Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

Port of Walla Walla

Walla Walla County

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

Published September 29, 2016

Report No. 1017618

Washington State Auditor's Office

September 29, 2016

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Walla Walla
Walla Walla County
January 1, 2015 through December 31, 2015

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Port of Walla Walla are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

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 Port's compliance with requirements applicable to its major federal program.

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

Identification of Major Federal Programs:

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

CFDA No.	Program or Cluster Title
20.106	Airport Improvement Program

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

The Port did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Port of Walla Walla
Walla Walla County
January 1, 2015 through December 31, 2015

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 23, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Port implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* and Statement No. 72, *Fair Value Measurement and Application*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Port'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 Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port'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 Port'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 Port's financial statements are free from material misstatement, we performed tests of the Port'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 Port'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 Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 23, 2016

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

Port of Walla Walla
Walla Walla County
January 1, 2015 through December 31, 2015

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Walla Walla, Walla Walla County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2015. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port’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 Port’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port 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 Port’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 23, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Walla Walla
Walla Walla County
January 1, 2015 through December 31, 2015

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Port of Walla Walla, Walla Walla County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port'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 Port'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 Port'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 each major fund and the aggregate remaining fund information of the Port of Walla Walla, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* and Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 20, information on postemployment benefits other than pensions on page 54 and pension plan information on pages 55 through 58 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 Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016 on our consideration of the Port'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 Port's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 23, 2016

FINANCIAL SECTION

Port of Walla Walla
Walla Walla County
January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015
Statement of Revenues, Expenses and Changes in Net Position – 2015
Statement of Cash Flows – 2015
Statement of Fiduciary Net Position – 2015
Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Benefits (OPEB Plan Schedules – 2015
Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2015
Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2015
Schedule of Employer Contributions – PERS 1 – 2015
Schedule of Employer Contributions – PERS 2/3 – 2015

SUPPLEMENTARY AND OTHER INFORMATION

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

Introduction

The following is the Port of Walla Walla's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2015 and 2014. It provides an introduction to the Port's 2015 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business-type activities.

Overview of the Financial Statements

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statement of net position, the statement of revenues, expenses, and changes in fund net position, and the statement of cash flows.

The statement of net position and the statement of revenues, expenses, and changes in fund net position tell us if the Port as a whole is better or worse off as a result of the year's activities. The statement of net position presents information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statement of revenues, expenses, and changes in fund net position shows how the Port's net assets changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Financial Report

Financial Highlights

The assets of the Port exceeded its liabilities at close of calendar year 2015 by $70,352,082. Of this amount, $65,314,136 was invested in capital assets, net of related debt and $5,037,946 was unrestricted assets. As a comparison, net position totaled $71,155,517 the end of calendar year 2014 (as restated). Of this amount, $62,778,834 was invested in capital assets, net of related debt, and $8,376,683 in unrestricted assets (as restated). For details refer to the statement of net position, note 1, note 13 and note 14 in the notes to the financial statements. The Port's net position decreased by $803,435 in 2015 compared to $4,789,145 increase in 2014 (as restated). The main reason for the decrease was the capital contributions received is 2015 was $4,268,459 less than the capital contributions received in 2014.

Financial Position Summary

The statement of net position presents the financial position of the Port at the close of calendar year 2015. The statement includes all Port assets and liabilities. Net position serves as an indicator of the Port's financial position. For details refer to the statement of net position note 1, note 13 and note 14 in the notes to the financial statements. A summarized comparison of the Port's assets, liabilities, and net position at December 31, 2015 and 2014, follows:

Statements of Net Position

	2015	2014
Current Assets	$6,641,080	$10,135,956
Noncurrent Assets	$572,179	$45,630
Net Capital Assets	$70,468,415	$67,259,769
Total Assets	$77,681,674	$77,441,355
Deferred Outflows of Resources	$144,727	$36,057
Current Liabilities	$1,584,942	$1,053,458
Noncurrent Liabilities	$5,742,641	$5,268,437
Total Liabilities	$7,327,583	$6,321,895
Deferred Inflows of Resources	$146,736	$0
Invested in Capital Assets, Net of Debt	$65,314,136	$62,776,334
Unrestricted	$5,037,946	$8,379,183
Total Net Position	$70,352,082	$71,155,517

A summarized comparison of the Port's statements of revenues, expenses, and changes in fund net position for the years ended December 31, 2015 and 2014 were as follows:

Statements of Revenues, Expenses, and Changes in Fund Net Position

	2015	2014
Operating Revenues:		
Airport Operations	$942,217	$1,326,585
Marine Terminal Operations	$232,199	$307,652
Property Lease/Rental Operations	$3,910,768	$3,549,024
Total Operating Revenues	$5,085,184	$5,183,261
Operating Expenses:		
General Operations	$4,928,809	$4,924,486
Depreciation	$3,553,229	$3,181,129
Total Operating Expenses	$8,482,038	$8,105,615
Operating Income (Loss)	($3,396,854)	($2,922,354)

	2015	2014
Nonoperating Revenues (Expenses):		
Tax Levied for General Purposes	$1,887,873	$1,888,839
Interest Expense	($167,431)	($174,105)
Other, net	($415,336)	$439,993
Total Nonoperating Revenues (Expenses)	$1,305,106	$2,154,727
Income Before Capital Contributions	($2,091,748)	($767,627)
Capital Contributions	$1,288,313	$5,556,772
Change in Net Position	($803,435)	$4,789,145
Beginning Net Position	$71,155,517	$66,366,372
Ending Net Position	$70,352,082	$71,155,517

<u>Financial Operation Highlights</u>

As noted earlier, the Port uses only one fund, an enterprise fund to comply with Washington State mandated reporting requirements. The following summary compares the 2015 and 2014 operating results to budget and prior years.

Revenues – Year-to-date operating revenues of $5,085,184 were down 1.89% as compared to 2014 revenues of $5,183,261. The decrease in revenue can be attributed to airport operations and marine terminal operations. The Airport outsourced its aviation fueling system to a tenant in 2015, decreasing the amount of fuel sales the Port received. The Port increased their property lease and rental tenants in 2015 which offset some of the loss of aviation fuel receipts.

Expenses – Year-to-date operating expenses of $4,928,809 were up 0.09% as compared to 2014 expenses of $4,924,486.

Nonoperating – Year-to-date nonoperating revenue (expenses) for 2015 was $1,305,106 compared to $2,154,727 in 2014. The decrease in nonoperating revenues can be attributed to capital grant costs in 2015 related to the Port's sewer system in Burbank.

Capital Assets – The Port's investment in capital assets for its business activities as of December 31, 2015, amounted to $70,468,415 (net of accumulated depreciation) which represents a 4.77% increase over 2014. This investment in capital assets includes land, buildings, improvements, machinery, equipment, and construction in progress. Net capital assets at December 31, 2014, totaled $67,259,769, an increase of 7.69% over 2013. For details refer to note 4 in the notes to the financial statements.

