



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Walla Walla

For the period January 1, 2016 through December 31, 2017

Published (Inserted by OS)

Report No. 1022688





Office of the Washington State Auditor

Pat McCarthy

Issue Date – (Inserted by OS)

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

Report on Financial Statements and Federal Single Audit and Passenger Facility Charges

Please find attached our report on the Port of Walla Walla's financial statements, compliance with federal laws and regulations and compliance with requirements applicable to its passenger facility charge program.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Audit Findings and Responses.....	6
Schedule of Federal Award Findings and Questioned Costs.....	10
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.....	13
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	16
Independent Auditor's Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance	20
Independent Auditor's Report on Financial Statements.....	23
Financial Section.....	26
Corrective Action Plan for Findings Reported Under Uniform Guidance	113
About the State Auditor's Office.....	114

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Walla Walla January 1, 2017 through December 31, 2017

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 basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

We noted no instances of noncompliance that were material to the financial statements of the 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 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 findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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

See finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2017-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Port of Walla Walla January 1, 2016 through December 31, 2017

2017-001 The Port's internal controls over financial reporting were inadequate to ensure accurate reporting.

Background

The Port's elected officials, state, and federal agencies and the public rely on the information included in the financial statements and reports to make decisions. Port management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Governmental Auditing Standards, prescribed by the Comptroller General of the United States, requires the auditor to communicate material weaknesses, defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

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

- Port staff responsible for financial statement preparation lacked technical knowledge and experience necessary to prepare the financial statements, supplementary schedules and notes accurately in accordance with GAAP.
- The Port did not have a review process in place to ensure journal entries were reasonable, in accordance with generally accepted accounting principles (GAAP) and adequately supported.
- Although the Port had a process for reviewing the prepared financial statements, this review was not effective in ensuring the financial statements were accurate.

Cause of Condition

The Port experienced turnover in key finance positions in 2016 and 2017. As a result, the current staff lacked the experience, training and knowledge necessary to ensure journal entries were supported and reports were free of material errors and presented in accordance with GAAP.

Effect of Condition

We identified numerous errors in each set of financial statements.

Fiscal year 2016

The Port:

- Did not correctly calculate depreciation and accumulated depreciation for several assets, resulting in a net overstatement of \$2,217,880 in capital assets
- Did not have support for several land purchases, resulting in an overstatement of \$833,838 in land
- Did not ensure the amounts reported in the notes to the financial statements and required supplementary schedules were accurate
- Made the following under- and overstatements:

<i>Overstatements</i>	
Bonds, notes and loans payable	\$43,602
Airport operations and property-lease revenue	\$29,132
receivables	\$9,675
<i>Understatement</i>	
Cash and investments	\$28,951

Fiscal year 2017

The Port:

- Did not correctly calculate depreciation and accumulated depreciation for several assets, causing a net overstatement of \$2,977,823 in capital assets
- Did not ensure the amounts reported in the notes to the financial statements and required supplementary schedules were accurate
- Missed the federal audit deadline for filing its federal audit report with the federal government by September 30, 2018, because of the number of errors identified and the time needed to correct them
- Made the following under- and overstatements:

<i>Overstatements</i>	
Improvements to land	\$263,770
Bonds, notes, and loans payable	\$38,500
Net pension liability	\$95,315
Deferred outflows related to pension	\$33,809
Property lease revenue	\$58,158
Receivables	\$8,776
<i>Understatements</i>	
Equipment	\$25,534
Deferred inflows related to pension liabilities	\$52,387
Compensated absences	\$35,019
Tax revenue	\$25,753

Recommendations

We recommend the Port:

- Establish and follow internal controls to ensure accurate financial reporting in accordance with GAAP and provide training and resources to staff responsible for preparing the financial statements.
- Establish a process for a review of journal entries to ensure they are prepared accurately, adequately supported, and reviewed by an individual knowledgeable of reporting requirements.
- Establish a process for technical review of the financial statements to ensure they are presented accurately.

Port's Response

The Port of Walla Walla will establish a formal review process for reviewing all financial reports and schedules. A major component of this process will be to begin the process for allowing enough time to fully review all reporting. The review will include verification of the financial statements and the associated financial notes for accuracy, as well as insuring proper support for all reporting. Some review

processes have been implemented since the completion of this audit, such as review of all Journal Entries.

Auditor's Remarks

We appreciate the Port's commitment to resolve this finding. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting- Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

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

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

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

SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS

Port of Walla Walla
January 1, 2017 through December 31, 2017

2017-002 The Port did not have adequate internal controls to ensure compliance with federal reporting requirements of the Airport Improvement Program.

CFDA Number and Title:	20.106 Airport Improvement Program
Federal Grantor Name:	Federal Aviation Administration
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	3-53-0083-033-2016
Questioned Cost Amount:	\$0

Description of Condition

The Federal Aviation Administration offers grant funding through the Airport Improvement Program for the planning, construction, improvement or repair of public-use airport facilities as well as for safety or security equipment. In fiscal year 2017, the Port spent \$7,185,508 in federal funding through the program. The Port used these funds for engineering and construction of runway rehabilitation and taxi-way reconstruction.

