



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### Walla Walla County

**For the period January 1, 2014 through December 31, 2014**

**Published September 24, 2015**

**Report No. 1015209**





## Washington State Auditor's Office

September 24, 2015

Board of Commissioners  
Walla Walla County  
Walla Walla, Washington

### Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

### Walla Walla County January 1, 2014 through December 31, 2014

The results of our audit of Walla Walla County 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, 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 County.

#### Federal Awards

##### Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed 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 County 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**

**Walla Walla County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Walla Walla County  
Walla Walla, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Walla Walla County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 21, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 21, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**Walla Walla County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Walla Walla County  
Walla Walla, Washington

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

We have audited the compliance of Walla Walla County, 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, 2014. The County'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 County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

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

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 County's internal control over compliance.

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

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

## PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 21, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Walla Walla County January 1, 2014 through December 31, 2014

Board of Commissioners  
Walla Walla County  
Walla Walla, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Walla Walla County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 14.

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

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Walla Walla County, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Road, Human Services and Walla Walla County Public Facilities Improvement funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 23 and information on postemployment benefits other than pensions on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 September 21, 2015 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 21, 2015

## FINANCIAL SECTION

### Walla Walla County January 1, 2014 through December 31, 2014

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position  
– 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund  
Balance Governmental Funds to the Statement of Activities – 2014

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – General Fund – 2014

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – County Road Fund – 2014

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – Human Services Fund – 2014

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – Walla Walla County Public Facilities Improvement Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

#### REQUIRED SUPPLEMENTARY INFORMATION

LEOFF Retiree Health Insurance Benefits – Schedule of Funding Progress – 2014

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

## WALLA WALLA COUNTY, WASHINGTON

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Walla Walla County's discussion and analysis offers readers of the County's financial statements, for the year ended [December 31, 2014](#), a narrative overview and analysis of the financial activities of the County. We encourage readers to consider the information presented here in conjunction with additional information included in the financial statements and notes to the financial statements.

#### FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by [\\$169,146,841](#). Of this amount, [\\$13,718,213](#) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by [\\$1,208,720](#).
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balance of [\\$23,535,795](#), an increase of [\\$1,869,159](#) in comparison with the prior year. Approximately 30%, [\\$7,172,086](#) is available for spending at the government's discretion. The rest is either restricted by outside sources or committed by the County for specific purposes
- At the end of the current fiscal year, unassigned fund balance for the general fund was [\\$5,494,783](#), or 41% of total general fund expenditures.
- The County's total long-term liabilities decreased by [\\$11,766](#).

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal

periods (e.g., uncollected taxes and earned but unused vacation leave.)

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

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

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

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

The County maintains 49 individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, County Road fund, Human Services fund, WW Co Public Facilities Improvement Fund, Current Expense Building fund, and Human Services Capital Projects fund, all of which are considered to be major funds. Data from the other 43 governmental funds are combined into a single, aggregated presentation.

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

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

**Proprietary funds.** The County maintains one type of proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its fleet of vehicles, for its management information systems, risk management and unemployment compensation. Because all of these services predominantly

benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by [\\$169,146,841](#) at the close of the most recent fiscal year.

By far the largest portion of the County's net position ([84%](#)) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County'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.

## WALLA WALLA COUNTY'S NET POSITION

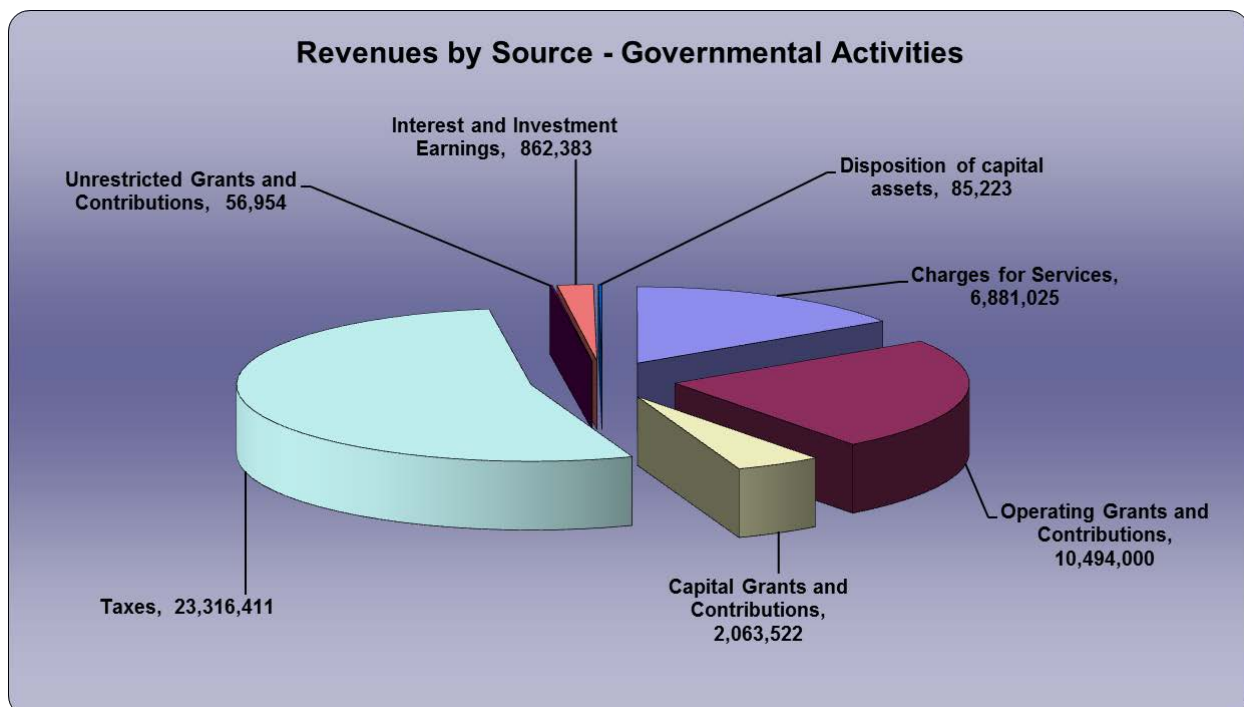
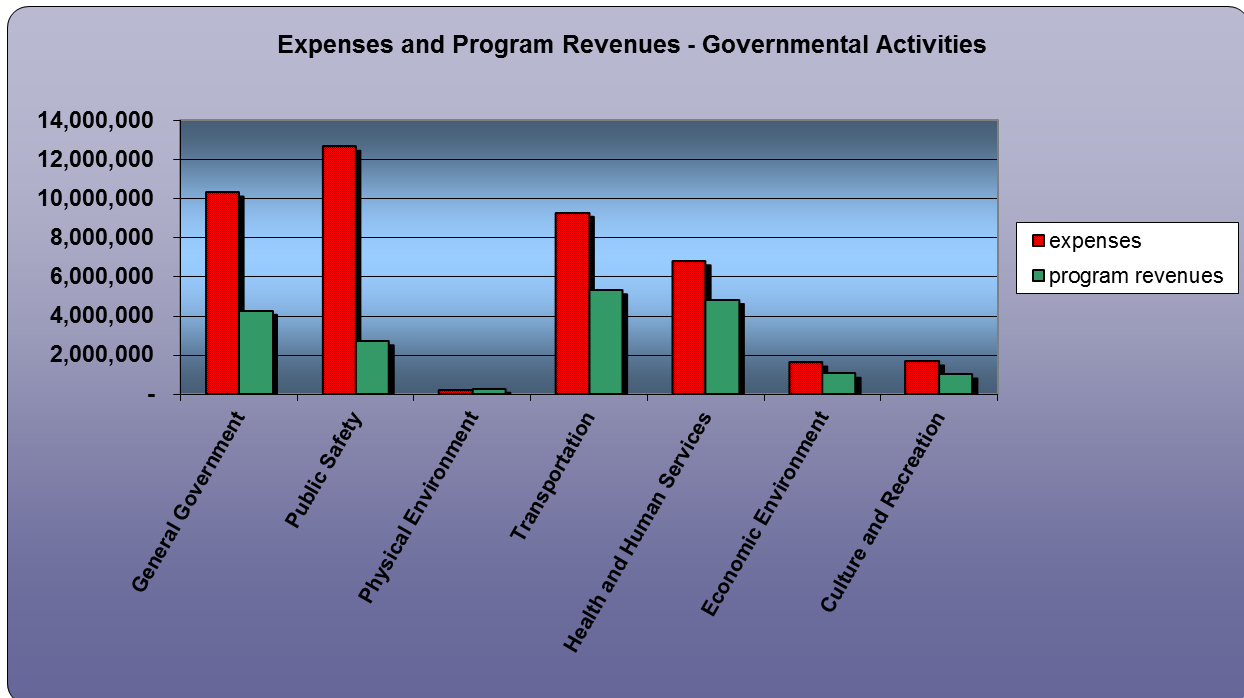
				Governmental Activities	
				2014	2013
Current and Other Assets				30,946,262	29,694,229
Noncurrent Assets				-	-
Capital Assets (Net of Depr.)				<u>141,365,677</u>	<u>141,495,127</u>
Total Assets				172,311,939	171,189,356
Current Liabilities				1,447,429	1,521,801
Current Liabilities Payable from Restricted Asset				-	-
Noncurrent Liabilities				<u>1,717,669</u>	<u>1,729,435</u>
Total Liabilities				3,165,098	3,251,236
Net Position:					
Net investment in capital assets				141,365,677	141,495,127
Restricted				14,062,951	12,998,758
Unrestricted				<u>13,718,213</u>	<u>13,444,235</u>
Total Net Position				169,146,841	167,938,120