Major capital asset events during 2015 include the following:

- The Port finished its multi-year investment plan to bring sewer to the Burbank community including the Columbia School District and Port owned Burbank Industrial and Business Parks. In 2015, the Port expended $2.9 million on this project. A state grant helped offset a portion of the capital costs.

- In 2015, the Port installed a new roof to its crown property located off of Dell Avenue. The roof project was an $800,000 investment. The Port secured a general obligation bond for the project with annual payments for the next 10 years.
- In 2015, the Port secured a software tenant to Walla Walla. The Port acquired property in Downtown Walla Walla on Alder Street for this tenant. The Port invested $668,062 in 2015 towards the purchase and remodel of this building. The tenant will create approximately 10 new software related jobs.
- The Port leased out grain terminals at the Burbank Industrial Park. To keep these terminals in use, the Port invested $533,462 in dredging the barge slip. The Port funded the project with cash on hand.
- In 2015, The Port finished the Burbank Water System Phase I utilities project. The investment made in 2015 was $247,603. This project brings water to lots in the Burbank Business Park. The Port funded the project with cash on hand.

Debt Administration

Long-Term Debt – At December 31, 2015, the Port's total long-term outstanding debt was $5,154,279 (excluding employee leave benefits). Of this amount, $3,896,981 comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt is secured solely by specified revenue sources. At December 31, 2014, the total long-term debt was $4,486,156 with $3,577,731 being general obligation debt. For details refer to note 10 and note 11 in the notes to the financial statements.

The Port's bond rating has been stable. In September 1999, Moody's assigned a rating of A3 for a $5.6 million general obligation bond issue for the construction of the new airport terminal building. In April 2005, Moody's assigned a rating of A3 for a $2,260,000 general obligation refunding bond. In June 2007, Moody's assigned a rating of A3 for a $525,000 Limited Tax General Obligation Bond for the Burbank Water System Phase I construction.

On April 23, 2010, Moody's Investor Services applied its new Global Scale Rating of A1 to all of the Port's outstanding Limited Tax General Obligation Bonds. In November 2010, Moody's assigned a rating of A1 for the $1,975,000 general obligation bond issue (refunding 1999 Series B). As listed above the Port previously had all A3 ratings.

Economic Factors and 2016 Budget

Economic Factors

The Walla Walla economy continues to perform well. Walla Walla County's monthly unemployment rates for the last several years has been among the lowest of the 39 Counties in Washington State.

Assessed property values County wide are trending up with a 3.5% increase from 2015 to 2016. Commercial Air Service at the Walla Walla Regional Airport has been very strong. In 2015, passenger enplanements increased by over 13.7% as compared to 2014. For the first quarter of 2016 enplanements are up 9% from the same period last year.

The greater Walla Walla Valley continues to receive positive regional and national press for the growing wine industry and revitalization of the downtown area. This once sleepy college town is becoming a place people want to live and work.

The outlook for Walla Walla is stable and with some modest growth in population. The stability comes from the diverse employment base which encompasses three higher education institutions, a large governmental presence (VA hospital, Army Corps of Engineers district office, and Washington State Penitentiary), manufacturing companies (Boise White Paper, LLC, Tyson Fresh Meats, Key Technology, and Nelson Irrigation), regional medical facilities and agriculture.

The Port should see positive economic activity at the Airport Business Park, which is home to dozens of small entrepreneurial business. While there are several buildings available for lease, the high occupancy rate will eventually slow the growth at the Airport without the Port building additional production spaces.

The Port also expects to see increased economic activity at its Burbank Business Park with the completion of the water and sewer system. The Port anticipates several lots will be sold for commercial and industrial related businesses.

A good source of economic data on the County can be found on the Port sponsored website www.portwallawalla.com and at www.wallawallatrends.ewu.edu.

<u>2016 Budget</u>

The Port's major capital expenditure project will be the reconstruction of the Airport's primary taxiway. This effort is estimated to cost approximately 8 million dollars with the Port's contribution at $300,000. The Airport will also be acquiring a new ARFF truck at a cost of $803,000. The Port is a very dynamic economic development organization and the Port's capital budget priorities can quickly change based on business opportunities that present themselves.

Tax Levy:

The Port's tax levy rate has been declining from $0.44 per $1,000 of assessed value in 2006 to $0.37018 per $1,000 of assessed value in 2015. The tax levy rate for 2016 is projected to decrease slightly to $0.36843 per $1,000 of assessed value and will yield $1,980,199. The tax levy is used for debt service, capital expenditures, environmental clean-up and investments that facilitate transportation.

The Port's statutory maximum tax levy rate is $0.45 per $1,000 of assessed property value. For details, please refer to note 3 in the notes to the financial statements.

Request for Information

The Port designed this financial report to provide our citizens, customers, investors, and creditors with an overview of the Port's finances. If you have questions or need additional information please visit our website at www.portwallawalla.com or contact Paul Gerola, Interim Executive Director, pg@portwallawalla.com, or Donna Watts, Auditor/Treasurer, dw@portwallawalla.com, 310 A Street, Walla Walla, Washington 99362-2269, Phone (509) 525-3100, Fax (509) 525-3101.

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF NET POSITION
DECEMBER 31, 2015

Assets		
Current Assets		
Cash and Cash Equivalents (Note 1 C-1)	$	5,441,961
Investments (Note 1 C-2 & Note 2 B)	$	749,803
Accounts Receivable (Net) (Note 1 C-3 & Note 14)	$	78,909
Taxes Receivable (Note 1 C-3 & Note 3)	$	72,037
Accrued Interest Receivable (Note 1 C-3)	$	5,839
Due from Other Governments (Note 1 C-4)	$	114,570
Prepayments (Note 1 C-8 & Note 14)	$	177,961
Total Current Assets	**$**	**6,641,080**
Noncurrent Assets		
Investments (Note 1 C-2 & Note 2 B)	$	499,540
Capital Assets: (Note 1 C-7, Note 4, & Note 13)		
Capital Assets Not Being Depreciated		
Land	$	13,884,521
Construction in Progress	$	1,862,393
Capital Assets Being Depreciated		
Improvements to Land	$	52,812,070
Buildings	$	31,778,960
Equipment	$	12,781,734
Less: Accumulated Depreciation	$	(42,651,263)
Total Capital Assets (Net)	$	70,468,415
Net Pension Asset (Note 1 C-13, Note 7 & Note 13)	$	72,639
Total Noncurrent Assets	**$**	**71,040,594**
Total Assets	**$**	**77,681,674**
Deferred Outflows of Resources		
Deferred Loss on Refunding Terminal Bond (Note 1 C-9)	$	21,935
Deferred Outflows Related to Pensions (Note 1 C-9 & Note 7)	$	122,792
Total Deferred Outflows of Resources	**$**	**144,727**