Federal regulations require the Port to annually submit financial reports to the granting agency, including the Federal Financial Report (SF-425) within 90 days of the end of each federal fiscal year and at the close of the project, serving as the Financial Program Closeout Report. The Port’s controls were not effectively designed to ensure the timely preparation, review and submittal of its Federal Financial Report due during the compliance period.

We consider this control deficiency to be a material weakness.

This issue was not reported as a finding in the prior audit.

Cause of Condition

The Port experienced staff turnover during 2017 and did not perform the necessary research to identify the reports required by the program.

Effect of Condition and Questioned Costs

The Port did not comply with the program's requirement to submit its annual Federal Financial Report within 90 days of the end of the federal fiscal year ending September 30, 2017.

The Federal Aviation Administration uses the financial reports to assess program funding and operations. Failure to report the necessary information to the grantor causes this assessment to be delayed.

Recommendation

We recommend the Port strengthen internal controls by ensuring training and monitoring of program staff to ensure all reports are accurately prepared and submitted to the granting agency by the grant agreement's deadline.

Port's Response

Due to significant employee turnover during 2017, some FAA year end reporting deadlines were missed. There were not any reminders or requests from the FAA for these reports and new personnel were not aware. Personnel have since been trained and made aware of these requirements. The training, along with the below measures, we feel will correct the issue.

"The Port of Walla Walla will insure that all federal reporting requirements will be completed within the timeframes contained within the federal reporting requirements of the Airport Improvement Programs. Since the FAA did not provide a reporting notice reminder, the Port will provide an internal measure to meet the reporting requirements. In order to comply, the Port will have reporting reminders that will alert multiple staff of the reporting requirements. The Executive Director, the Airport Manager and the Auditor/Treasurer will have the reporting requirements identified in the master calendar of events for the Port of Walla Walla. This will allow for multiple staff to acknowledge the reporting requirements and the deadline to provide the required reports."

Auditor's Remarks

We appreciate the Port's commitment to resolve this finding. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR) Part 200, Uniform Guidance, section 302, Financial management, establishes requirements for financial management systems and reporting accurate, current and complete financial results of Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 327, Financial reporting, establishes requirements for reporting financial information related to Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 328, Monitoring and reporting program performance, establishes requirements for operational oversight and reporting performance information related to Federal awards.

Federal Financial Report, SF-425 (OMB Number 4040-0014) Instructions state, in part, annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.

**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
January 1, 2016 through December 31, 2017**

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 the Port of Walla Walla, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated November 29, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinions on the effectiveness of the Port's internal control. Accordingly, we do not express opinions on the effectiveness of the Port's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent,

or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be material weaknesses.

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*.

PORT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Pat McCarthy

State Auditor

Olympia, WA

November 29, 2018

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

**Port of Walla Walla
January 1, 2017 through December 31, 2017**

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, 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, 2017. 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

Port's Response to Findings

The Port's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-002 to be a material weakness.

Port's Response to Findings

The Port's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Pat McCarthy

State Auditor

Olympia, WA

November 29, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Port of Walla Walla January 1, 2016 through December 31, 2017

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

REPORT ON COMPLIANCE FOR PASSENGER FACILITY CHARGES

We have audited the compliance of the Port of Walla Walla, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the years ended December 31, 2017 and 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express opinions on the Port's compliance based on our audits. We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge 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 audits provide a reasonable basis for our opinions. Our audits do not provide a legal determination of the Port's compliance with those requirements.

Opinion on Compliance

In our opinion, the Port of Walla Walla complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the years ended December 31, 2017 and 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to its passenger facility charge program. In planning and performing our audit, we considered the Port's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 the passenger facility charge 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 the passenger facility charge 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 the passenger facility charge 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, as defined above. 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 Guide. 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.



Pat McCarthy
State Auditor
Olympia, WA

November 29, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Walla Walla January 1, 2016 through December 31, 2017

Board of Commissioners
Port of Walla Walla
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Walla Walla, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 26.

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 audits. We conducted our audits 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 financial position of the Port of Walla Walla, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 26 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 audits were 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). The accompanying Schedules of Passenger Facility Charges are presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. These schedules are 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 November 29, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

November 29, 2018

FINANCIAL SECTION

Port of Walla Walla January 1, 2016 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses, and Changes in Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Statement of Fiduciary Net Position – 2017 and 2016

Notes to the Financial Statements – 2017 and 2016

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Benefits (OPEB) Plans Schedules – 2017

Other Post Benefits (OPEB) Notes – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Passenger Facility Charges Collected, Held and Used and the
Schedule of Passenger Facility Charges Collected, Held and Used – 2017 and 2016

**PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017 and 2016. It provides an introduction to the Port's 2017 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 current 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 weakening. 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 2017 by \$76,165,402. Of this amount, \$66,625,860 was invested in capital assets, net of related debt and \$9,539,542 was unrestricted assets. As a comparison, net position totaled \$69,380,699 the end of calendar year 2016. Of this amount, \$59,980,284 was invested in capital assets, net of related debt, and \$9,400,415 in unrestricted assets. For details refer to the statement of net position, note 1 in the notes to the financial statements. The Port's net position increased by \$6,784,703 in 2017 compared to a \$977,534 increase in 2016.

PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Financial Position Summary

The statement of net position presents the financial position of the Port at the close of calendar year 2017. 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 and note 13 in the notes to the financial statements. A summarized comparison of the Port's assets, liabilities, and net position at December 31, 2017 and 2016, follows:

Statements of Net Position

	2017	2016
Current Assets	\$11,082,982	\$11,001,668
Noncurrent Assets	\$74,769	\$53,225
Net Capital Assets	\$70,364,165	\$64,418,852
Total Assets	\$81,521,916	\$75,473,745
Deferred Outflows of Resources	\$141,884	\$198,412
Current Liabilities	\$1,277,855	\$1,249,932
Noncurrent Liabilities	\$4,079,815	\$4,996,623
Total Liabilities	\$5,357,670	\$6,246,555
Deferred Inflows of Resources	\$140,729	\$44,903
Invested in Capital Assets, Net of Debt	\$66,625,860	\$59,980,284
Unrestricted	\$9,539,541	\$9,400,415
Total Net Position	\$76,165,401	\$69,380,699

A summarized comparison of the Port's statements of revenues, expenses, and changes in fund net position for the years ended December 31, 2017 and 2016 were as follows:

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

	2017	2016
Operating Revenues:		
Airport Operations	\$918,836	\$885,248
Marine Terminal Operations	\$241,441	\$244,200
Property Lease/Rental Operations	\$4,094,062	\$4,007,606
Total Operating Revenues	\$5,254,339	\$5,137,054
Operating Expenses:		
General Operations	\$3,546,848	\$3,590,633
Depreciation	\$4,069,005	\$4,548,465
Total Operating Expenses	\$7,615,853	\$8,139,098
Operating Income (Loss)	(\$2,361,514)	(\$3,002,044)

PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
Nonoperating Revenues (Expenses):		
Tax Levied for General Purposes	\$2,035,942	\$1,995,062
Interest Expense	(\$129,660)	(\$165,515)
Other, net	\$27,433	\$1,486,176
Total Nonoperating Revenues (Expenses)	\$1,933,715	\$3,315,723
Income Before Capital Contributions	(\$427,799)	\$313,679
Capital Contributions	\$7,212,502	\$663,855
Change in Net Position	\$6,784,703	\$977,534
Beginning Net Position	\$69,380,699	\$68,403,165
Ending Net Position	\$76,165,402	\$69,380,699

Financial Operation Highlights

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 2017 and 2016 operating results to budget and prior years.

Revenues – Year-to-date operating revenues of \$5,254,339 were up 2.28% as compared to 2016 revenues of \$5,137,054. The increase in revenue can be attributed to airport operations and property lease/ rental operations.

Expenses – Year-to-date operating expenses of \$3,546,848 were down 1.2% as compared to 2016 expenses of \$3,590,633.

Nonoperating – Year-to-date nonoperating revenue (expense) for 2017 was \$1,933,715 compared to \$3,315,723 in 2016. Non-operating revenue was higher in 2016 due to significant land sales.

Capital Assets – The Port's investment in capital assets for its business activities as of December 31, 2017, amounted to \$70,364,165 (net of accumulated depreciation) which represents a 9.2% increase over 2016. This investment in capital assets includes land, buildings, improvements, machinery, equipment, and construction in progress. Net capital assets at December 31, 2016, totaled \$64,418,852, a decrease of 5.7% over 2015. For details refer to note 4 in the notes to the financial statements.

Major capital asset events during 2017 include the following:

- The Port completed the Taxiway refurbishment Phase 1 & 2.
- The Port closed out and completed two build to suit projects, one for Burwood Brewing and one for Reiff Mfg.
- The Port closed out the purchase of an ARFF vehicle.

**PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Debt Administration

Long-Term Debt – At December 31, 2017, the Port's total long-term outstanding debt was \$3,699,779 (excluding employee leave benefits). Of this amount, \$2,671,616 are general obligation bonds, 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, 2016, the total long-term debt was \$4,440,001 with \$3,295,742 being general obligation debt. For details refer to note 9 and note 10 in the notes to the financial statements.

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.

In March 2017, Moody's assigned a rating of Aa3 for the \$2,260,000 Limited Tax General Obligation Refunding Bonds, 2005 and for the \$525,000 Limited Tax General Obligation Bonds, 2007 Series A (Tax-Exempt).

Economic Factors and 2018 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 5.7% increase from 2016 to 2017. Commercial Air Service at the Walla Walla Regional Airport has been very strong. In 2017, passenger enplanements increased by over 4.6% as compared to 2016.

The greater Walla Walla Valley continues to receive positive regional and national press for the growing wine industry and revitalization of the downtown area. 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 (Providence Medical Center, and VA Medical Center) and agriculture.