## WALLA WALLA COUNTY'S CHANGE IN NET POSITION

					Governmental Activities	
					2014	2013
<b>Revenues:</b>						
Program Revenues:						
Charges for Services					6,881,025	7,028,210
Operating Grants and Contributions					10,494,000	12,145,789
Capital Grants and Contributions					2,063,522	4,351,072
General Revenues:						
Taxes					23,316,411	22,634,165
Unrestricted Grants and Contributions					56,954	65,403
Interest and Investment Earnings					862,383	757,132
Disposition of capital assets					<u>85,223</u>	<u>(134,923)</u>
Total Revenues					43,759,517	46,846,848
<b>Program Expenses:</b>						
General Government					10,306,712	9,154,231
Public Safety					12,652,833	12,541,800
Utilities					225,747	175,205
Transportation					9,269,558	8,753,758
Natural & Economic Environment					1,619,770	1,935,254
Social Services					6,796,792	8,221,839
Culture and Recreation					<u>1,679,384</u>	<u>1,764,982</u>
Total Expenses					<u>42,550,797</u>	<u>42,547,069</u>
Excess (Deficiency) Revenues Over (Under) Expenses					1,208,720	4,299,779
Transfers					-	-
Change in Net Position					1,208,720	4,299,779
Net Position - Beginning					169,198,566	164,728,787
Prior Period Adjustment					(1,260,445)	170,000
Net Position - Beginning, Restated					<u>167,938,121</u>	<u>164,898,787</u>
Net Position - Ending					169,146,841	169,198,566

**Governmental activities.** Governmental activities increased the County's net position by \$1,208,720. Key elements of this increase are as follows:

- Two road projects delayed into 2015.
- Expenditures held at a minimum.
- Increased sales tax collections.



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

**Governmental Funds.** The General fund, County Road fund, Human Services fund, WW Co Public Facilities Improvement fund, Current Expense Building fund, and Human Services Capital Projects fund make up the County's major funds during the most recent fiscal year. Together these six funds account for 70% of total governmental fund assets and 66% of the total government fund balance.

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

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$23,535,795, an increase of \$1,869,159 in comparison with the prior year. The majority of the fund balances are restricted to specific purposes by state law or contracts, which allows the funds to be available for spending within the designated funds.

The General fund is the chief operating fund of Walla Walla County. At the end of the current fiscal year, unassigned fund balance of the General fund was \$5,494,783. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 41% of total General fund expenditures.

The fund balance of Walla Walla County's General fund increased by \$394,990 during the current fiscal year. Due to the conservative nature of our county and future financial outlook, expenditures were held at a minimum in 2014. Also, sales tax collections in 2014 were higher than in previous years.

The fund balance of the County Road fund increased by \$801,957 during the current fiscal year. The primary reason for this increase was a delay in the Taumarsen Road and Mill Creek Road projects into 2015.

The fund balance for Human Services fund decreased by \$35,340 during the current fiscal year. The primary reason for this decrease is spending of reserves for the building loan payments and mental health operations.

The fund balance for WW Co Public Facilities Improvement Fund increased by \$213,921 during the current fiscal year.

The fund balance for the Current Expense Building fund increased by \$278,689 during the current fiscal year.

The fund balance for the Human Services Capital Projects fund increased by \$8,794 during the current fiscal year.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget amounted to a \$122,367 increase in appropriations and can be briefly summarized as follows:

Department	Amount of Increase	Explanation
Civil Service	100	Increased for supplies.
Auditor	3,700	Increased for supplies.
Auditor	1,700	Increased for repairs & maintenance and miscellaneous.
Elections	21,000	Increased for supplies and professional services.
Licensing	1,150	Increased for supplies.
Commissioners	5,200	Increased for personnel.
Coroner	25,750	Increased for professional services.
Indigent Legal Services	35,000	Increased for professional services.
Law Library	1,700	Increased for supplies.
Sheriff	24,492	Increased for personnel.
Treasurer	2,375	Increased for supplies and communication.
<b>Total</b>	<b>122,167</b>	

All of this budget increase, \$122,167 was funded out of miscellaneous increases in various revenue sources.

Actual General fund revenues were \$27,889 over budget, which represents less than a 1% increase of the final budgeted amount for the year without the beginning fund balance budget.

Actual General fund expenditures were \$1,458,490 under budget, which represents less than a 10% decrease of the final budgeted amount for the year without the ending fund balance budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets.** Walla Walla County's investment in capital assets for its governmental activities as of December 31, 2014, amounts to [\\$141,365,677](#) (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. The total decrease in the County's investment in capital assets for the current fiscal year was [less than 1%](#).

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

- \$3,599,047 for infrastructure completed in 2014.
- \$2,274,387 for new construction in progress on infrastructure projects.
- \$164,959 for land for completed and current infrastructure projects.

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

	<b>Governmental Activities</b>	
	<u>2014</u>	<u>2013</u>
Land	12,982,891	12,817,932
Buildings and Structures	42,559,468	42,956,805
Machinery and Equipment	8,319,045	7,998,483
Infrastructure	75,284,867	74,177,842
Construction in Progress	<u>2,219,406</u>	<u>3,544,065</u>
Total	141,365,678	141,495,128

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

**Long-term Debt.** Walla Walla County has no long term debt as of December 31, 2014.

Additional information will be under the County's long-term debt found in Note 10 and 12 of the Notes to Financial Statements.

**REQUESTS FOR INFORMATION**

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

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

**WALLA WALLA COUNTY  
STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	8,327,219
Investments	19,238,169
Receivables (net)	2,169,875
Inventories	1,210,998
Capital Assets:	
Land	12,982,891
Depreciable assets (net)	50,878,513
Infrastructure (net)	75,284,867
Construction in progress	2,219,406
<b>Total Assets</b>	<b>172,311,939</b>
<b>LIABILITIES</b>	
Accounts payable and accrued exp.	1,447,429
Noncurrent Liabilities:	
Due within one year	54,600
Due in more than one year	1,663,069
<b>Total Liabilities</b>	<b>3,165,098</b>
<b>NET POSITION</b>	
Net investment in capital assets	141,365,677
Restricted for:	
Debt service	24,965
Transportation	4,589,486
Economic Environment	3,775,110
Mental & Physical Health	1,839,470
Other Purposes	3,833,920
Unrestricted	13,718,213
<b>Total Net Position</b>	<b>169,146,841</b>

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

**WALLA WALLA COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

			Grants & Contributions		Net (Expense) Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating	Capital	Governmental Activities
FUNCTIONS/PROGRAMS					
Primary Government:					
Governmental Activities:					
General Government	10,306,712	3,445,303	818,722	-	(6,042,688)
Public Safety	12,652,833	979,821	1,725,544	-	(9,947,468)
Utilities	225,747	277,323	-	-	51,576
Transportation	9,269,558	281,690	2,974,104	2,052,960	(3,960,804)
Natural & Economic Environment	1,619,770	646,200	406,113	-	(567,457)
Social Services	6,796,792	304,588	4,512,674	-	(1,979,529)
Culture and Recreation	1,679,384	946,099	56,843	10,562	(665,880)
Total Governmental Activities/ Primary Government	42,550,797	6,881,025	10,494,000	2,063,522	(23,112,250)
GENERAL REVENUES:					
Property Taxes					14,842,052
Sales Taxes					7,989,760
B&O Taxes					1,493
Other Taxes					483,106
Unrestricted Grants and Contributions					56,954
Interest and Investment Earnings					862,383
Disposition of capital assets					85,223
TRANSFERS					-
Total General Revenues & Transfers					24,320,970
Change in Net Position					1,208,720
Net Position - Beginning					169,198,566
Prior Period Adjustment					(1,260,445)
Net Position - Beginning, Restated					167,938,121
Net Position - Ending					169,146,841

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

## Washington State Auditor's Office

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

**WALLA WALLA COUNTY**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2014**

Total fund balances as shown of the Governmental Funds Balance Sheet		23,535,795
Capital assets used in governmental activities are not financial resources and are not reported in the funds		134,346,777
	Capital Assets	177,965,699
	Depreciation	(43,618,922)
The focus of governmental funds is on short-term financing; long-term assets are deferred in the funds		1,365,046
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(1,717,669)
Internal service funds are used by management to charge the costs of certain activities to individual funds.		
These assets and liabilities are included in governmental activities in the statement of net position.		<u>11,616,892</u>
Net position of governmental activities		<u>169,146,841</u>

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

**WALLA WALLA COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	WW Co						
	General Fund	County Road	Human Services	Public Facilities Improv	Current Expense Buiding	Human Services Capital Projects	Total Governmental Funds
<b>REVENUES</b>							
Taxes	10,610,056	4,999,505	126,057	793,016	248,159	-	23,181,409
Licenses and Permits	168,183	17,440	-	-	-	-	998,724
Intergovernmental Revenues	851,661	4,950,210	3,851,651	-	-	200,000	12,709,214
Charges for Service	2,068,768	357,364	100,571	-	-	-	4,496,113
Fees and Fines	429,442	-	-	-	-	-	442,138
Miscellaneous Revenues	864,415	9,620	41,189	-	12,152	326,041	1,811,945
<b>Total revenues</b>	<b>14,992,524</b>	<b>10,334,139</b>	<b>4,119,468</b>	<b>793,016</b>	<b>260,311</b>	<b>526,041</b>	<b>43,639,544</b>
<b>EXPENDITURES</b>							
Current:							
General Government	7,795,550	310,742	-	-	99,306	455,236	9,796,329
Public Safety	5,044,174	-	-	-	61,411	-	12,617,802
Utilities	-	-	-	-	-	-	225,747
Transportation	-	6,775,542	-	-	-	-	6,775,542
Natural & Economic Environment	4,330	-	332,640	400,000	-	-	1,615,718
Social Services	188,002	-	3,822,169	-	-	62,010	6,549,323
Culture and Recreation	278,763	-	-	-	-	-	1,546,076
Capital Outlay	80,131	2,445,897	-	-	-	-	2,568,848
<b>Total expenditures</b>	<b>13,390,951</b>	<b>9,532,182</b>	<b>4,154,808</b>	<b>400,000</b>	<b>160,717</b>	<b>517,247</b>	<b>41,695,385</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,601,573</b>	<b>801,957</b>	<b>(35,340)</b>	<b>393,016</b>	<b>99,594</b>	<b>8,794</b>	<b>1,944,159</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	70,000	-	-	-	179,095	-	1,543,178
Transfers out	(1,276,583)	-	-	(179,095)	-	-	(1,618,178)
<b>Total other financing sources (uses)</b>	<b>(1,206,583)</b>	<b>-</b>	<b>-</b>	<b>(179,095)</b>	<b>179,095</b>	<b>-</b>	<b>(75,000)</b>
<b>Net change in fund balances</b>	<b>394,990</b>	<b>801,957</b>	<b>(35,340)</b>	<b>213,921</b>	<b>278,689</b>	<b>8,794</b>	<b>1,869,159</b>
<b>Fund balances--beginning</b>	<b>6,941,162</b>	<b>3,806,376</b>	<b>1,566,559</b>	<b>3,147,584</b>	<b>(115,270)</b>	<b>(1,402,124)</b>	<b>21,666,636</b>
<b>Fund balances--ending</b>	<b>7,336,152</b>	<b>4,608,333</b>	<b>1,531,218</b>	<b>3,361,505</b>	<b>163,419</b>	<b>(1,393,330)</b>	<b>23,535,795</b>