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

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF NET POSITION
DECEMBER 31, 2015

Liabilities		
Current Liabilities		
Accrued Expenses (Note 1 C-14)	$	602,082
Compensated Absences (Note 1 C-11)	$	85,646
Bonds, Notes, and Loans Payable (Note 10)	$	716,313
Accrued Interest Payable (Note 1 C-14)	$	29,931
Other Current Liabilities (Note 1 C-14)	$	150,970
Total Current Liabilities	**$**	**1,584,942**
Noncurrent Liabilities		
Compensated Absences (Note 1 C-11)	$	376,243
Bonds, Notes, and Loans Payable (Net) (Note 10)	$	4,437,966
Other Post-Employment Benefits (Note 8)	$	56,387
Net Pension Liability (Note 1 C-13, Note 7 & Note 13)	$	872,045
Total Noncurrent Liabilities	**$**	**5,742,641**
Total Liabilities	**$**	**7,327,583**
Deferred Inflows of Resources		
Deferred Inflows Related to Pensions (Note 1 C-9 & Note 7)	$	146,736
Total Deferred Outflows of Resources	**$**	**146,736**
Net Position		
Net Investments in Capital Assets	$	65,314,136
Unrestricted	$	5,037,946
Total Net Position	**$**	**70,352,082**

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

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenues		
Airport Operations	$	942,217
Marine Terminal Operations	$	232,199
Property Lease/Rental Operations	$	3,910,768
Total Operating Revenues	**$**	**5,085,184**
Operating Expenses		
General Operations	$	4,928,809
Depreciation	$	3,553,229
Total Operating Expenses	**$**	**8,482,038**
Operating Income (Loss)	**$**	**(3,396,854)**
Nonoperating Revenues (Expenses)		
Investment Income	$	28,809
Tax Levied for General Purposes	$	1,887,873
Capital Grant	$	(475,782)
Election Expenses	$	(25,719)
Interest Expense	$	(167,431)
Other Nonoperating Revenues (Expenses)	$	57,356
Increase (Decrease) in Net Position	**$**	**(2,091,748)**
Increase (Decrease) in Net Position	**$**	**(2,091,748)**
Capital Contributions	**$**	**1,288,313**
Increase (Decrease) in Net Position	**$**	**(803,435)**
Net Position - Beginning of Period	**$**	**72,066,260**
Change in Account Principle – GASB 68	**$**	**(832,098)**
Change in Accounting Principle – Fixed Assets Policy	**$**	**(113,072)**
Prior Period Adjustments	**$**	**34,427**
Net Position - Beginning of Period, Restated	**$**	**71,155,517**
Net Position - End of Period	**$**	**70,352,082**

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

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash Flows From Operating Activities		
Receipts from Customers	$	5,012,279
Payments to Suppliers	$	(3,021,837)
Payments to Employees	$	(1,618,182)
Other Receipts (Payments)	$	31,637
Net cash provided (used) by operating activities	**$**	**403,897**
Cash Flows From Noncapital Financing Activities		
Proceeds from Grants	$	74,490
Payments of Grants	$	(131,523)
Proceeds from Property Taxes	$	1,943,104
Net Cash Provided (Used) by Noncapital Financing Activities	**$**	**1,886,071**
Cash Flows From Capital and Related Financing Activities		
Proceeds from Capital Debt	$	1,200,000
Capital Contributions	$	2,129,758
Purchases of Capital Assets	$	(6,964,732)
Principal Paid on Capital Debt	$	(529,842)
Interest Paid on Capital Debt	$	(147,878)
Net Cash Provided (Used) by Capital and Related Financing Activities	**$**	**(4,312,694)**
Cash Flows From Investing Activities		
Proceeds from Sales and Maturities of Investments	$	500,000
Interest and Dividends	$	23,627
Purchases of Investments	$	(1,750,000)
Net Cash Provided by Investing Activities	**$**	**(1,226,373)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(3,249,099)**
Balances - Beginning of the Year	**$**	**8,691,061**
Balances - End of the Year	**$**	**5,441,962**

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

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$	(3,396,855)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	$	3,553,229
Changes in Assets and Liabilities:		
Receivables, Net	$	55,188
Inventories	$	47,327
Accounts and Other Payables	$	140,395
Accrued Expenses	$	4,613
Net Cash Provided by Operating Activities	**$**	**403,897**

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

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF FIDUCIARY NET POSITION
WASHINGTON STATE DEPARTMENT OF TRANSPORTATION FIDUCIARY FUNDS
DECEMBER 31, 2015

Assets		
Current Assets		
Cash and Cash Equivalents	$	92,615
Investments	$	75,000
Total Current Assets	**$**	**167,615**
Total Assets	**$**	**167,615**
Liabilities		
Current Liabilities		
Payable to WSDOT	$	167,615
Total Current Liabilities	**$**	**167,615**
Total Liabilities	**$**	**167,615**
Net Position	$	-

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

PORT OF WALLA WALLA
MCAG NO. 1764
STATEMENT OF FIDUCIARY NET POSITION
CITY OF PRESCOTT FIDUCIARY FUNDS
DECEMBER 31, 2015

Assets		
Current Assets		
Cash and Cash Equivalents	$	85,258
Total Current Assets	**$**	**85,258**
Total Assets	**$**	**85,258**
Liabilities		
Current Liabilities		
Payable to City of Prescott	$	85,258
Total Current Liabilities	**$**	**85,258**
Total Liabilities	**$**	**85,258**
Net Position	$	-

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

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Port of Walla Walla, Walla Walla County, Washington, was incorporated in 1952 and operates under the laws of the State of Washington applicable to a Port district.

As required by the generally accepted accounting principles the financial statements present the Port of Walla Walla, the primary government, and its component units. The component units discussed below are included in the Port's reporting entity because of the significance of their operational or financial relationships with the Port district.

The Port is a special purpose government and provides a host of economic development activities to the general public and is supported primarily through user charges, rentals of property, property taxes, and grants. The Port is governed by an elected three-member board. The Port of Walla Walla Public Corporation is a special purpose government with limited powers and governed by a Board of Directors, which is comprised of the same three-member board as the Port Commission. Although it is legally separated from the Port, the Port of Walla Walla Public Corporation is reported as if it was part of primary government because its sole purpose is to issue tax exempt non-recourse industrial revenue bonds to assist in private economic development projects. For financial reporting purposes, funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. For financial statement presentation, the Port of Walla Walla's financial statements are blended with the component unit.