The Port should see positive economic activity at the Airport Business Park, which is home to dozens of small entrepreneurial businesses. There are minimal buildings available for lease and the high

**PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

occupancy rate will eventually slow the growth at the Airport without the Port building additional production spaces.

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

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.

2018 Budget

The Port's 2018 capital expense budget is \$22,722,758 and the Airport's capital expense budget is \$7,367,710, for a total Port capital expense budget of \$30,090,468. The Port's major capital expenditures in 2018 will include the completion of the Airport Taxiway Project (Phases 3 & 4); Burbank Industrial Park Grain Terminal Loop Roadway Improvement Project; Burbank Industrial Park Sewer Improvement Project; Burbank Business Park Water and Sewer Upgrade Project; and the Wallula Dodd Water System (WDWS) Improvement Project. The Port is a dynamic economic development organization and the Port's capital priorities can change quickly based on the private demand for business growth opportunities that may present themselves within a budget cycle.

Tax Levy:

The Port's tax levy rate has been declining from \$0.44 per \$1,000 of assessed value in 2006 to \$0.359741 per \$1,000 of assessed value in 2017. The tax levy rate for 2018 is projected to decrease slightly to \$0.35863 per \$1,000 of assessed value and will yield \$2,110,806. The tax levy is used for debt service, capital expenditures, environmental clean-up and investments that facilitate transportation related capital investments.

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. This financial report was prepared by Scott Pritcher, Auditor/Treasurer. If you have questions or need additional information please visit our website at www.portwallawalla.com or contact Patrick Reay, Executive Director, pr@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
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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, 2016 and 2015. It provides an introduction to the Port's 2016 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 weakening. 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 2016 by \$69,380,699. Of this amount, \$59,980,284 was invested in capital assets, net of related debt and \$9,400,415 was unrestricted assets. As a comparison, net position totaled \$68,403,165 the end of calendar year 2015 (as restated). Of this amount, \$63,129,241 was invested in capital assets, net of related debt, and \$5,273,924 in unrestricted assets (as restated). For details refer to the statement of net position, note 1 and note 13 in the notes to the financial statements. The Port's net position increased by \$977,534 in 2016 compared to a \$2,752,352 decrease in 2015 (as restated). The reasons for the increase was gain on sale of land of \$1,499,665 and one time payments made on agreements in 2015 that are nonrecurring.

**PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Financial Position Summary

The statement of net position presents the financial position of the Port at the close of calendar year 2016. 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 and note 13 in the notes to the financial statements. A summarized comparison of the Port's assets, liabilities, and net position at December 31, 2016 and 2015, follows:

Statements of Net Position

	2016	2015
Current Assets	\$11,001,668	\$6,877,058
Noncurrent Assets	\$53,225	\$572,179
Net Capital Assets	\$64,418,852	\$68,283,520
Total Assets	\$75,473,745	\$75,732,757
Deferred Outflows of Resources	\$198,412	\$144,727
Current Liabilities	\$1,249,932	\$1,584,942
Noncurrent Liabilities	\$4,996,623	\$5,742,641
Total Liabilities	\$6,246,555	\$7,327,583
Deferred Inflows of Resources	\$44,903	\$146,736
Invested in Capital Assets, Net of Debt	\$59,980,284	\$63,129,241
Unrestricted	\$9,400,415	\$5,273,924
Total Net Position	\$69,380,699	\$68,403,165

A summarized comparison of the Port's statements of revenues, expenses, and changes in fund net position for the years ended December 31, 2016 and 2015 were as follows:

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

	2016	2015
Operating Revenues:		
Airport Operations	\$885,248	\$942,217
Marine Terminal Operations	\$244,200	\$232,199
Property Lease/Rental Operations	\$4,007,606	\$3,910,768
Total Operating Revenues	\$5,137,054	\$5,085,184
Operating Expenses:		
General Operations	\$3,590,633	\$4,928,809
Depreciation	\$4,548,465	\$3,553,229
Total Operating Expenses	\$8,139,098	\$8,482,038
Operating Income (Loss)	(\$3,002,044)	(\$3,396,854)

**PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016	2015
Nonoperating Revenues (Expenses):		
Tax Levied for General Purposes	\$1,995,062	\$1,887,873
Interest Expense	(\$165,515)	(\$167,431)
Other, net	\$1,486,176	(\$2,600,231)
Total Nonoperating Revenues (Expenses)	\$3,315,723	\$(879,789)
Income Before Capital Contributions	\$313,679	(\$4,276,643)
Capital Contributions	\$663,855	\$1,524,291
Change in Net Position	\$977,534	(\$2,752,352)
Beginning Net Position	\$68,403,165	\$71,155,517
Ending Net Position	\$69,380,699	\$68,403,165

Financial Operation Highlights

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 2016 and 2015 operating results to budget and prior years.

Revenues – Year-to-date operating revenues of \$5,137,054 were up 1.02% as compared to 2015 revenues of \$5,085,184. The increase in revenue can be attributed to marine terminal operations and property lease/rental operations.