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

**WALLA WALLA COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Net changes in fund balances for governmental funds		1,869,159
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		(572,722)
Capital outlays	2,568,848	
Depreciation	(3,139,171)	
Cost of Assets Sold	(2,399)	
The issuance of long-term debt (e.g., bonds, loans) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net position.		-
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.		27,912
Change in taxes receivable	40,264	
Change in courts receivable	(12,352)	
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.		11,766
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.		(127,394)
Change in net position of governmental activities, as reflected on the Statement of Activities		1,208,720

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

**WALLA WALLA COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>General Fund</b>			<b>Variance with</b>
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>REVENUES</b>				
Taxes	10,234,000	10,234,000	10,610,056	376,056
Licenses and Permits	267,000	267,000	168,183	(98,817)
Intergovernmental Revenues	1,145,252	1,237,816	851,661	(386,155)
Charges for Service	2,037,703	2,116,003	2,068,768	(47,235)
Fees and Fines	524,474	524,474	429,442	(95,032)
Miscellaneous Revenues	582,844	585,342	864,415	279,073
<b>Total Revenues</b>	<b>14,791,273</b>	<b>14,964,635</b>	<b>14,992,524</b>	<b>27,889</b>
<b>EXPENDITURES</b>				
Current:				
General Government	8,913,045	8,984,870	7,795,550	1,189,320
Public Safety	5,328,852	5,353,444	5,044,174	309,270
Utilities	-	-	-	-
Transportation	-	-	-	-
Natural & Economic Environment	7,025	7,025	4,330	2,695
Social Services	168,348	194,098	188,002	6,096
Culture and Recreation	310,004	310,004	278,763	31,241
Capital Outlay	-	-	80,131	(80,131)
<b>Total Expenditures</b>	<b>14,727,274</b>	<b>14,849,441</b>	<b>13,390,951</b>	<b>1,458,490</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>63,999</b>	<b>115,194</b>	<b>1,601,573</b>	<b>1,486,379</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	395,631	395,631	70,000	(325,631)
Transfers out	(1,544,216)	(1,544,216)	(1,276,583)	267,633
<b>Total other financing sources (uses)</b>	<b>(1,148,585)</b>	<b>(1,148,585)</b>	<b>(1,206,583)</b>	<b>(57,998)</b>
<b>Net change in fund balances</b>	<b>(1,084,586)</b>	<b>(1,033,391)</b>	<b>394,990</b>	<b>1,428,381</b>
<b>Fund balances - beginning</b>	<b>6,635,500</b>	<b>6,635,500</b>	<b>6,941,162</b>	<b>305,662</b>
<b>Fund balances - ending</b>	<b>5,550,914</b>	<b>5,602,109</b>	<b>7,336,152</b>	<b>1,734,043</b>

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

**WALLA WALLA COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**COUNTY ROAD FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	County Road Fund			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
REVENUES				
Taxes	4,960,000	4,960,000	4,999,505	39,505
Licenses and Permits	18,550	18,550	17,440	(1,110)
Intergovernmental Revenues	7,962,200	7,962,200	4,950,210	(3,011,990)
Charges for Service	279,300	279,300	357,364	78,064
Fees and Fines	-	-	-	-
Miscellaneous Revenues	6,000	6,000	9,620	3,620
Total Revenues	13,226,050	13,226,050	10,334,139	(2,891,911)
EXPENDITURES				
Current:				
General Government	255,000	255,000	310,742	(55,742)
Public Safety	-	-	-	-
Utilities	-	-	-	-
Transportation	7,444,200	7,444,200	6,775,542	668,658
Natural & Economic Environment	-	-	-	-
Social Services	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	5,326,100	5,326,100	2,445,897	2,880,203
Total Expenditures	13,025,300	13,025,300	9,532,182	3,493,118
Excess (deficiency) of revenues over (under) expenditures	200,750	200,750	801,957	601,207
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	200,750	200,750	801,957	601,207
Fund balances - beginning	3,200,000	3,200,000	3,806,376	606,376
Fund balances - ending	3,400,750	3,400,750	4,608,333	1,207,583

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

**WALLA WALLA COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**HUMAN SERVICES FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Human Services Fund</b>			<b>Variance with</b>
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>REVENUES</b>				
Taxes	130,000	130,000	126,057	(3,943)
Licenses and Permits	-	-	-	-
Intergovernmental Revenues	5,719,216	5,851,216	3,851,651	(1,999,565)
Charges for Service	52,000	52,000	100,571	48,571
Fees and Fines	-	-	-	-
Miscellaneous Revenues	51,500	51,500	41,189	(10,311)
<b>Total Revenues</b>	<b>5,952,716</b>	<b>6,084,716</b>	<b>4,119,468</b>	<b>(1,965,248)</b>
<b>EXPENDITURES</b>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Utilities	-	-	-	-
Transportation	-	-	-	-
Natural & Economic Environment	323,511	323,511	332,640	(9,129)
Social Services	5,345,710	5,477,710	3,822,169	1,655,541
Culture and Recreation	-	-	-	-
Capital Outlay	5,500	5,500	-	5,500
<b>Total Expenditures</b>	<b>5,674,721</b>	<b>5,806,721</b>	<b>4,154,808</b>	<b>1,651,913</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>277,995</b>	<b>277,995</b>	<b>(35,340)</b>	<b>(313,335)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>277,995</b>	<b>277,995</b>	<b>(35,340)</b>	<b>(313,335)</b>
<b>Fund balances - beginning</b>	<b>1,951,464</b>	<b>1,951,464</b>	<b>1,566,559</b>	<b>(384,905)</b>
<b>Fund balances - ending</b>	<b>2,229,459</b>	<b>2,229,459</b>	<b>1,531,218</b>	<b>(698,241)</b>

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

**WALLA WALLA COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**WW CO PUBLIC FACILITIES IMPROV FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>WW Co Public Facilities Improv</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>REVENUES</b>				
Taxes	600,000	600,000	793,016	193,016
Licenses and Permits	-	-	-	-
Intergovernmental Revenues	-	-	-	-
Charges for Service	-	-	-	-
Fees and Fines	-	-	-	-
Miscellaneous Revenues	-	-	-	-
<b>Total Revenues</b>	<b>600,000</b>	<b>600,000</b>	<b>793,016</b>	<b>193,016</b>
<b>EXPENDITURES</b>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Utilities	-	-	-	-
Transportation	-	-	-	-
Natural & Economic Environment	1,150,000	1,150,000	400,000	750,000
Social Services	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay	-	-	-	-
<b>Total Expenditures</b>	<b>1,150,000</b>	<b>1,150,000</b>	<b>400,000</b>	<b>750,000</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(550,000)</b>	<b>(550,000)</b>	<b>393,016</b>	<b>943,016</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(179,095)	(179,095)	(179,095)	-
<b>Total other financing sources (uses)</b>	<b>(179,095)</b>	<b>(179,095)</b>	<b>(179,095)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(729,095)</b>	<b>(729,095)</b>	<b>213,921</b>	<b>943,016</b>
<b>Fund balances - beginning</b>	<b>2,850,000</b>	<b>2,850,000</b>	<b>3,147,584</b>	<b>297,584</b>
<b>Fund balances - ending</b>	<b>2,120,905</b>	<b>2,120,905</b>	<b>3,361,505</b>	<b>1,240,600</b>

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

**WALLA WALLA COUNTY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2014**

	<b>Governmental Activities Internal Service Funds</b>
<b>ASSETS</b>	
<i>Current assets:</i>	
Cash and cash equivalents	914,308
Investments	2,617,727
Receivables (net)	14,337
Due from other funds	20,092
Inventories	1,210,998
<i>Capital assets:</i>	
Depreciable assets (net)	<u>7,018,900</u>
<b>Total assets</b>	<u><u>11,796,363</u></u>
 <b>LIABILITIES</b>	
<i>Current liabilities:</i>	
Accounts payable and accrued exp.	179,471
Deferred revenue	<u>-</u>
<b>Total liabilities</b>	<u><u>179,471</u></u>
 <b>NET POSITION</b>	
Net investment in capital assets	7,018,900
Unrestricted	<u>4,597,992</u>
<b>TOTAL net position</b>	<u><u>11,616,892</u></u>