Condensed Statement of Net Assets:

Condensed Statement of Net Assets	Port of Walla Walla	Walla Walla Public Corp
Current Assets	$6,626,982	$14,098
Noncurrent Assets	$572,179	$0
Net Capital Assets	$70,468,415	$0
Total Assets	$77,667,576	$14,098
Deferred Outflows of Resources	$144,727	$0
Current Liabilities	$868,629	$0
Current Bonds, Notes and Loans Payable	$716,313	$0
Noncurrent Liabilities	$1,304,675	$0
Noncurrent Bonds, Notes and Loans Payable	$4,437,966	$0
Total Liabilities	$7,327,583	$0
Deferred Inflows of Resources	$146,736	$0
Invested in Capital Assets, Net of Debt	$65,314,136	$0

Condensed Statement of Net Assets	Port of Walla Walla	Walla Walla Public Corp
Unrestricted	$5,023,848	$14,098
Total Net Position	$70,337,984	$14,098

Condensed Statement of Revenues, Expenses, and Changes in Net Assets:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Port of Walla Walla	Walla Walla Public Corp
Operating Revenues	$5,085,184	$0
Operating Expenses Before Depreciation	($4,928,809)	$0
Depreciation	($3,553,229)	$0
Operating Income (Loss)	($3,396,854)	$0
Ad Valorem Tax Revenues	$1,887,873	$0
Interest Expense	($167,431)	$0
Other, net	($415,339)	$3
Total Nonoperating Revenues	$1,305,103	$3
Capital Contributions	$1,288,313	$0
Change in Net Position	($803,438)	$3
Beginning Net Position	$71,141,422	$14,095
Ending Net Position	$70,337,984	$14,098

Condensed Statement of Cash Flows:

Condensed Statement of Cash Flows	Port of Walla Walla	Walla Walla Public Corp
Net cash provided (used) by:		
Operating Activities	$403,897	$0
Noncapital financing activities	$1,886,071	$0
Capital and related financing activities	($4,312,694)	$0
Investing activities	($1,226,376)	$3
Beginning cash and cash equivalent	$8,676,966	$14,095
Ending cash and cash equivalent	$5,427,864	$14,098

B. Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting,* and *Reporting System for GAAP Port Districts* in the State of Washington.

The Port statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of cash flows. The reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Port distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the Port are charges to customers for airport operations, marine terminal operations and property lease/rental operations. Operating expenses for the district include general operation expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. At December 31, 2015, the Port was holding $5,441,961 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

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

On February 8, 2001, the Port Commission adopted Resolution 02-08-01, designating the Port as its own treasurer effective March 31, 2001. On September 13, 2012, the Port Commission adopted Resolution 09-13-12 designating Donna Watts, CPA, the Port Auditor/Treasurer effective September 14, 2012.

2. Investments

Investments are carried at fair value. Interest income on investments is accrued as non-operating revenues as earned. Changes in the fair value of investments are determined on quoted market rates. Gains or losses due to market valuation changes are recognized in the statements of revenues, expenses and changes in net position.

See Note 2 and Note 6.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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 accounts from private individuals or organizations for goods and services rendered. Unbilled $27,087.75 service receivables are recorded at year end.

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for other receivables are $80,137.90.

The Port's policy for estimating and writing off uncollectible accounts is found in Resolution NO. 01-08-15, section XIV.

4. Amounts Due To and From Other Governments

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

5. Inventories

Inventory items consist of aviation fuel only; all other items such as supplies are expensed when purchased. The Port sold their inventory of aviation fuel in 2015. The Port had no inventory in aviation fuel as of December 31, 2015. The amount of unused supplies and similar items on hand at December 31, 2015 is not material.

6. Restricted Assets

These accounts contain resources for construction and debt service. The Port did not have any restricted assets as of December 31, 2015.

7. Capital Assets and Depreciation

Capital assets are defined by the Port as assets with an initial, individual cost of more than $5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost for normal maintenance and repairs are not capitalized.

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

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable amount.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the Port plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of the plant. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.

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

Assets	Years
Auto/Trailer	5
Aviation Fueling System	7
Aviation Ramp Sealer	10
Building Improvements	15
Buildings/Structures	39
Chip Sealing Roads	10
Communication Wiring (Fiber)	20
Dredging	20
Grain Cars	14
Land improvements	20
Landscaping	15
Office Equipment	7
Office Furniture	10
Roof	15
Roof Repairs	7
Special Purpose Trucks	7
Tracks	25
Water/Sewer Pipes	50
Water/Sewer Lift Stations	10

See Note 4, Capital Assets.

8. <u>Other Assets and Debits</u>

Prepayments consist of amounts paid in 2015 for 2016 expenses.

9. <u>Deferred Inflows and Outflows of Resources</u>

The Port reports a separate section for deferred inflows of resources and for deferred outflows of resources. Deferred outflows of resources consist of deferred loss on refunding debt and deferred outflow of resources related to pensions. Deferred inflows of resources consist of deferred inflows of resources related to pensions.

10. Custodial Accounts

This account reflects the liability for net monetary assets being held by the Port in its trustee or agency capacity.

11. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The district records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to maximum eight weeks, is payable upon resignation, retirement, or death. Employees with five years of service may cash out one week of vacation when they have reached the maximum accrual (for up to two weeks per year). Sick leave may accumulate up to 1,440. An employee who terminates employment from the Port with a minimum of five years of service shall be provided a sick leave cash out payment at 25 percent of the employee accrued and unused sick leave hours. Payment will be made at the employee's regular hourly rate at the time of termination.

12. Deferred Compensation Plans

The Port offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all port employees, permits them to defer a portion of their salary until future years. The plan is fully funded and held with the Washington State Department of Retirement Systems.

13. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Other Accrued Liabilities

Accrued expenses consist of accrued accounts payable and payroll expenses at year end. These amounts are expenses incurred, but not yet paid as of December 31, 2015.

Accrued interest payable consists of interest on debt accrued to year end, but not yet paid.

Other Current liabilities consist of funds held as customer deposits for properties rented out by the district.

15. Long-Term Debt

    See Note 10.

Note 2 – Deposits and Investments

A. Deposits

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

B. Investments

1. Investments Authorized

The Port's investments are managed consistent with the Port investment policy established by the Port Commission per Resolution 02-28-01-A. The foremost objective is safety of principal followed by liquidity then by Yield. The Port is authorized as specified in RCW 39.59.020, 39.59.030 and 43.84.080 to invest in the specific securities and will utilize the following types of securities:

a. Deposits with qualified public depositories.

b. Certificates, Notes, or Bonds of the United States, its Agencies, or any other corporations wholly owned by the government of the United States.

c. Obligations of government sponsored corporations with care eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System.

d. Shares of Mutual Funds with portfolio's consisting of only U.S. Treasury or Agency securities with average maturities less than five years.

e. Shares of Money Market funds with Portfolios consisting of securities otherwise authorized by law for investment by local government.

The Port investments are held as "Certificates of Deposit." When they mature or the Port has excess cash to invest, the Port bids the investment among local qualified financial institutions in order to get the best yield possible. The Port follows the same guidelines and rules when investing for other local government investments.

