of Transportation owned the land. The City retired the asset, which resulted in \$122,647 decrease of governmental assets.

The City discovered that a donated building from Fort Walla Walla Museum was not included in the fixed asset records. The prior period adjustments capitalize the asset at historical cost, \$730,984, and add accumulated depreciation, \$175,436. The addition was to governmental activities only.

The City identified infrastructure that should have been expensed, instead of adding to the City's assets. The sidewalk portion of the Infrastructure Repair and Renewal Program is not maintained in the City asset listing. The resulting adjustment removes \$480,160 in assets and \$9,603 in accumulated depreciation.

### **Claims Payable**

In November 2013, the City received a notification from Washington State Department of Labor and Industries requesting \$204,211 due to the Department's miscalculation of pension reserves. The miscalculation resulted in a refund to the City in 2012, the prior period adjustment reverses the refund and includes additional claims payable. The pension reserve payment was directly related to the 2010 worker's compensation claim of alleged exposure to asbestos.

### **NOTE 20 – SUBSEQUENT EVENTS**

On April 23, 2014, by Resolution Number 2014-40, the Walla Walla City Council ratified the application for a Drinking Water State Revolving Fund Loan, accepted the loan, and authorized the City Manger to execute a loan contract in the amount of \$12,120,000 at 1% interest for the Slow Sand Filtration Drinking Water Plant upgrade project.

City of Walla Walla  
Schedule Of Expenditures Of Federal Awards  
For the Year Ended December 31, 2013

Federal or Pass-Through Agency Name	Federal Program Title	CFDA number	Other ID Number	Expenditures			Note Ref
				Pass-Through Awards	Direct Awards	Current Year Expenditures	
US Department of Agriculture							
Passed through Washington State OSPI	Summer Food Service Program for Children	10.559	S13-36974	\$ 86,924	\$ -	\$ 86,924	1, 2
Total US Department of Agriculture						86,924	
US Department of the Interior							
Passed through WA State Dept of Archaeology & Historic Preservation	Historic Preservation Fund Grants-In-Aid	15.904	FY13-61013-004	\$ 15,000	\$ -	\$ 15,000	1, 2
						15,000	
US Department of Justice							
Passed through Washington State Dept of Commerce	Victims of Crime Act Grant	16.575	S14-31119-042	28,428	-	28,428	1
Passed through Washington State Dept of Commerce	Victims of Crime Act Grant	16.575	S13-31119-042	38,179	-	38,179	1
Passed through Washington State Dept of Commerce	Violence Against Women Formula Grants	16.588	F12-31103-067	16,040	-	16,040	1, 2
Office of Justice Programs	Bulletproof Vest Partnership Program	16.607	N/A	-	5,768	5,768	1, 2
Office of Justice Programs	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2662	-	485	485	1, 3
Office of Justice Programs	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0386	-	11,862	11,862	1, 3
Office of Justice Programs	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0893	-	7,663	7,663	1, 3
Total US Department of Justice						108,425	
US Department of Transportation							
Passed through Washington Dept of Transportation	Highway Planning and Construction - 13th Avenue - Abadie to Cherry	20.205	STPUS-7169(002)/LA-7961	181,374	-	181,374	1, 2
Passed through Washington Dept of Transportation	Highway Planning and Construction - Orchard Street Sidewalk Improvements	20.205	STPE-7176(002)/LA-7740	298,347	-	298,347	1, 2
Passed through Washington Dept of Transportation	Highway Planning and Construction - Myra Road SR-125 to N of Dalles Military	20.205	STPUS-7161(001)/LA-7704	1,436,333	-	1,436,333	1, 2
Passed through Washington Dept of Transportation	Highway Planning and Construction - 13th Avenue at Rose Street Traffic Signal	20.205	STPUS-7190(011)/LA-7411	24,358	-	24,358	1, 2
Passed through Washington Dept of Transportation	Highway Planning and Construction - Alder Street at Colville Street and 1st Avenue Intersection Improvements	20.205	STPUS-HSIP-000S(320)/LA-7827	33,481	-	33,481	1, 2
Subtotal US Department of Transportation CFDA 20.205						1,973,892	
Passed through Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety - Traffic Safety Equipment Grant	20.600	N/A	1,942	-	1,942	1, 2
Passed through Washington Traffic Safety Commission	State and Community Highway Safety - Law Enforcement Liaison	20.600	N/A	2,028	-	2,028	1, 2
Passed through Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	3,227	-	3,227	1, 2
Passed through Washington Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	N/A	7,693	-	7,693	1, 2
Total US Department of Transportation						1,988,783	
US Department of Homeland Security							
Passed through Washington State Military Dept	Interoperable Emergency Communications Grant Program	97.055	E13-226	244,000	-	244,000	1, 2
Federal Emergency Management Agency	Assistance to Firefighters Grant - Operations and Safety Program	97.044	EMW-2012-FR-00293	-	24,852	24,852	1, 2
Total US Department of Homeland Security						268,852	
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 2,417,353	\$ 50,630	\$ 2,467,983	

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

**City of Walla Walla**  
**Schedule Of Expenditures Of Federal Awards**  
**For the Year Ended December 31, 2013**

**NOTE 1 - BASIS OF ACCOUNTING**

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

**NOTE 2 - PROGRAM COSTS**

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

**NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS**

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



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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**Chief of Staff**  
**Director of Performance and State Audit**  
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**Deputy Director of State Audit**  
**Deputy Director of Local Audit**  
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**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

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**Doug Cochran**  
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**Kelly Collins, CPA**  
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