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

**WALLA WALLA COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>OPERATING REVENUES:</b>	
Charges for Services	\$3,916,780
Miscellaneous	<u>\$0</u>
<b>Total Operating Revenues</b>	\$3,916,780
<b>OPERATING EXPENSES:</b>	
Personal Services	\$1,090,527
Supplies	\$1,063,098
Other Services and Charges	\$1,206,949
Depreciation	<u>\$847,114</u>
<b>Total Operating Expenses</b>	\$4,207,688
<b>OPERATING INCOME (LOSS)</b>	(\$290,908)
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Investment Income	\$892
Gains (Losses) On Fixed Asset Disposition	<u>\$87,622</u>
<b>Total Nonoperating Revenues (Expenses)</b>	\$88,514
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>(\$202,394)</u>
Capital Contributions	\$0
Transfers In	\$75,000
Transfers Out	\$0
<b>Change in Net Position</b>	(\$127,394)
<b>Net Position - Beginning</b>	<u>\$11,744,286</u>
<b>Net Position - Ending</b>	<u><u>\$11,616,892</u></u>

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

**WALLA WALLA COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Governmental Activities <u>Internal Service Funds</u></b>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$3,899,501
Payments to suppliers	(\$2,181,081)
Payments to employees	(\$1,090,527)
Other receipts (payments)	<u>\$277,407</u>
<b>Net cash provided (used) by operating activities</b>	<u><b>\$905,300</b></u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Interfund Loan	\$0
Operating subsidies and transfers to other funds	<u>\$75,000</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u><b>\$75,000</b></u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	(\$1,617,798)
Other receipts (payments)	<u>\$415,035</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u><b>(\$1,202,763)</b></u>
<b>Cash Flows from Investing Activities</b>	
Purchase of Investments	\$280,757
Interest and dividends	<u>\$892</u>
<b>Net cash provided by investing activities</b>	<u><b>\$281,649</b></u>
<b>Net Increase (decrease) in cash and cash equivalents</b>	<b>\$59,187</b>
<b>Cash and Cash Equivalents at</b>	
Beginning of the year	<u>\$855,121</u>
End of the year	<u><u><b>\$914,308</b></u></u>
<b>*Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	(\$290,908)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	\$847,114
Change in assets and liabilities:	
Receivables, net	(\$17,278)
Inventories	\$277,407
Accounts and other payables	<u>\$88,967</u>
<b>Net cash provided by operating activities</b>	<u><b>\$905,301</b></u>
<b>Noncash investing, capital, and financing activities:</b>	
Contributions of capital assets from government	\$0
Increase in fair value of investments	\$0

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

**WALLA WALLA COUNTY  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2014**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	15,131,986
Investments	35,911,490
Deposits with Fiscal Agents	5,550,881
Taxes Receivable	<u>1,762,233</u>
<b>Total assets</b>	<u><u>58,356,590</u></u>
 <b>LIABILITIES</b>	
Accounts payable and accrued expenses	4,293,926
Deferred Revenue	1,762,233
Custodial Accounts	<u>52,300,431</u>
<b>Total liabilities</b>	<u><u>58,356,590</u></u>

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

## WALLA WALLA COUNTY, WASHINGTON

### NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

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

Related organization. The Walla Walla Joint Community Development Agency is responsible for land use planning, construction inspection, and code compliance services for the entire unincorporated area of Walla Walla County and the incorporated area of the City of Walla Walla. The five member agency board is made up of two members appointed by the Board of County Commissioners, two members appointed by the Walla Walla City Council, and one member jointly appointed by the Board of County Commissioners and the Walla Walla City Council. The agency board submits the agency budget to the Board of County Commissioners and Walla Walla City Council for approval. The agency is a legally separate agency from the county. The county was responsible for contributing 37.9% of the agency's budgeted appropriations for 2014. The county contributed \$539,831 and received \$596,625 in fees collected by the agency for the county reported in other governmental funds on the fund financial statements. For 2014, the total agency revenue was \$3,600,872 and the total expenditures were \$3,529,730, leaving a fund balance of \$71,142. The agency is on cash basis. Complete financial statements can be obtained from the Walla Walla Joint Community Development Agency at 310 W Poplar Street, Walla Walla, Washington 99362. As of December 31, 2014 the joint agency dissolved. The departments were reestablished with the city and county beginning January 1, 2015.

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

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental

activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements 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 fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The County reports the following major governmental funds:

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

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

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

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

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

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

Additionally, the County reports the following funds types:

Internal service funds account for Equipment Rental and Revolving, Risk Management, Unemployment Compensation, Technology Services, and Technology Services Reserve provided to other departments or funds of the county, or to other governmental units, on a cost reimbursement basis.

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

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

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

#### D. Budgetary Information

##### 1. Scope of Budget

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

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

constitute the legal authority for expenditures at that level.

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

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

## 2. Amending the Budget

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

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

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

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

## 3. Excess of Expenditures Over Appropriations

No excess of expenditures over appropriations to report for year ending December 31, 2014.

## 4. Deficit Fund Equity

There is one major governmental fund with a deficit fund balance at December 31, 2014:

The Human Services Capital Projects fund reports a deficit of \$1,393,330 due to an interfund loan to purchase the community social services center.

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

### 1. Cash and Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2014, the treasurer was holding \$23,459,205 in short term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General Fund.

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

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

3. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments. As of December 31, 2014, \$0 of special assessments receivable were delinquent.

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

4. Amounts Due to and from Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. A separate schedule of interfund loans receivable and payable is furnished in Note 15, *Interfund Balances and Transfers*.

5. Inventories

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

Inventories in proprietary funds are valued by the FIFO method.

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

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

Costs for additions or improvements to capital assets are capitalized when they increase the

effectiveness or efficiency of the asset.

The costs of normal maintenance and repairs are not capitalized.

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

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

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

7. Deferred Outflows/Inflows of Resources

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

8. Compensated Absences

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

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

9. Long-Term Debt – See Note 10, *Long-Term Debt*.

10. Unearned Revenues

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

11. Fund Balance Classification

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

assigned, and unassigned.

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

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

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

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

## 12. Fund Balance Details

	General Fund	County Road	Human Services	WW Co Public Facilities Improv	Current Expense Buiding	Human Services Capital Projects	Nonmajor Governmental Funds	Total
<b>FUND BALANCES:</b>								
<b>Restricted for:</b>								
Public Safety							1,213,975	1,213,975
Juvenile Services							418,751	418,751
Transportation		4,608,333						4,608,333
Economic Environment							237,773	237,773
Mental & Physical Health			1,531,218				1,027,889	2,559,108
Public Facilities Improvement				3,361,505				3,361,505
Tourism							127,628	127,628
Archiving							302,708	302,708
Foreclosure costs							41,230	41,230
Veterans							44,891	44,891
Legal Services							214,499	214,499
Stormwater Management							591,167	591,167
Natural Resources							771,637	771,637
Technology							37,897	37,897
Judicial							163,683	163,683
Debt Service							24,965	24,965
Treasurer's Services							38,172	38,172
<b>Committed to:</b>								
Community Development							812,770	812,770
Culture & Recreation							29,744	29,744
Elections							181,629	181,629
Public Safety							403,051	403,051
Other Capital Projects					163,419		15,175	178,594
<b>Assigned to:</b>								
Unanticipated Employee Benefits	1,050,194							1,050,194
Unanticipated Court Emergencies	545,296							545,296
Community Outreach	245,879							245,879
Other Capital Projects							1,229,264	1,229,264
<b>Unassigned</b>	<u>5,494,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,393,330)</u>	<u>-</u>	<u>4,101,454</u>
<b>Total fund balances</b>	7,336,152	4,608,333	1,531,218	3,361,505	163,419	(1,393,330)	7,928,498	23,535,795

13. Minimum Fund Balance

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

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

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds’ balance sheet includes reconciliation between fund balance – total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. The details of the differences are as follows:

Total fund balances as shown on the Governmental Funds Balance Sheet:		\$23,535,795
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
	Capital Assets	177,965,699
	Depreciation	<u>(43,618,922)</u>
Capital assets net of depreciation		134,346,777
The focus of governmental funds is on short-term financing; long term assets are deferred in the funds.		1,365,046
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(1,717,669)
Internal service funds are used by management to charge the costs of certain activities To individual funds. These assets and liabilities are included in government activities in the statement of net position.		<u>11,616,892</u>
Net position of governmental activities:		\$169,146,841

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

The governmental funds’ statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. The details of the differences are as follows:

Net changes in fund balances for governmental funds:	1,869,159
Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is depreciated over their estimated useful lives.	(572,722)
Capital Outlays	2,568,848
Depreciation	(3,139,171)
Cost of Assets Sold	(2,399)
The issuance of long-term debt (e.g. bonds, loans) is a resource and the repayment of bond principal is an expenditure of governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net position.	0
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.	27,912
Change in Taxes Receivable	40,264
Change in Courts Receivable	(12,352)
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.	11,766
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.	<u>(127,394)</u>
Change in net position of governmental activities:	\$1,208,720

### NOTE 3 - DEPOSITS AND INVESTMENTS

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

RCW 39.58.130 authorizes the investment of municipal funds in deposits in qualified public depositories provided that the total in public deposits does not exceed the total net worth of the bank.

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

#### Custodial Credit Risk of Bank Deposits

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

#### Custodial Credit Risk of Investments

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

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

As of December 31, 2014, the county had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>Greater Than 1</u>
LGIP	\$13,300,627	\$13,300,627	\$
US Treasuries	1,004,375		1,004,375
Federal Agencies	36,513,039	1,810,436	34,702,603
Municipal Bonds	14,717,246	7,010,075	7,707,171
Public Funds Deposit	8,853,127	8,853,127	
Certificates of Deposit	<u>2,915,000</u>	<u>2,915,000</u>	<u>0</u>
Total	\$77,303,414	\$33,889,265	\$43,414,149

#### Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the county diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The county coordinates its investment maturities to closely match cash flow needs and the maximum maturity of the

total portfolio shall not exceed three years unless matched to a specific cash flow. The County does not have a specific interest rate policy; however, it is cognizant of this risk and addresses it in the Walla Walla County Investment Policy, of which the WWCIP is in compliance with as of 12/31/14.