2. As of December 31, 2015, the Port had the following investments at fair market value:

a. Short-Term Investments Included in Cash and Cash Equivalents

Investment	Maturities	Fair Value of Port's Investments	Total
State Investment Pool	N/A	$171	$171
Baker Boyer Bank Investor Money Market	N/A	$468	$468
Total		**$639**	**$639**

b. Current and Noncurrent Investments

Investment	Maturities	Fair Value of Port's Investments	Total
Baker Boyer Bank Investor Services:			
Bank Hapoalim CD	2/9/2016	$249,988	$249,988
Compass Bank CD	7/31/2017	$249,385	$249,385
Discover Bank CD	2/6/2017	$250,155	$250,155
Goldman Sachs Bank CD	8/4/2016	$249,848	$249,848
Grand South Bank CD	5/18/2016	$249,968	$249,968
Total		**$1,249,343**	**$1,249,343**

3. Custodial Credit Risk

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. See Note 6.

4. Interest Rate Risk

Interest Rate Risk is the risk that an investment's fair value decreases as market interest rates increase. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port's investment portfolio. Investments maturities may not exceed five years.

Note 3 – Property Tax

The County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar	
January 1	Tax is levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent market value.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a 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 Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services.

The Port's regular levy for 2015 was $0.37018 per $1,000 on an assessed valuation of $5,194,803,037 for a total regular levy of $1,923,033 minus adjustments of $35,160, which comes to $1,887,873.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Note 4 – Capital Assets

Capital assets activity for the year ended December 31, 2015 was as follows:

Capital Assets Activity	Beginning Balance 1/1/2015	Increases	Decreases	Ending Balance 12/31/2015
Capital Assets, Not Being Depreciated				
Land	$13,884,521	$0	$0	$13,884,521
Construction in Progress	$8,775,103	$1,410,270	$8,322,980	$1,862,393
Total Capital Assets, Not Being Depreciation	**$22,659,624**	**$1,410,270**	**$8,322,980**	**$15,746,914**
Capital Assets, Being Depreciated				
Buildings	$29,484,602	$2,294,357	$0	$31,778,960
Improvements Other Than Buildings	$41,553,871	$11,258,199	$0	$52,812,070
Machinery and Equipment	$12,659,707	$122,027	$0	$12,781,734
Total Capital Assets Being Depreciated	$83,698,180	$13,674,583	$0	$97,372,764
Less Accumulated Depreciation For:				
Buildings	($13,039,292)	($1,020,065)	$0	($14,059,357)
Improvements Other Than Buildings	($21,021,558)	($2,088,210)	$0	($23,109,768)
Machinery and Equipment	($5,037,185)	($444,953)	$0	($5,482,138)
Total Accumulated Depreciation	($39,098,035)	($3,553,228)	$0	($42,651,263)
Total Capital Assets Being Depreciated, net	**$44,600,146**	**$10,121,355**	**$0**	**$54,721,501**
Total Capital Assets, Net	**$67,259,770**	**$11,531,625**	**$8,322,980**	**$70,468,415**

See Note 1 C-7 and Note 13.

Note 5 - Construction Commitments

The Port has active construction projects as of December 31, 2015. The projects include:

- Airfield taxiway design and bid assistance.
- Airfield ARFF truck design and bid assistance.
- Airfield master plan study.
- Alder Street Building construction assistance and bid assistance.
- City of College Place fiber on College Ave and Rose Street.

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

Project	Spent to Date	Remaining Commitment
Airfield Taxiway Design & Bid Assistance	$306,747	$290,813
Airfield ARFF Truck Design & Bid Assistance	$10,722	$25,303

Project	Spent to Date	Remaining Commitment
Airfield Master Plan	$209,944	$378,474
Alder Street Building Bid & Construction Assistance	$33,669	$6,031
City of College Place Fiber	$176,806	$138,383
Total	**$737,888**	**$839,004**

Of the committed balance of $839,004 the Port will provide financing from Cash and Cash Equivalents.

Note 6 – Violation of Finance-Related Legal and Contractual Provisions

The Port of Walla Walla recently established that it may have been investing certain of its funds in certificates of deposit that were not compliant with RCW 39.58.080. The Port has been addressing this issue by reinvesting said funds into compliant certificates of deposit as the noncompliant certificates have matured. The Port will continue this process until all Port funds invested in certificates of deposit are compliant with RCW 39.58.080.

Note 7 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	872,045
Pension assets	$	72,639
Deferred outflows of resources	$	122,792
Deferred inflows of resources	$	146,736
Pension expense/expenditures	$	(8,748)

State Sponsored Pension Plans

Substantially all Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380, Olympia, WA 98504-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The Port's actual contributions to the plan were $45,675.47 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The Port's actual contributions to the plan were $58,741.47 for the year ended December 31, 2015.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 564,010	$ 463,251	$ 376,608
PERS 2/3	$ 1,195,334	$ 408,794	$ (193,431)
LEOFF 1	$ (46)	$ (73)	$ (95)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Port reported a total pension liability of $872,045 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$ 463,251
PERS 2/3	$ 408,794

At June 30, 2015, the Port reported a total pension asset of $72,639 for its proportionate share of the net pension liabilities as follows:

	Asset
LEOFF 1	$ 72,639

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.008358%	0.008856%	0.000498%
PERS 2/3	0.010761%	0.011441%	0.000680%

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
LEOFF 1	0.005977%	0.006027%	0.000050%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	$ 55,611
PERS 2/3	$ 54,802
LEOFF 1	$ (14,746)
Total	**$ 95,667**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 25,344
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 24,582	$ -
Total	**$ 24,582**	**$ 25,344**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 43,455	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 109,129
Changes of assumptions	$ 658	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ 21,880	$ -
Contributions subsequent to the measurement date	$ 32,217	$ -
Total	**$ 98,210**	**$ 109,129**

LEOFF 1	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	-	$	-
Net difference between projected and actual investment earnings on pension plan investments	$	-	$	12,263
Changes of assumptions	$	-	$	-
Changes in proportion and differences between contributions and proportionate share of contributions	$	-	$	-
Contributions subsequent to the measurement date	$	-	$	-
Total	**$**	**-**	**$**	**12,263**

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

Year ended December 31:	PERS 1	
2016	$	(9,823)
2017	$	(9,823)
2018	$	(9,823)
2019	$	4,123
2020	$	-
Thereafter	$	-

Year ended December 31:	PERS 2/3	
2016	$	(23,194)
2017	$	(23,194)
2018	$	(23,194)
2019	$	26,446
2020	$	-
Thereafter	$	-

Year ended December 31:	LEOFF 1	
2016	$	(4,758)
2017	$	(4,758)
2018	$	(4,758)
2019	$	2,012
2020	$	-
Thereafter	$	-

Note 8 – Other Postemployment Benefit (OPEB) Plans

Plan Description

Other Post-Employment Benefits (OPEB), as defined by Government Accounting Standards Board (GASB), are benefits that are provided to retired employees beyond those provide by their pension plans. Benefits include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. Law Enforcement Officers and Firefighters Retirement Plan (LEOFF 1) employers pay 100 percent of "necessary medical services" for LEOFF 1 retirees. Members first employed prior to October 1, 1977, are in LEOFF Plan 1 and are eligible for employer-provided retiree medical.