Expenses – Year-to-date operating expenses of \$3,590,633 were down 27.15% as compared to 2015 expenses of \$4,928,809. The decrease in revenue is due to the Port paying agreements in 2015 that were nonrecurring.

Nonoperating – Year-to-date nonoperating revenue (expenses) for 2016 was \$3,315,723 compared to \$1,305,106 in 2015. The increase in nonoperating revenues can be attributed to the sale of land in 2016.

Capital Assets – The Port's investment in capital assets for its business activities as of December 31, 2016, amounted to \$64,418,852 (net of accumulated depreciation) which represents a 5.66% decrease over 2015. This investment in capital assets includes land, buildings, improvements, machinery, equipment, and construction in progress. Net capital assets at December 31, 2015, totaled \$68,283,520, an increase of 1.52% over 2014. For details refer to note 4 in the notes to the financial statements.

Major capital asset events during 2016 include the following:

- The Port finished the Burbank Business Park development and sold Lots 1,2 and 64 for \$1,063,735 accompanying with connection fees to the Burbank Water System and the Burbank Sewer System.
- The Port sold Martin Sports, Inc the building they were leasing from the Port for \$1,430,000.

**PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

- The Port sold land from the Dodd Road Business Park to Railex for \$348,495.

Debt Administration

Long-Term Debt – At December 31, 2016, the Port's total long-term outstanding debt was \$4,440,001 (excluding employee leave benefits). Of this amount, \$3,295,742 are general obligation bonds, 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, 2015, the total long-term debt was \$5,156,314 with \$3,896,981 being general obligation debt. For details refer to note 9 and note 10 in the notes to the financial statements.

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.

In March 2017, Moody's assigned a rating of Aa3 for the \$2,260,000 Limited Tax General Obligation Refunding Bonds, 2005 and for the \$525,000 Limited Tax General Obligation Bonds, 2007 Series A (Tax-Exempt).

Economic Factors and 2017 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 5.7% increase from 2016 to 2017. Commercial Air Service at the Walla Walla Regional Airport has been very strong. In 2016, passenger enplanements increased by over 14.16% as compared to 2015. For the first quarter of 2017 enplanements are up 19.3% 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. 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 (Providence Medical Center, Walla Walla General Hospital, and VA Medical Center) and agriculture.

**PORT OF WALLA WALLA
MCAG NO. 1764
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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 is currently building two build-to-suit buildings for current tenants to facilitate this demand.

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

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.

2017 Budget

The Port's major capital expenditure project will be the reconstruction of the Airport's primary taxiway. This effort is estimated to cost approximately \$15 million with the Port's contribution at \$1,220,000. The Airport will also be acquiring a new ARFF truck at a cost of \$834,855. 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 \$0.36843 per \$1,000 of assessed value in 2016. The tax levy rate for 2017 is projected to decrease slightly to \$0.35974 per \$1,000 of assessed value and will yield \$2,042,833. The tax levy is used for debt service, capital expenditures, environmental clean-up and investments that facilitate transportation related capital investments.

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. This financial report was prepared by Donna Watts, Auditor/Treasurer. If you have questions or need additional information please visit our website at www.portwallawalla.com or contact Patrick Reay, Executive Director, pr@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, 2017**

Assets

Current Assets

Cash and Cash Equivalents (Note 1 C-1)	\$ 9,763,307
Investments (Note 4 B)	\$ 151,347
Accounts Receivable (Net) (Note 1 C-3)	\$ 233,951
Taxes Receivable (Note 1 C-3 & Note 5)	\$ 57,410
Accrued Interest Receivable (Note 1 C-3)	\$ 6,139
Due from Other Governments (Note 1 C-4)	\$ 726,132
Prepayments (Note 1 C-9)	\$ 144,696

Total Current Assets	\$ 11,082,982
-----------------------------	----------------------

Noncurrent Assets

Capital Assets: (Note 6)	
Capital Assets Not Being Depreciated	
Land	\$ 13,978,194
Construction in Progress	\$ 2,319,227
Capital Assets Being Depreciated	
Improvements to Land	\$ 61,982,719
Buildings	\$ 31,748,017
Equipment	\$ 13,639,875
Less: Accumulated Depreciation	\$ (53,303,867)
Total Capital Assets (Net)	\$ 70,364,165
Net Pension Asset	\$ 74,769

Total Noncurrent Assets	\$ 70,438,934
--------------------------------	----------------------

Total Assets	\$ 81,521,916
---------------------	----------------------

Deferred Outflows of Resources

Deferred Loss on Refunding Terminal Bond (Note 1 C-10)	\$ 11,121
Deferred Outflows Related to Pensions	\$ 130,763

Total Deferred Outflows of Resources	\$ 141,884
---	-------------------

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, 2017

Liabilities

Current Liabilities

Accrued Expenses (Note 1 C-13)	\$ 306,289
Compensated Absences (Note 1 C-12)	\$ 70,900
Bonds, Notes, and Loans Payable (Note 10)	\$ 742,363
Accrued Interest Payable (Note 1 C-13)	\$ 25,908
Other Current Liabilities (Note 1 C-13)	\$ 132,396
Total Current Liabilities	\$ 1,277,856