Credit Risk

State law and county policy limit investments to those authorized by state statute. The county allows 100 percent investment US Treasuries, Federal Agencies, the LGIP and savings or time accounts. The county limits holdings in certificates of deposits to 50 percent of the portfolio; municipal bonds to 20 percent of the portfolio; inter-fund of the county to 20 percent of the portfolio; repurchase agreements to 10 percent of the portfolio; bankers acceptances (rated A1 or P1) to 25 percent of the portfolio; commercial paper to 10 percent of the portfolio (no more than 5 percent may be invested with any one issuer of commercial paper); registered warrants to 5 percent of the portfolio. Investments with any one financial institution shall not exceed the institution’s net worth as determined by the PDPC. No more than 40% of the portfolio shall be invested with any one U.S. government operated agency or sponsored issuer. At December 31, 2014 the county held no investments in repurchase agreements or commercial paper.

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

<u>Debt Security</u>	<u>S&amp;P Rating</u>	<u>Percentage of Portfolio</u>
US Treasuries	AA+	1%
Federal Farm Credit Bank	AA+	10%
Federal Home Loan Bank	AA+	10%
Federal Home Loan Mortgage	AA+	9%
Federal National Mortgage Assoc.	AA+	19%
Federal Agricultural Mortgage Corp.	N/A	1%
Municipal Bonds	AA	19%
LGIP	Not Rated	17%

Concentration Risk

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

GASB statement 31 requires adjustments be made to the financial statements to reflect the difference between amortized cost and fair value of investments. Fair value of investments has been determined using quoted market prices and is equivalent to market value. In 2014, the difference between amortized cost and fair value was not material. Therefore, no adjustments have been made. Investments are shown on the balance sheet at cost, net of amortized premium or discount. Gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

### Total Pooled and Non-Pooled Investments

Pooled investments – primary government	\$18,323,169
Non-pooled investments – primary government	915,000
Pooled investments – fiduciary	32,472,264
Non-pooled investments – fiduciary	<u>3,439,226</u>
Total	\$55,149,659

### EXTERNAL INVESTMENT POOL

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

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

The WWCIP did experience a net decrease in the fair value of the investments during 2014. At 12/31/14, the market value of investments was \$266,313 less than the amortized cost. These unrealized losses will not be recognized in the various funds as management intends to hold these investments to maturity.

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

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

### NOTE 4 - PROPERTY TAXES

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

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

Property tax is recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which it applies is recorded as deferred inflow and recognized as revenue of the period to

which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

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

The County's regular levy for 2014 was \$1.473741 for \$1,000 on an assessed valuation of \$5,064,812,733 for a total regular levy of \$7,464,222. Additionally, a special assessment for Mill Creek Flood Control totaled \$49,998.

The County is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitation as the levy for general governmental services. The County's road levy for 2014 was \$2.051314 per \$1,000 on an assessed valuation of \$2,452,366,490 for a total road levy of \$5,030,574.

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

#### NOTE 5 – CAPITAL ASSETS

##### A. Capital Assets

Capital assets activity for the year ended December 31, 2014 was as follows:

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2014
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 12,817,932	\$ 164,959	\$ -	\$ 12,982,891
Construction In Progress	3,544,065	2,274,387	(3,599,047)	2,219,406
Total capital assets, not being depreciated	16,361,998	2,439,346	(3,599,047)	15,202,297
Capital assets, being depreciated:				
Buildings	56,006,751	-	-	56,006,751
Machinery and Equipment	16,988,359	1,759,800	(1,681,240)	17,066,918
Infrastructure	99,679,927	3,599,047	-	103,278,974
Total capital assets, being depreciated:	172,675,037	5,358,846	(1,681,240)	176,352,643
Less accumulated depreciation for:				
Buildings	(13,049,947)	(397,337)	-	(13,447,283)
Machinery and Equipment	(8,989,875)	(1,096,926)	1,338,929	(8,747,873)
Infrastructure	(25,502,085)	(2,492,021)	-	(27,994,107)
Total accumulated depreciation	(47,541,907)	(3,986,284)	1,338,929	(50,189,263)
Total capital assets, being depreciated, net	125,133,130	1,372,562	(342,312)	126,163,380
Governmental activities capital assets, net	\$ 141,495,128	\$ 3,811,908	\$ (3,941,358)	\$ 141,365,678

Depreciation expense was charged to functions as follows:

General Government	\$ 247,071
Public Safety	160,554
Transportation	2,519,227
Natural & Economic Environment	4,052
Social Services	71,966
Culture and Recreation	136,300
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>847,114</u>
Total depreciation-governmental activities	\$3,986,284

#### NOTE 6 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The county has active construction projects as of December 31, 2014. The projects include road construction projects.

At year-end the county's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Pettybone Bridge	\$ 902,940	\$ 1,215

#### NOTE 7 - PENSION PLANS

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit 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).

#### **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 either, February 28, 2002 for state and higher education employees, or 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 March 1, 2002 for state and higher education employees, or 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 2013, 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, in lieu of any retirement benefit, 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 any age with at least 30 years of service, at the age of 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.

PERS 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 worker's 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 annual 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:

- 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 also 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. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined benefit 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's fiscal year 2013, PERS Plan 3 employee contributions were \$99 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 benefit retirement benefits are also 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.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Non-vested	<u>101,191</u>
Total	368,272

#### 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.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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, 2014, are as follows:

#### Members Not Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
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.

#### Members participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer-State Agency*	11.71%	11.71%	11.71% **
Employer-Local Gov.*	9.21%	9.21%	9.21% **
Employee-State Agency	9.76%	9.80%	7.50% ***
Employee-Local Gov.	12.26%	12.30%	7.50% ***

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

\*\* Plan 3 defined benefit portion only.

\*\*\*Minimum rate.

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2014	\$ 36,572	\$ 971,883	\$ 117,987
2013	\$ 38,421	\$ 941,519	\$ 133,139
2012	\$ 36,886	\$ 798,798	\$ 113,735

## **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

### 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 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.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

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

<u>Term of Service</u>	<u>Percent of Final Average Salary</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 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.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

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 a 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 estate (or duly designated nominee) 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 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.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	<u>1,600</u>
Total	29,640

#### Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. 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. For DRS' fiscal year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements 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, 2014, are as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	.18%	5.23%**
Employee	.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 county and the employees made the required contributions. The county's required contributions for the years ending December 31 were as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2014	\$ 26	\$ 103,119
2013	\$ 122	\$ 97,628
2012	\$ 117	\$ 96,787

## **Public Safety Employees' Retirement System (PSERS) Plan 2**

### Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

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

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

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

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member’s 60 consecutive highest-paid service credit 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.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member’s 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member’s age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on Consumer Price Index), capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have option 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 estate of a PSERS 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.

There are 75 participating employers in PESRS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members entitled to but not yet Receiving Benefits	119
Active Plan Members Vested	4,513
Terminated Plan Members Nonvested	<u>1,383</u>
Total	6,058

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	<u>PSERS Plan 2</u>
Employer*	10.54%
Employee	6.36%

\*The employer rate includes an employer administrative expense fee of 0.18%

Both county and the employees made the required contributions. The county's required contributions for the years ended December 31, 2014 were as follows:

	<u>PSERS Plan 2</u>
2014	\$ 166,012
2013	\$ 144,178
2012	\$ 124,070

#### DEFERRED COMPENSATION PLAN

Walla Walla County offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans are with independent plan administrators. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. On December 31, 2014, 72 employees were participating in the deferred compensation plans.

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

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

Of the \$5,378,495 in the plan at December 31, 2014, \$5,378,495 was applicable to the county while the remaining \$0 represents the assets of other jurisdictions participating in the plan. Deferred compensation plan investments are recorded at market value, along with the corresponding liability, in the agency fund.

#### NOTE 8 - RISK MANAGEMENT

Wall Walla County remains one of several Washington counties that are members of the Washington Counties Risk Pool ("Pool" or "WCRP"). The others include Adams, Benton, Chelan, Clallam, Columbia, Cowlitz and Douglas, Franklin, Garfield, Grays Harbor and Island, Jefferson, Kittitas, Lewis and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Whatcom and Yakima Counties.

Clark, Kitsap, Klickitat and Whitman Counties were Pool members. Clark had its membership cancelled by the Pool's Board of Directors effective April 29, 2014. The others voluntarily terminated their memberships effective October 1<sup>st</sup> of 2010, 2002 and 2003 respectively.

**Background:** The Pool was "Created by Counties *for* Counties" in August 1998 as an association of member counties independent of all other associations of which the counties are members. WCRP's foundational agreement authorized its creation pursuant to Chapters 48.62 and 39.34, Revised Code of Washington ("RCW"), "to provide member counties programs of joint self-insurance, joint purchasing of

insurance, and joint contracting for or hiring of personnel to provide risk management, claims handling, and administrative services.”

Noteworthy is the definition of “insurer” in RCW 48.01.050 as it pertains to the application of the Washington Insurance Code (Title 48). The statutory definition reads:

*Two or more local government entities, under any provision of law, that join together and organize to form an organization for the purpose of jointly self-insuring or self-funding are not an “insurer” under this code.*

WCRP is not an “insurer” and thus not an insurance company or subject to the special laws and rules that govern insurers and insurance companies. Washington’s pools operate under the state’s “pooling” laws and regulations, specifically Chapters 48.62 RCW and 200-100 Washington Administrative Code (“WAC”). Pools are risk-sharing entities that initially must be approved by then annually report to and are overseen by the State Risk Manager – they are not regulated by the Office of the Insurance Commissioner. In addition, as public entities, pools are subject to annual audits by the State Auditor’s Office.