The medical benefit, set up under RCW 41.26.150(1), provides free medical and long-term care converge for LEOFF 1 retirees. The last employer of a retired LEOFF 1 member is responsible for the full cost of any post-retirement medical benefits. Individual local disability boards administer the LEOFF 1 medical plan. The disability boards' authority is established under RCW 41.26.150(a)&(b). Each board uses their own discretion regarding which medical serves are fully paid by their LEOFF 1 employers. Insurance allows the LEOFF 1 employers to control the volatility in annual medical service costs.

Funding Policy

The Annual Required Contribution (ARC) is the annual amount required under the actuarial cost method to fully fund the Liability. The ARC is the amount of liability that will be earned in the next year, plus a portion of the unpaid liability that has already been earned.

The Annual Required Contribution for the Port in 2015 was $41,469.

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

Annual OPEB Cost and Net OPEB Obligation

The Annual OPEB Cost is made up of the ARC, the interest on the Net OPEB Obligation (NOO), and the amortization of the NOO. The NOO is the liability for deficient contributions that has accumulated since the ARC was first calculated including interest at the discount rate.

The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's net OPEB. The Net OPEB obligation of $56,387 is included as a noncurrent liability on the Statement of Net Position.

The Port's Net OPEB Obligation for 2015 is as follows:

Net OPEB Obligation	Fiscal Year Ending 12/31/2015
Annual OPEB Cost:	
Annual Required Contribution	$41,469
Interest on Net OPEB Obligation	$1,282
Adjustment to ARC	($2,883)
Annual OPEB Cost	$39,868
Employer Contributions	$15,536
Change in Net OPEB Obligations (NOO)	($4,919)
Net OPEB Obligation - Beginning of Year	$61,306
Net OPEB Obligation - Ending of Year	$56,387

Annual OBEB Cost, Percentage of Annual OPEB cost contribution, and the net OPEB Obligation

The Port's OBEB cost, the percentage of OPEB cost contribution to the plan, and the net OPEB Obligation for 2015 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	$43,280	25.94%	$32,055
12/31/2014	$39,868	26.63%	$61,306
12/31/2015	$39,868	38.97%	$56,387

Funded Status

As of January 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The Port's funding progress, the accrued liability for benefits, the actuarial value of assets, the unfunded actuarial accrued liability (UAAL), the covered payroll, and the UALL as a percentage of covered payrolls for 2015 are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Ratio of UAAL to Annual Covered Payroll	Ratio of UAAL to Annual Covered Payroll
December 31, 2013	5/1/2014	$0	$481,204	$481,204	0%	0%	0%	0%
December 31, 2014	3/13/2015	$0	$461,067	$461,067	0%	0%	0%	0%
December 31, 2015	4/1/2016	$0	$461,067	$461,067	0%	0%	0%	0%

Actuarial Methods and Assumptions

Actuarial Methods and assumptions used in valuations on which reported information about the ARC, annual OPEB cost, and the funded status and funding progress OPEB Plans is based on the following:

- Actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.
- The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.
- Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

- Actuarial calculation reflects a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuary accrued liabilities and actuarial value of assets.
- Actuarial methods and significant assumption used to determine ARC for the current year include:
  - The State actuaries used the alternative measurement method permitted under GASB Statement No. 45 used. A single retirement age of 56.24 was assumed for all active members for the purpose to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 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 1 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 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.
  - Currently, there is no asset valuation method since there are no statewide or Port invested assets in an irremovable, dedicated, and protected trust.
  - The economic assumptions are used in actuarial valuation to determine liabilities and contributions in the future. They are broken into non-medical and medical economic assumptions. The non-medical assumptions specify how we expect membership and salaries to grow, and the interest discount rate we used order to discount future cash flows into today's dollars; besides the interest discount rate, these assumptions are consistent with the June 30, 2013, Actuarial Valuation Report (AVR). The interest discount rate is chosen based on the expected long-term yield of assets expect to finance the payment of benefits. Since we assumed the liabilities are funded on a pay-as-you-go basis, the benefit payments are effectively paid from each LEOFF 1 employer's "checking account". These LEOFF 1 employer accounts are likely invested in short term products such as repurchase agreements, FNMA instruments, and U.S. Treasury obligations. We assumed a long-term yield of 4 percent for this valuation. The medical economic assumptions specify how we expect the benefits to change in the future. The state actuaries relied on health care actuaries at Millman to determine the medical trend rates in 2012 and beyond.
  - The UAAL and NOO are being amortized as a level dollar amount over a closed 10-year period.

Note 9 – Risk Management

The Port is exposed to various risks of loss related to torts; damage to, theft of and destruction of assets; natural disasters; and employee injuries. To limit exposure, the Port purchases property, liability, and related insurance coverage annually through a commercial insurance broker which provide coverage against most normal hazards. In comparison to prior years, there were no significant changes in the type and coverage of insurance policies purchased by the Port in 2015. Settlement claims have not exceeded commercial insurance coverage in any of the past three years.

To limit the Port's exposure, the Port purchases a variety of insurance policies. Hugh Wood, Inc. has placed the Port's insurance coverage with a host of underwriters for the policy period September 1, 2015 - August 31, 2016, with a preceding period September 1, 2014 – August 31, 2015. The Port has elected not to insure a host of airport buildings that are old and nominal value. The Port believes it has adequate insurance coverage in place to protect the Port. Coverage includes:

Insurance	Limits
General Liability - Starr Indemnity	$3 Million Limit
Excess Liability – Atlantic/Star Indemnity	$9 Million Limit
Property Insurance – Arch Specialty	$15 Million Limit ($25,000 deductible)
Aviation Liability - ACE	$20 Million Limit
Auto Liability – Philadelphia	$1 Million Limit
Public Officials Liability – Westchester	$5 Million Limit
Employee Dishonesty – Travelers	$1 Million Limit

The Port participates in the State of Washington Labor and Industries workman's compensation program. However, management has elected to become self-insured through the Washington State Employment Security Department on a reimbursement basis. Unemployment claims are processed by the Washington State Employment Security Department. No reserve for self-insurance has been established as the potential liability is not considered to be material to the financial statements.

Additionally, the Port provides comprehensive medical, dental, vision, long-term disability (employees only) and life insurance coverage for all eligible employees and their dependents through standard plans offered by the Washington Counties Insurance Fund. The Port of Walla Walla does not administer any of these plans. The Port does not provide any post-retirement medical and dental insurance benefits, as its expense, for former employees. The Port reimburses employees after they have paid a fixed amount of medical expenses. The plan is administered through Washington Counties Insurance Fund. No reserve for reimbursements has been established as the potential liability is not considered to be material to the financial statements.