Noncurrent Liabilities

Compensated Absences (Note 1 C-12)	\$ 239,229
Bonds, Notes, and Loans Payable (Net) (Note 10)	\$ 2,995,945
Other Post-Employment Benefits (Note 8)	\$ 114,280
Net Pension Liability	\$ 730,362
Total Noncurrent Liabilities	\$ 4,079,816
Total Liabilities	\$ 5,357,672

Deferred Inflows of Resources

Deferred Inflows Related to Pensions	\$ 140,729
Total Deferred Inflows of Resources	\$ 140,729

Net Position

Net Investments in Capital Assets	\$ 66,625,860
Restricted for: (Note 1 C-6 & Note 11)	
Restricted for Debt Service	\$ -
Restricted for FAA Projects	\$ -
Unrestricted	\$ 9,539,542
Total Net Position	\$ 76,165,402

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, 2016**

Assets

Current Assets

Cash and Cash Equivalents (Note 1 C-1)	\$ 10,000,617
Investments (Note 1 C-2 & Note 2 B)	\$ 650,813
Accounts Receivable (Net) (Note 1 C-3)	\$ 23,229
Taxes Receivable (Note 1 C-3 & Note 3)	\$ 61,291
Accrued Interest Receivable (Note 1 C-3)	\$ 6,139
Due from Other Governments (Note 1 C-4)	\$ 113,999
Prepayments (Note 1 C-7)	\$ 145,581
Total Current Assets	\$ 11,001,668

Noncurrent Assets

Capital Assets: (Note 4)	
Capital Assets Not Being Depreciated	
Land	\$ 13,817,745
Construction in Progress	\$ 2,582,490
Capital Assets Being Depreciated	
Improvements to Land	\$ 53,063,102
Buildings	\$ 31,349,513
Equipment	\$ 12,840,863
Less: Accumulated Depreciation	\$ (49,234,861)
Total Capital Assets (Net)	\$ 64,418,852
Net Pension Asset	\$ 53,225
Total Noncurrent Assets	\$ 64,472,077
Total Assets	\$ 75,473,745

Deferred Outflows of Resources

Deferred Loss on Refunding Terminal Bond (Note 1 C-8)	\$ 11,122
Deferred Outflows Related to Pensions (Note 1 C-8)	\$ 187,290
Total Deferred Outflows of Resources	\$ 198,412

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, 2016

Liabilities

Current Liabilities

Accrued Expenses (Note 1 C-14)	\$ 289,542
Compensated Absences (Note 1 C-11)	\$ 70,900
Bonds, Notes, and Loans Payable (Note 9)	\$ 740,194
Accrued Interest Payable (Note 1 C-14)	\$ 26,451
Other Current Liabilities (Note 1 C-14)	\$ 122,845
Total Current Liabilities	\$ 1,249,932

Noncurrent Liabilities

Compensated Absences (Note 1 C-11)	\$ 239,230
Bonds, Notes, and Loans Payable (Net) (Note 9)	\$ 3,698,374
Other Post-Employment Benefits (Note 7)	\$ 84,693
Net Pension Liability (Note 6)	\$ 974,326
Total Noncurrent Liabilities	\$ 4,996,623

Total Liabilities	\$ 6,246,555
--------------------------	---------------------

Deferred Inflows of Resources

Deferred Inflows Related to Pensions (Note 1 C-8)	\$ 44,903
Total Deferred Inflows of Resources	\$ 44,903

Net Position

Net Investments in Capital Assets	\$ 59,980,284
Unrestricted	\$ 9,400,415
Total Net Position	\$ 69,380,699

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, 2017

Operating Revenues	
Airport Operations	\$918,836
Marine Terminal Operations	\$241,441
Property Lease/Rental Operations	\$4,094,062
Total Operating Revenues	\$5,254,339
Operating Expenses	
General Operations	\$3,546,848
Depreciation	\$4,069,005
Total Operating Expenses	\$7,615,853
Operating Income (Loss)	(\$2,361,514)
Nonoperating Revenues (Expenses)	
Investment Income	\$70,202
Tax Levied for General Purposes	\$2,035,942
Election Expenses	(\$33,442)
Gain on Disposal of Assets	\$109
Interest Expense	(\$129,660)
Other Nonoperating Revenues (Expenses)	(\$9,436)
Total Nonoperating Revenues (Expenses)	\$1,933,715
Income (Loss) Before Capital Contributions	(\$427,799)
Capital Contributions	\$7,212,502
Increase (Decrease) in Net Position	\$6,784,703
Net Position - Beginning of Period	\$69,380,699
Net Position - End of Period	\$76,165,402