The mission for the Pool as determined by the member’s directors and alternate directors is to:

- Provide comprehensive and economical risk coverage;
  - Reduce the frequency and severity of losses;
- Decrease costs incurred in the managing and litigation of claims.

The core values adopted by the Pool’s Board of Directors include: being committed to learn, understand and respond to the member counties’ insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool’s Board and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

The Pool’s Membership Compact, added in 2000 as an addendum to the Interlocal Agreement constitutes a commitment to strengthen the Pool by helping member counties implement and/or enhance their local risk management efforts to reduce losses and support the best management of the Pool and its resources. The Compact obligates the member counties to support these goals through three major elements – membership involvement, risk control practices and a targeted risk management program(s).

New members may be asked to pay modest fees to cover the costs to analyze their loss data and risk profiles. In recent years, new members have only been required to contribute their proportional shares of the entry year’s assessments. New members contract under the Interlocal Agreement to remain in the Pool for at least five years. Following its initial 60-month term, any county may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files the required advance written notice. Otherwise, the Interlocal Agreement and membership automatically renews for another year. Even after termination, former members remain responsible for reassessments by the Pool for members’ proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

**Joint Self-Insurance Liability Program (“JSILP”):** The Washington Counties risk Pool has since the beginning administered the membership’s occurrence-based, jointly purchased and/or jointly self-insured

liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits per occurrence have grown from the \$1 million existing during the Pool's initial two months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million limit that has existed since October 2003. (Note: Additional \$5 million limits were available as individual county-by-county options during many recent years, including the 2013-14 and 2014-15 coverage years.)

Since the 2003-04 coverage year, the initial \$10 million per occurrence, subject to the member-reimbursed deductible, has been provided as jointly self-insured coverage that is "risk shared" amongst the membership. Each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000.

The Board of Directors has decided for years now to acquire reinsurance as further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions ("SIRs") equal to the greater of the deductible for the member with the claim or \$100,000. More recent year's reinsurance programs have included "corridor deductibles" with aggregated stop losses which have the effect of increasing the Pool's SIR. For 2013-14, there were two (2) such corridors – the first raising the occurrence SIR to \$1 million, but with an aggregated stop loss of \$2,975 million (later reduced with Clark County's termination to \$2,900,625), and the second increasing the SIR further, to \$2 million, but with an aggregated stop loss of \$650,000 (also reduced with Clark County's departure to \$596,875). Other reinsurance agreements respond to the remaining \$8 million – one for the \$3 million excess of the \$2 million SIR, and another for the \$5 million excess of \$5 million.

The remaining \$10 million (or \$15 million) of JSILP occurrence coverage has been acquired as "following form" excess insurance. And while there are no aggregate limits to the payments that the Pool makes for any member county or for all member counties, the reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer).

584 third-party liability claims (and lawsuits) were reported by member counties to the Pool during 2013-14 coverage year, a 5.5% reduction in year-over-year filings and a continuation of the decline in filings experienced the past several years. The new filings raised to the to-date (October, 1988 – September 2014) total to 19,820. Yet only 359 remained classified as 'open' at year-end. Projections from the required independent actuary retained by the Pool's Board of Directors suggest another 283 cases from all years as being *incurred but not yet reported* ("IBNR") and raise the Pool's estimated ultimate case count (as of September 30, 2014) to 20,103. Total incurred losses (payments made plus estimates for *open* claims) increased \$14.6 million during the year to \$264.6 million. And while that represents a significant increase from recent years' corresponding amounts, it is less than the several earlier years' amounts of \$16.0M (2010-11), 17.8M (2009-10), and the \$20.8M (average for 2006-07 through 2008-09).

Claims reserves for the JSILP coverage are determined annually, and the actuary's estimates of net reserves as of September 30, 2014 totalled \$14.68 million, a modest year-over-year increase of \$0.06 million (0.4%), and included \$2.69 million for losses in the basic SIR, \$10.84 million for the increased SIRs from the "corridor programs, \$0.13 million for the losses in the quota-shared (10%) upper reinsured layer retained by the Pool during 2012-13, and \$1.02 million for unallocated loss adjustment expenses (ULAE). NOTE: Estimates for gross reserves declined \$1.10 million (3.3%) to \$32.67 million, with \$17.99 million ceded to the commercial insurers.

**Washington Counties Property Program (“WCRP”):** The Board of Directors agreed to add property insurance, beginning with the 2005-06 coverage year, as a county-by-county option. This optional coverage is jointly-purchased from a consortium of higher rated commercial carriers. Both participation and the total values of covered properties have nearly doubled since the WCPP was added. Twenty six counties participated in the WCPP during 2013-14 with covered properties totaling in excess of \$2.7 billion.

Losses are covered under the WCPP to the participating counties’ buildings and contents, vehicles, mobile/contractors equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes ‘All Other Perils (“AOP”)’ coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Coverage also includes sublimited items, e.g. Equipment Breakdown / Boiler & Machinery (\$100 million), Special Flood Hazard Areas (\$25 million), and endorsements for LEED (Green Construction) Upgrades, optional Reproduction Coverage for historic structures and Terrorism (\$20 million).

AOP occurrence deductibles, which each participating county confirms each year and is solely responsible for paying, range between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

**Cyber Risk and Other Coverages:** Beginning this coverage year (2014-15), the Board agreed to add jointly-purchased cyber risk and security coverage from a higher-rated commercial insurer.

**Other Insurances:** Several member counties use the producer (broker) retained by the Board on behalf of the Pool to secure other (specialty) coverages. Examples include public officials bonds and insurance coverages for crime (and fidelity), special events/concessionaires, UST and other environmental hazards, as well as airport, ferry, and railroad operations.

**Governance/Oversight:** The Pool is governed by a board of directors that consists of one director (and at least one alternate director) representing each member county and appointed by the county’s legislative authority. The Board of Directors, which includes both elected and appointed officials, meets three times each year with the Annual Meeting of the Pool being held mid-summer. The Board a) determines the extent of risk-sharing from the 3<sup>rd</sup>-party self-insured liability coverage by approving the JSILP Coverage Form, b) selects the reinsurance(s) to acquire and the excess insurance(s) to jointly-purchase or offer for “member option” purchase, c) approves the Pool’s annual operating budget(s) and work program(s), and d) approves the formulas used for computing member’ deposit assessments and, when necessary, reassessments.

Ongoing oversight of the Pool is furnished by an 11-person executive committee that is elected by and from the WCRP Board for staggered, 3-year terms. The membership of the 2014-15 committee averages more than nine years with the Pool. The committee meets throughout the year and a) approves all disbursements and reviews the Pool’s financial health, b) approves case settlements exceeding the applicable member’s deductible by at least \$50,000, c) reviews all claims with incurred loss estimates exceeding \$100,000, and d) evaluates the Pool’s operations and program deliverables, and the Executive Director’s performance. Committee members are expected to participate in the Board’s standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise

proposals for and/or recommendations to the association’s policies and its coverages for the Board to consider and act upon.

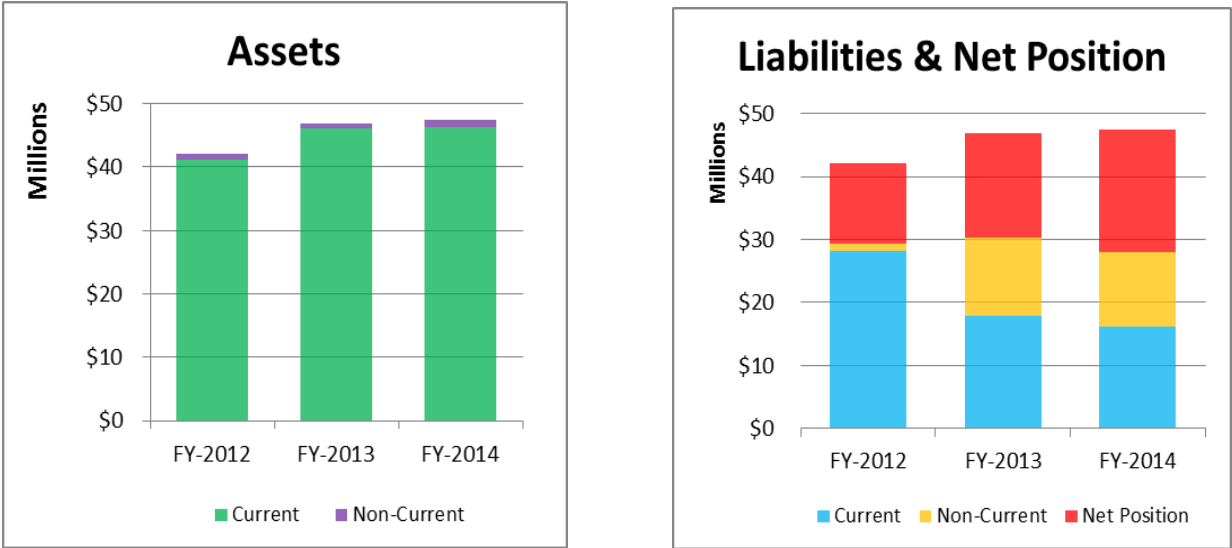
**Staffing and Support Teams:** Six of the Pool’s 11 –person staff handle and/or manage the several hundred liability cases filed annually upon the member counties and submitted for risk-shared coverage consideration. This includes determining coverage establishing reserves for covered events by estimating future payments for the losses and their related claims adjustment expenses. The claims staff have 115 years of combined claims handling experience.

The remaining staff support the Pool’s administrative needs and provide member services that include, but are not limited to assessing the memberships’ risks, coordinating trainings, performing compliance audits, and developing the presenting/promoting coverages.