Note 10 – Long-Term Debt

The Port issues general obligation and revenue bonds to finance the purchase of land and the acquisition or construction of buildings and land improvements. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The Port is also liable for notes that were entered into for the purchase of land, buildings, and land improvements. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
LTGO Bonds 2010 Series B -Airport Terminal	2015	2% - 3 %	$1,975,000	$420,000
LTGO Ref. Bonds 1999 Series C - Airport Terminal	2019	3% - 4.2%	$2,260,000	$15,000
LTGO Series A 2007 - Burbank Water System	2021	4.40%	$525,000	$0
CERB Loan 2005 - Key Technology Building	2025	1.68%	$750,000	$45,750
LTGO Bonds 2015 - Crown Building Roof	2026	3.02%	$800,000	$0

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Principal	Interest
2016	$601,239	$141,401
2017	$624,126	$118,871
2018	$652,090	$95,202
2019	$675,133	$69,900
2020	$383,256	$43,676
2021 - 2025	$961,137	$64,905
2026 - 2030	$0	$0
Total	**$3,896,981**	**$533,956**

The revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
CERB Loan 2006 - Railex Project	2026	2.00%	$800,000	$49,092
WSDOT Freight Rail Assistance Loan	2025	1.00%	$247,000	$0
.09 Sales Tax Loan – Broadband Loan	2025	0.00%	$400,000	$0

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2016	$115,074	$16,187
2017	$116,075	$14,785
2018	$117,097	$13,364
2019	$118,139	$11,922
2020	$119,201	$10,459
2021 - 2025	$612,708	$29,594
2026 - 2030	$61,040	$1,221
Total	**$1,259,333**	**$97,531**

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

Note 11 – Changes in Long-Term Liabilities

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

	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Bonds Payable:					
General Obligation Bonds	$3,577,731	$800,000	$480,750	$3,896,981	$601,239
Revenue Bonds	$908,425	$400,000	$49,092	$1,259,333	$115,074
Discounts	($2,720)	$0	($685)	($2,035)	$0
Total Bonds Payable	$4,483,436	$1,200,000	$529,157	$5,154,279	$716,313
Compensated Absences	$440,624	$21,265	$0	$461,889	$85,646
OPEB Obligations	$61,306	$0	$4,919	$56,387	$0
Net Pension Obligations	$638,557	$233,488	$0	$872,045	$0
	$5,623,923	**$1,454,753**	**$534,076**	**$6,544,600**	**$801,959**

Note 12 – Contingencies and Litigations

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

As discussed in Note 10, Long-Term Debt, the Port is contingently liable for repayment of refunded debt.

The Port 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 request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The Port's management believes that such disallowances, if any, will be immaterial.

Note 13 – Accounting and Reporting Changes

In 2015, the Port implemented GASB Statement 68, Accounting and Financial Reporting for Pensions. The GASB also issued Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (amends GASB Statement 68). An Amendment of GASB Statement No. 27 (Issued 06/12), for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans 'fiduciary net position have been determined on the same basis as they are reported by the Washington State

Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The implementation required the restatement of net position. The total adjustment is $832,098, which restated the December 31, 2014 Statement of Net Position from $72,066,260 to $71,234,162.

In 2015, the Port implemented the Port's Fixed Asset Policy $5,000 threshold for capitalizing assets. The Capital Asset policy was approved in 2002 and updated in 2007. The Policy states assets costing less than $5,000 are not capitalized and shall not be included in the fixed asset system. The Port removed all assets less than $5,000 from the capital assets in the statement of net position and from the Port's fixed assets system. The implementation required the restatement of net position. The total adjustment decreased capital assets by $113,072, which restated the December 31, 2014 Statement of Net Position from $71,234,162 (includes pension adjustment above) to $71,121,090.

In 2015, the Port early implemented GASB Statement 72, Fair Value Measurement and Application. Reporting investments at fair value.

Note 14 – Prior Period Adjustments

During the year ended December 31, 2015, immaterial errors of $34,159.68 were found in recognition of accounts receivable, $3,556 were found in recognition of prepaid expenses, $789.14 were found in recognition of accounts payable, and $2,500 were found in recognition of bonds, notes and loans payable. The errors were made in fiscal year 2014 and resulted in the 2014 accounts receivable, prepaid expenses, accounts payable, bonds, notes and liabilities, and the net position ending balance to be understated. The errors have been corrected in the 2015 accounting year and the impact has been shown as an adjustment to beginning net position on the statement of revenues, expenses and changes in fund net position. The total adjustment to the net position is $34,427 which restated the December 31, 2014 Statement of Net Position from $71,121,090 (includes accounting and reporting changes in note 13) to $71,155,517.

Note 15 – Other Disclosures

The Port and Washington State own and operate a fleet of 36 railroad grain cars. The Port owns 18 of these cars and they are identified with the railroad markings of PCC 2001-PCC 2017. The State cars are identified with the railroad markings of PCC 1000-PCC 1017. The Port collects grain car shipping fees on both sets of grain cars and deposits revenues in separate accounts. The Port utilizes revenues collected to pay for maintenance expenses on each set of cars. Any excess revenue from the Port cars is deposited into a Port investment account. Any excess revenue generated from the State cars is held in an investment account by the Port. As of December 31, 2015, the Port was holding $167,615 in state grain car funds shown on the statement of fiduciary funds.

The Port is the pass-through agency for the .09% Sales Tax Funds grant awarded to the City of Prescott. The Port received the .09% Sales Tax Funds grant for the City of Prescott of $199,028 in 2015 and paid related expenses for the approved project. As of December 31, 2015, the Port was holding $85,258 in grant funds for the City of Prescott shown on the statement of fiduciary funds.