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, 2016

Operating Revenues	
Airport Operations	\$ 885,248
Marine Terminal Operations	\$ 244,200
Property Lease/Rental Operations	\$ 4,007,606
Total Operating Revenues	\$ 5,137,054
Operating Expenses	
General Operations	\$ 3,590,633
Depreciation	\$ 4,548,465
Total Operating Expenses	\$ 8,139,098
Operating Income (Loss)	\$ (3,002,044)
Nonoperating Revenues (Expenses)	
Investment Income	\$ 26,199
Tax Levied for General Purposes	\$ 1,995,062
Gain on Disposal of Assets	\$ 1,499,665
Interest Expense	\$ (165,515)
Other Nonoperating Revenues (Expenses)	\$ (39,688)
Total Nonoperating Revenues (Expenses)	\$ 3,315,723
Income (Loss) Before Capital Contributions	\$ 313,679
Capital Contributions	\$ 663,855
Increase (Decrease) in Net Position	\$ 977,534
Net Position - Beginning of Period	\$ 70,352,082
Prior Period Adjustments	\$ (1,948,917)
Net Position - Beginning of Period, Restated	\$ 68,403,165
Net Position - End of Period	\$ 69,380,699

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, 2017

Cash Flows From Operating Activities

Receipts from Customers	\$ 5,090,083
Payments to Suppliers	\$ (2,249,083)
Payments to Employees	\$ (1,402,582)
Payments to (from) Other Funds	\$ (24,921)
Other Receipts (Payments)	\$ (42,878)
Net cash provided (used) by operating activities	\$ 1,370,619

Cash Flows From Noncapital Financing Activities

Proceeds from Grants	\$ 57,467
Payments of Grants	\$ -
Proceeds from Property Taxes	\$ 2,039,823
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 2,097,290

Cash Flows From Capital and Related Financing Activities

Capital Contributions	\$ 6,569,788
Purchases of Capital Assets	\$ (10,014,319)
Proceeds from Capital Assets	\$ 109
Principal Paid on Capital Debt	\$ (700,260)
Interest Paid on Capital Debt	\$ (130,203)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (4,274,885)

Cash Flows From Investing Activities

Proceeds from Sales and Maturities of Investments	\$ 499,465
Interest and Dividends	\$ 70,202
Purchases of Investments	\$ -
Net Cash Provided by Investing Activities	\$ 569,667

Net Increase (Decrease) in Cash and Cash Equivalents	\$ (237,309)
---	---------------------

Balances - Beginning of the Year	\$ 10,000,617
---	----------------------

Balances - End of the Year	\$ 9,763,308
-----------------------------------	---------------------

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, 2017

**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)
by Operating Activities**

Operating Income (Loss)	\$ (2,361,514)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	\$ 4,069,005
Changes in Assets and Liabilities:	
Receivables, Net	\$ (144,643)
Inventories	\$ -
Accounts and Other Payables	\$ (158,768)
Accrued Expenses	\$ (33,463)
Net Cash Provided by Operating Activities	<u>\$ 1,370,617</u>

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, 2016

Cash Flows From Operating Activities

Receipts from Customers	\$ 5,073,477
Payments to Suppliers	\$ (2,039,585)
Payments to Employees	\$ (1,606,509)
Other Receipts (Payments)	\$ (39,688)
Net Cash Provided (Used) by Operating Activities	\$ 1,387,695

Cash Flows From Noncapital Financing Activities

Proceeds from Grants	\$ 158,841
Payments of Grants	\$ (63,750)
Proceeds from Property Taxes	\$ 2,005,808
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 2,100,899

Cash Flows From Capital and Related Financing Activities

Capital Contributions	\$ 815,887
Purchases of Capital Assets	\$ (2,341,923)
Proceeds from Capital Assets	\$ 2,842,621
Principal Paid on Capital Debt	\$ (716,313)
Interest Paid on Capital Debt	\$ (157,580)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ 442,692

Cash Flows From Investing Activities

Proceeds from Sales and Maturities of Investments	\$ 1,000,000
Interest and Dividends	\$ 27,370
Purchases of Investments	\$ (400,000)
Net Cash Provided by Investing Activities	\$ 627,370

Net Increase (Decrease) in Cash and Cash Equivalents	\$ 4,558,656
---	---------------------

Balances - Beginning of the Year	\$ 5,441,961
---	---------------------

Balances - End of the Year	\$ 10,000,617
-----------------------------------	----------------------

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, 2016

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)

by Operating Activities

Operating Income (Loss)	\$ (3,002,044)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	\$ 4,548,465
Changes in Assets and Liabilities:	
Receivables, Net	\$ 20,586
Accounts and Other Payables	\$ (211,692)
Accrued Expenses	\$ 32,380
Net Cash Provided by Operating Activities	<u>\$ 1,387,695</u>

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, 2017**

Assets

Cash (Note 15)	\$ 89,901
Investments (Note 15)	<u>\$ 101,219</u>
Total Current Assets	<u>\$ 191,119</u>

Liabilities

Payable to WSDOT	<u>\$ 191,119</u>
Total Liabilities	<u>\$ 191,119</u>

Net Position	<u>\$ -</u>
---------------------	-------------

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, 2017

Assets

Cash (Note 15)	\$	74,211
----------------	----	--------

Total Current Assets	\$	74,211
----------------------	----	--------

Liabilities

Payable to City of Prescott	\$	74,211
-----------------------------	----	--------