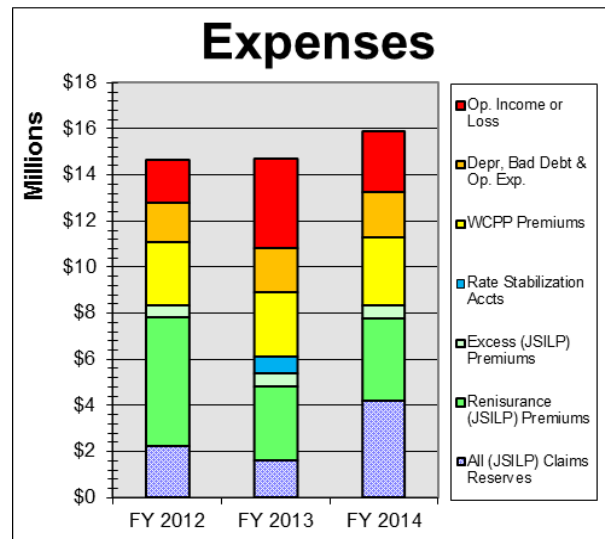
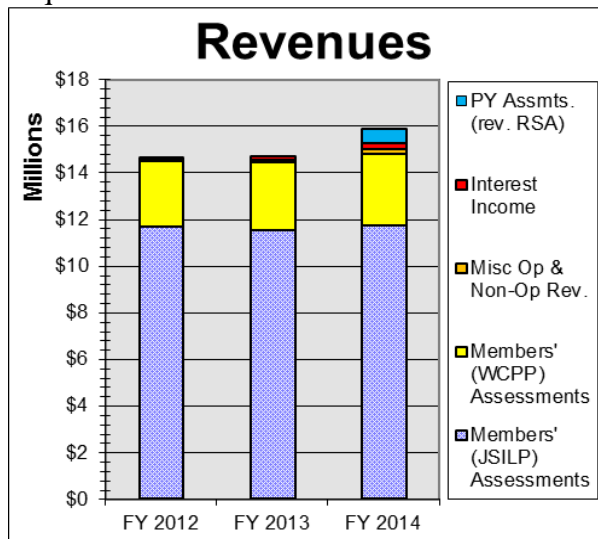
There are also the professionals from some of the most respected organizations worldwide which are retained by the Board to address specific needs of the Pool – PricewaterhouseCoopers, LLP furnishes independent actuarial services; Strategic Claims Direction, LLC conducts independent claims auditing; Arthur J Gallagher Risk Management Services, Inc. provides insurance producer (broker) and advanced loss control services; and J William Ashbaugh of Hackett Breecher & Hart serves as coverage counsel. NOTE: Claims audits are occasionally performed by commercial insurers. The numerous attorneys retained and assigned to defend covered claims as well as the State Risk Manager and State Auditor’s Offices cannot be overlooked.

**Financial Summary:** During fiscal 2014, WCRP assets grew 1% (\$0.48 million) to \$47.41 million while its liabilities decreased 7% (\$2.17 million) to \$28.04 million. That produced a (assets to liabilities) ratio of 1.69:1. For comparison, the fiscal 2004 ratio was 0.94:1 which, except for the members’ reassessments receivables (“retroactive assessments”) that were included, would have been 0.74:1.

Net Position, which is frequently referred to as “Net Assets” or “Owners’ Equity”, improved 16% (\$2.65 million) to \$19.37 as of September 30, 2014. And since 2004 ended “negative” \$0.69, Net Position improved by more than \$20 million over the course of the past decade. \$1.07 million of Net Position were held in Capital Assets (net of debt), leaving \$18.30 million to both satisfy the State Risk Manager’s solvency provisions (WAC 200.100.03001(3)) and substantially fulfill WCRP’s own sufficiency requirements in section D.2 of the Board of Directors’ Underwriting Policy.



Operating Income of \$2.38 million was realized in fiscal 2014. And though a 37% decrease from 2013, the 2014 amount was the third greatest in recent years and 55% more than the annual average from 2004 through 2013. Revenues grew \$1.05 million (7%) while Expenses increased \$2.42 million (22%) primarily due to the \$2.54 million in independent actuary adjustments to the Pool's claims-related reserves and \$0.58 million in independent actuary adjustments to the Pool's claims-related reserves and \$0.58 million in premium increases for the reinsurance and excess liability and property insurance policies acquired.



**Contingent Liability:** The Pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits of the Pool resulting from any fiscal year are financed by reassessments (aka retroactive assessments) placed upon the deficient year's membership in proportion with the deposit assessments initially levied and collected. The Pool's reassessments receivable balance at December 31, 2014 was ZERO (\$0) as there were no known contingent liabilities at that time for disclosure by the member counties.

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

Claims are processed by independent claims managers. Based on the claims managers' estimates, the County's estimated liability for probable losses at December 31, 2014 was as follows:

Unemployment: \$59,234

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

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

Mr. Winter, in conjunction with the Board, determined that a percentage of costs incurred to operate the Personnel/Risk Management department should be paid by funds outside Current Expense, such as Public

Works and Human Services, both of which have large number of employees, greater exposure for claims due to nature of responsibilities (responsible for road design, interact with persons seeking mental health services, etc.), with the resultant increased need for services from the personnel/risk management division.

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

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

NOTE 9 – SHORT-TERM DEBT

Short-term activities for the year ended December 31, 2014 was as follows:

	Beginning Balance-1/1	Issued	Redeemed	Ending Balance 12/31
Fair Operations	\$0	\$217,961	\$217,961	\$0

NOTE 10 - LONG-TERM DEBT

A. Long-Term Debt

Walla Walla County has no long-term debt as of December 31, 2014.

B. Debt Service Requirements

There are no debt service requirements to maturity for general obligation bonds and contractual debt.

C. Federal Arbitrage

The federal arbitrage regulations do not apply to Walla Walla County’s long-term debt.

NOTE 11 – LEASES

A. Operating Leases

The County leases property from Hansen Harvester, Inc at a rate of \$400 per year as the radio site for County Road Communications. The lease is for twenty years with rate negotiations to occur every five years. Operating leases are not material to the financial statements.

## NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2014 the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>1/1/2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2014</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Compensated Absences	\$ 983,868	\$	\$ 107,894	\$ 875,974	\$54,600
OPEB Obligations	<u>745,567</u>	<u>234,415</u>	<u>138,287</u>	<u>841,695</u>	<u>0</u>
Governmental activity					
Long-term liabilities:	\$1,729,435	\$234,415	\$246,181	\$1,717,669	\$54,600

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$25,031 of internal service funds compensated absences are included in the above amounts.

## NOTE 13 – CONTINGENCIES AND LITIGATIONS

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

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

## NOTE 14 – RESTRICTED NET POSITION

The government-wide statement of net position reports \$14,062,951 of restricted net position, of which \$13,147,482 is restricted by enabling legislation.

## NOTE 15 - INTERFUND BALANCES AND TRANSFERS

### A. Interfund Balances

Interfund loan balances at December 31, 2014 were as follows:

	<u>Due From</u>			
<u>Due To</u>	<u>Cur Exp</u>	<u>Human Svc</u>	<u>Non Major</u>	<u>Total</u>
	<u>Building</u>	<u>Capital Proj</u>	<u>Governmental</u>	
Non-Major Governmental	\$1,311,957 <sup>1</sup>	\$1,647,755 <sup>2,4</sup>	\$227,161 <sup>3</sup>	\$3,186,873

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

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

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

<sup>4</sup>An interfund loan was made in 2014 from the W W Co Public Facilities Improvement fund to the Human Services Capital Projects fund for the HVAC repair project at 1520 Kelly Place, Walla Walla. The loan was from the Port of Walla Walla portion of the funds. The loan is scheduled to be repaid May 1, 2023.

## B. Interfund Transfers

Interfund transfers to support operations to other funds during 2014 were as follows:

<u>Transfer To</u>	<u>Transfer From</u>			<u>Total</u>
	<u>General Fund</u>	<u>WW Co Pub Fac</u>	<u>Non Major Governmental</u>	
General Fund	70,000			70,000
Current Expense Bldg		179,095		179,095
Non-Major Governmental	1,156,583		137,500	1,294,083
Internal Service Funds	<u>50,000</u>	<u>0</u>	<u>25,000</u>	<u>75,000</u>
Total	<u>\$1,276,583</u>	<u>\$179,095</u>	<u>\$162,500</u>	<u>\$1,618,178</u>

## NOTE 16 – RECEIVABLE AND PAYABLE BALANCES

### A. Receivables

Receivables at December 31, 2014 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Courts Receivable</u>	<u>Due from Other Gov</u>	<u>Total</u>
Governmental Activities:					
General Fund		\$717,768	\$274,578	\$ 39,401	\$1,031,747
County Road		210,844		218,518	429,362
Human Services		6,424		270,294	276,718
Non-Major Governmental	\$87,929	155,432		174,350	417,712
Internal Service Funds	<u>14,337</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,337</u>
Total Governmental Activities	<u>\$102,266</u>	<u>\$1,090,468</u>	<u>\$274,578</u>	<u>\$702,563</u>	<u>\$2,169,875</u>

B. Payables

Payables at December 31, 2014 were as follows:

	<u>Vendors</u>
Governmental Activities:	
General Fund	\$622,706
County Road	53,790
Human Services	168,528
Current Expense Bldg	18,823
Human Service Capital Projects	8,318
Non-Major Governmental	395,792
Internal Service Funds	<u>179,471</u>
Total Governmental Activities	\$1,447,429

NOTE 17 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of ten years. The following table shows the components of the County's annual OPEB cost, the amount actually contributed to the plan, and changes in the County's net OPEB obligation for the fiscal year ending December 31, 2014:

Annual required contribution	\$271,650
Interest on net OPEB obligation	29,823
Adjustment to the ARC	<u>(67,057)</u>
Annual OPEB Cost	234,415
Contributions made	<u>138,287</u>
Increase in Net OPEB obligation	96,128
Net OPEB obligation, beginning of year	<u>745,567</u>
Net OPEB obligation, end of year	\$841,695

The County's annual OPEB costs, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the preceding years were as follows:

Fiscal year Ending <u>December 31</u>	Annual <u>OPEB Cost</u>	<u>Contribution</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
2014	\$234,415	\$138,287	59.0%	\$841,695
2013	\$301,746	\$148,155	49.1%	\$745,567
2012	\$210,084	\$114,510	54.5%	\$591,976

#### Funding Status and Funding Progress

The funded status of the plan as of December 31, 2014, was as follows:

Actuarial accrued liability (AAL)	\$3,020,308
Actuarial value of plan assets	0
Unfunded actuarial accrued liability	3,020,308
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll	35,749
UAAL as a percentage of covered payroll	8449%

#### Methods and Assumptions

The County's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF I rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF I medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and net OPEB obligation (NOO) are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

#### NOTE 18 – ACCOUNTING AND REPORTING CHANGES

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

#### NOTE 19 – PRIOR PERIOD ADJUSTMENTS

The statement of activities shows a prior period adjustment of (\$1,260,445) to account for the adjustment to land values. Since 2006, land acquired as of December 31, 2005 was valued at 2005 market value and has now been corrected to the estimated historical value.