Note 16 – Segment Information

The Port operates its industrial areas and the airport district area as separate enterprises, which are primarily financed by user charges. The financial data for the year ended December 31, 2015, for these facilities are as follows:

	Port	Airport	Elimination	Total
Condensed Statement of Net Position				
Assets:				
Current Assets	$5,303,184	$1,337,896	$0	$6,641,080
Capital Assets	$43,729,757	$26,738,658	$0	$70,468,415
Other Assets	$1,104,540	$72,639	($605,000)	$572,179
Total Assets	$50,137,481	$28,149,193	($605,000)	$77,681,674
Deferred Outflows of Resources	$84,732	$59,995	$0	$144,727
Liabilities:				
Current Liabilities	($1,160,240)	($424,702)	$0	($1,584,942)
Long-Term Liabilities:	($5,043,739)	($1,303,902)	$605,000	($5,742,641)
Total Liabilities	($6,203,979)	($1,728,604)	$605,000	($7,327,583)
Deferred Inflows of Resources	($58,285)	($88,451)	$0	($146,736)
Net Position:				
Net Investment in Capital Assets	$38,575,478	$26,738,658	$0	$65,314,136
Unrestricted	$8,550,731	($3,512,785)	$0	$5,037,946
Total Net Position	$47,126,209	$23,225,873	$0	$70,352,082
Condensed Statement of Revenues, Expenses, and Changes in Net Position				
Operating Revenues	$2,233,253	$2,599,485	$252,446	$5,085,184
Operating Expenses Before Depreciation	($2,895,846)	($2,285,409)	$252,446	($4,928,809)
Depreciation Expense	($1,753,855)	($1,799,374)	$0	($3,553,229)
Operating Income (Loss)	($2,416,448)	($1,485,298)	$504,892	($3,396,854)
Tax Revenues	$1,887,873	$0	$0	$1,887,873
Nonoperating Revenues (Expenses)	($690,329)	$107,562	$0	($582,767)
Capital Contributions	$435,964	$852,349	$0	$1,288,313
Increase (Decrease) in Net Position	($782,940)	($525,387)	$504,892	($803,435)
Beginning Net Position	$47,646,589	$23,508,928	$0	$71,155,517
Ending Net Position	$46,863,649	$22,983,541	$504,892	$70,352,082

	Port	Airport	Elimination	Total
Condensed Statement of Cash Flows				
Net Cash Provided (Used) by:				
Operating Activities	($466,678)	$870,575	$0	$403,897
Noncapital Financing Activities	$1,863,751	$22,320	$0	$1,886,071
Capital and Related Financing Activities	($3,172,582)	($1,140,112)	$0	($4,312,694)
Investing Activities	($1,234,954)	$8,581	$0	($1,226,373)
Total Net Cash Provided (Used)	($3,010,463)	($238,636)		($3,249,099)
Beginning Cash and Cash Equivalents	$7,252,654	$1,438,407	$0	$8,691,061
Ending Cash and Cash Equivalents	$4,242,191	$1,199,771	$0	$5,441,962

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Ratio of UAAL to Annual Covered Payroll
December 31, 2013	5/1/2014	$0	$481,204	$481,204	0%	0%	0%
December 31, 2014	3/13/2015	$0	$461,067	$461,067	0%	0%	0%
December 31, 2015	4/1/2016	$0	$461,067	$461,067	0%	0%	0%

Schedule of Employer Contributions

Fiscal Year Ended	Port Contributions	Net OPEB Obligation (NOO)	Change in Net OPEB Obligation (NOO)	Annual Required Contribution (ARC)	NOO Percentage of ARC
December 31, 2013	$11,225	$32,055	$32,055	$43,280	74%
December 31, 2014	$10,617	$61,306	$29,251	$41,469	71%
December 31, 2015	$15,536	$56,387	($4,919)	$41,469	(12%)

Note 1 - Factors

The Port has 2 individuals under their LEOFF program. There will be no more eligible members in the future.

PORT OF WALLA WALLA
MCAG NO. 1764
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
AS OF JUNE 30, 2015
LAST 10 FISCAL YEARS

Schedule of Proportionate Share of the Net Pension Liability – PERS 1

	2015
Employer's proportion of the net pension liability (asset)	0.008856%
Employer's proportionate share of the net pension liability	$463,251
Total	$463,251
Employer's covered employee payroll	$1,015,126
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.63%
Plan fiduciary net position as a percentage of the total pension liability	59.10%

Notes to the Schedule of Proportionate Share of the Net Pension Liability – PERS 1

**Until a full 10-year trend is compiled, governments should present information only for those years which information is available.*

PORT OF WALLA WALLA
MCAG NO. 1764
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2/3
AS OF JUNE 30, 2015
LAST 10 FISCAL YEARS

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

	2015
Employer's proportion of the net pension liability (asset)	0.011441%
Employer's proportionate share of the net pension liability	$408,794
Total	$408,794
Employer's covered employee payroll	$1,015,126
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

Notes to the Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3

**Until a full 10-year trend is compiled, governments should present information only for those years which information is available.*

PORT OF WALLA WALLA
MCAG NO. 1764
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 1
AS OF DECEMBER 31, 2015
LAST 10 FISCAL YEARS

Schedule of Employer Contributions – PERS 1

	2015
Statutorily or contractually required contributions	$24,583
Contributions in relation to the statutorily or contractually required contributions	($24,583)
Contribution deficiency (excess)	$ -
Covered employer payroll	$1,045,999
Contributions as a percentage of covered employee payroll	2.35%

Notes to the Schedule of Employer Contributions – PERS 1

**Until a full 10-year trend is compiled, governments should present information only for those years which information is available.*

PORT OF WALLA WALLA
MCAG NO. 1764
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 2/3
AS OF DECEMBER 31, 2015
LAST 10 FISCAL YEARS

Schedule of Employer Contributions – PERS 2/3

	2015
Statutorily or contractually required contributions	$32,218
Contributions in relation to the statutorily or contractually required contributions	($32,218)
Contribution deficiency (excess)	$ -
Covered employer payroll	$1,045,999
Contributions as a percentage of covered employee payroll	3.08%

Notes to the Schedule of Employer Contributions – PERS 2/3

**Until a full 10-year trend is compiled, governments should present information only for those years which information is available.*

PORT OF WALLA WALLA
MCAG NO. 1764
SCHEDULE 16
SCHEDULE OF EXPENDITRUES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed Through To Subrecipients	Note
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-28	$ -	$292,785	$292,785	$ -	1,2,3
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-29-2014	$ -	$88,245	$88,245	$ -	1,2,3
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-30-2015	$ -	$489,271	$489,271	$ -	1,2,3
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-31-2015	$ -	$196,995	$196,995	$ -	1,2,3
			Total CFDA 20.106	**$ -**	**$1,067,296**	**$1,067,296**	**$ -**	
Department of Homeland Security Transportation Security Administration	Law Enforcement Officer Agreement Program	97.075	HSTS0213HS LR 755	$ -	$25,500	$25,500	$ -	1,2,3
			Total CFDA 97.075	**$ -**	**$25,500**	**$25,500**	**$ -**	
			Total Federal Awards Expended:	**$ -**	**$1,092,796**	**$1,092,796**	**$ -**	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part o **Total CFDA 20.106**f this statement.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO THE SCHEDULE EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the Port of Walla Walla's financial statements. The Port uses the full accrual basis of accounting.

Note 2 - Program Costs

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

Note 3 – Indirect Cost Rate

The port has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 – Under Reported 2014 Expenditures

Expenditures of $66,332, reported under CFDA 20.106 "Airport Improvement Program" on the 2015 Schedule of Expenditures of Federal Awards, were expenditures incurred in 2014 but not included on the 2014 Schedule of Expenditures of Federal Awards.

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.

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