# REQUIRED SUPPLEMENTARY INFORMATION

## WALLA WALLA COUNTY LEOFF I RETIREE HEALTH INSURANCE BENEFITS SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2014	-	3,020,308	3,020,308	0%	35,749	8449%
12/31/2013	-	3,559,956	3,559,956	0%	80,222	4438%
12/31/2012	-	2,420,916	2,420,916	0%	79,879	3031%
12/31/2011	-	2,290,005	2,290,005	0%	91,916	2491%
12/31/2010	-	2,308,962	2,308,962	0%	160,444	1439%
12/31/2009	-	2,364,148	2,364,148	0%	167,002	1416%

**WALLA WALLA COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2014**

Federal Agency Name/Pass- Through Agency Name	Federal Program Name	CFDA #	Other ID #	Expenditures			Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Agriculture/ Office of Superintendent of Public Instruction	School Breakfast Program	10.553	36-140-6837	\$9,397		\$9,397	
U.S. Dept of Agriculture/ Office of Superintendent of Public Instruction	National School Lunch Program	10.555	36-140-6837	\$18,146		\$18,146	
U.S. Dept of Agriculture/ WA St Dept of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C16906	\$206,764		\$206,764	2
U.S. Dept of Agriculture/ WA St Dept of Health	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C16906	\$42,045		\$42,045	2
U.S. Dept of Agriculture/ WA St Dept of Health	WIC Farmers' Market Nutrition Program	10.572	C16906	\$205		\$205	2
U.S. Dept of Housing and Urban Development/ WA Dept of Commerce	Community Development	14.228	14-65400-014	\$23,186		\$23,186	5
	Block Grants/States Program	14.228	13-65400-014	<u>\$47,419</u>		<u>\$47,419</u>	5
	Total CFDA 14.228			\$70,605		\$70,605	
U.S. Dept of Housing and Urban Development	Supportive Housing Program	14.235	WA0093L0T011306		\$25,068	\$25,068	2,5
		14.235	WA0093L0T011205		<u>\$36,057</u>	<u>\$36,057</u>	2
	Total CFDA 14.235				\$61,125	\$61,125	
U.S. Dept of Justice/ WA St DSHS	Juvenile Accountability Incentive	16.523	1363-84202	\$5,502		\$5,502	
	Block Grant	16.523	1463-17305	<u>\$3,048</u>		<u>\$3,048</u>	
	Total CFDA 16.523			\$8,550		\$8,550	
U.S. Dept of Justice/ WA St Dept of Commerce	Violence Against Women Formula Grants	16.588	F13-31103-066	\$15,711		\$15,711	
U.S. Dept of Justice	State Criminal Alien Assistance Program	16.606			\$4,248	\$4,248	
U.S. Dept of Justice/ Walla Walla Police Dept	Edward Byrne Memorial Justice Assistance Grant Program	16.738	Interlocal	\$4,500		\$4,500	
U.S. Dept of Transportation/ WA St DOT	Highway Planning and Construction	20.205	LA-7316	\$2,955		\$2,955	
		20.205	LA-7914	\$573,671		\$573,671	
		20.205	LA-7360	\$36,639		\$36,639	
		20.205	LA-7803	\$505		\$505	
		20.205	LA-7927	\$15,273		\$15,273	
		20.205	LA-8441	\$17,556		\$17,556	
		20.205	LA-7148	\$1,889		\$1,889	
		20.205	LA-8041	\$67,141		\$67,141	
		20.205	LA-7361	\$7,421		\$7,421	
		20.205	LA-7421	\$3,000		\$3,000	
		20.205	DTFH70-13-E-00028		<u>\$365,691</u>	<u>\$365,691</u>	
	Total CFDA 20.205			\$726,050	\$365,691	\$1,091,741	

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

**WALLA WALLA COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2014**

Federal Agency Name/Pass- Through Agency Name	Federal Program Name	CFDA #	Other ID #	Expenditures			Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Transportation/Washington Traffic Safety Commission	State and Community Highway Safety	20.600	14ST-20	\$33,350		\$33,350	
U.S. Dept of Transportation/ WA St Military Dept	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	E14-199	\$1,696		\$1,696	
U.S. Election Assistance Commission/WA Secretary of State	Help America Vote Act Requirements Payments	90.401	G-2860	\$1,626		\$1,626	
U.S. Dept of Health and Human Services/ WA St Dept of Health	Public Health Emergency Preparedness	93.069	C16906	\$18,313		\$18,313	2
U.S. Dept of Health and Human Services/ WA St DSHS	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1363-90050	\$61,202		\$61,202	5
		93.243	1463-11819	\$2,111		\$2,111	5
				\$63,313		\$63,313	
U.S. Dept of Health and Human Services/ WA St Dept of Health	Immunization Grants	93.268	C16906	\$15,757		\$15,757	2
		93.268	C16906	\$85,454		\$85,454	2,4
		Total CFDA 93.268		\$101,211		\$101,211	
U.S. Dept of Health and Human Services/ Grant County Health District	Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	Letter of Agreement	\$10,452		\$10,452	2
U.S. Dept of Health and Human Services/ WA St Dept of Health	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act)	93.539	C16906	\$52,468		\$52,468	2
U.S. Dept of Health and Human Services/ WA St DSHS	Promoting Safe and Stable Families	93.556	1363-79824	\$19,636		\$19,636	
		93.556	1463-14154	\$19,636		\$19,636	
		Total CFDA 93.556		\$39,272		\$39,272	
U.S. Dept of Health and Human Services/ WA St DSHS	Temporary Assistance for Needy Families	93.558	1363-78917	\$179		\$179	2
U.S. Dept of Health and Human Services/ WA St DSHS	Child Support Enforcement	93.563	2110-80334	\$170,069		\$170,069	
		93.563	0763-15058	\$5,982		\$5,982	
		93.563	2110-80334	\$30,741		\$30,741	
		Total CFDA 93.563		\$206,792		\$206,792	
U.S. Dept of Health and Human Services/ WA St Dept of Health	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance (PPHF-2012)	93.733	C16906	\$953		\$953	2
U.S. Dept of Health and Human Services/WA St Health Care Authority	Medical Assistance Program	93.778	1166-35275	\$22,367		\$22,367	
		93.778	K777	\$10,608		\$10,608	2
		Total CFDA 93.778		\$32,975		\$32,975	

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

**WALLA WALLA COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2014**

Federal Agency Name/Pass- Through Agency Name	Federal Program Name	CFDA #	Other ID #	Expenditures			Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Health and Human Services/ Greater Columbia Behavioral Health	Block Grant for Community Mental Health Services	93.958	WW-MHBG-13/15/00	\$27,500		\$27,500	
U.S. Dept of Health and Human Services/ WA St DSHS	Block Grants for Prevention & Treatment of Substance Abuse	93.959	1163-27331	\$68,436		\$68,436	5
U.S. Dept of Health and Human Services/ WA St Dept of Health	Maternal and Child Health Services Block Grant to States	93.994	C16906	\$65,029		\$65,029	2
Executive Office of the President/ WA State Patrol	High Intensity Drug Trafficking Areas Program	95.001	C141451FED	\$1,514		\$1,514	
U.S. Dept of Homeland Security/WA State Parks & Rec	Boating Safety Financial Assistance	97.012	Letter of Award	\$14,241		\$14,241	
U.S. Dept of Homeland Security/ WA St Military Dept	Emergency Management	97.042	E15-158	\$25,618		\$25,618	
	Performance Grants	97.042	E14-113	<u>\$14,354</u>		<u>\$14,354</u>	
	Total CFDA 97.042			<u>\$39,972</u>		<u>\$39,972</u>	
U.S. Dept of Homeland Security/ WA St Military Dept	Pre-Disaster Mitigation	97.047	E12-236	\$45,412		\$45,412	
U.S. Dept of Homeland Security/ WA St Military Dept	Homeland Security Grant	97.067	E13-153	\$37,510		\$37,510	
	Program	97.067	E14-155	<u>\$22,306</u>		<u>\$22,306</u>	
	Total CFDA 97.067			<u>\$59,816</u>		<u>\$59,816</u>	
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b><u>\$1,986,493</u></b>	<b><u>\$431,064</u></b>	<b><u>\$2,417,557</u></b>	

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

WALLA WALLA COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent federal grant portion of the program costs. Entire program costs, including the county's portion, may be more than shown.

NOTE 3 - REVOLVING LOAN – PROGRAM INCOME

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

NOTE 4 - NONCASH AWARDS - VACCINATIONS

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

NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for these programs is \$205,561 that was passed through to a subrecipient.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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