Total Liabilities	\$	74,211
-------------------	----	--------

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
WASHINGTON STATE DEPARTMENT OF TRANSPORTATION FIDUCIARY FUNDS
DECEMBER 31, 2016

Assets

Current Assets

Cash and Cash Equivalents	\$	78,031
Investments	\$	100,000
Total Current Assets	\$	178,031
Total Assets	\$	178,031

Liabilities

Current Liabilities

Payable to WSDOT	\$	178,031
Total Current Liabilities	\$	178,031
Total Liabilities	\$	178,031

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, 2016

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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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	\$11,068,881	\$14,101
Noncurrent Assets	\$74,769	\$0
Net Capital Assets	<u>\$70,364,165</u>	<u>\$0</u>
Total Assets	\$81,507,815	\$14,101
Deferred Outflows of Resources	\$141,884	\$0
Current Liabilities	\$535,493	\$0
Current Bonds, Notes and Loans Payable	\$742,363	\$0
Noncurrent Liabilities	\$1,083,871	\$0

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Noncurrent Bonds, Notes and Loans Payable	\$2,995,945	\$0
Total Liabilities	\$5,357,672	\$0
Deferred Inflows of Resources	\$140,729	\$0

Condensed Statement of Net Assets	Port of Walla Walla	Walla Walla Public Corp
Invested in Capital Assets, Net of Debt	\$66,625,860	\$0
Unrestricted	<u>\$9,525,441</u>	<u>\$14,101</u>
Total Net Position	\$76,151,301	\$14,101

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	\$5,254,339	\$0
Operating Expenses Before Depreciation	\$3,546,848	\$0
Depreciation	<u>\$4,069,005</u>	<u>\$0</u>
Operating Income (Loss)	(\$2,361,514)	\$0
Ad Valorem Tax Revenues	\$2,035,942	\$0
Interest Expense	(\$129,660)	\$0
Other, net	<u>\$27,433</u>	<u>\$0</u>
Total Nonoperating Revenues	\$1,933,715	\$0
Capital Contributions	<u>\$7,212,502</u>	<u>\$0</u>
Change in Net Position	\$6,784,703	\$0
Beginning Net Position	\$69,366,602	\$14,097
Ending Net Position	\$76,151,310	\$14,101

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	\$1,370,619	\$0
Noncapital financing activities	\$2,097,290	\$0
Capital and related financing activities	(\$4,274,885)	\$0
Investing activities	\$569,667	\$0
Beginning cash and cash equivalent	<u>\$9,986,516</u>	<u>\$14,101</u>
Ending cash and cash equivalent	\$9,749,207	\$14,101

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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 distinguishes 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, 2017, the Port was holding \$9,763,308 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 April 27, 2017, the Port Commission adopted Resolution 04-27-17A designating Scott Pritcher, the Port Auditor/Treasurer effective May 1, 2017.

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 12.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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.

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 \$83,207.

The Port's policy for estimating and writing off uncollectible accounts is found in Resolution 01-14-16, 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. Restricted Assets

These accounts contain resources for construction and debt service. The Port did not have any restricted assets as of December 31, 2017.

6. Capital Assets and Depreciation

Capital assets are defined by the Port as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

7. Other Assets and Debits

Prepayments consist of amounts paid in 2017 for 2018 expenses.

8. Deferred Inflows and Outflows of Resources

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.

9. Custodial Accounts

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

10. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Port 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 hrs. 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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017.

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 9.

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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

- 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. The Port measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:
 - Level 1: Quoted prices in active markets for identical assets or liabilities
 - Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
 - Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2017, the Port had the following investments at fair market value:

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

Investment	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
State Investment Pool	\$7,056,714	\$7,056,714	\$0	\$0

**PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

c. Current and Noncurrent Investments

Investment	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Umpqua Bank CD	\$151,347	\$151,347	\$0	\$0

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 12.

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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

The Port's regular levy for 2017 was \$0.3553083923 per \$1,000 on an assessed valuation of \$5,663,651,193 for a total regular levy of \$2,011,219 plus additions of \$31,614, which equals \$2,042,833.

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, 2017 was as follows:

Capital Assets Activity	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital Assets, Not Being Depreciated				
Land	\$13,817,745	\$160,448		\$13,978,194
Construction in Progress	\$2,582,490	\$9,137,503	\$9,400,766	\$2,319,227
Total Capital Assets, Not Being Depreciation	\$16,400,235	\$9,297,951	\$9,400,766	\$16,297,421
Capital Assets, Being Depreciated				
Buildings	\$31,349,513	\$398,504	\$0	\$31,748,017
Improvements Other Than Buildings	\$53,063,102	\$8,919,617	\$0	\$61,982,719
Machinery and Equipment	<u>\$12,840,863</u>	<u>\$799,013</u>	<u>\$0</u>	<u>\$13,639,875</u>
Total Capital Assets Being Depreciated	\$97,253,478	\$10,117,134	\$0	\$107,370,611
Less Accumulated Depreciation For:				
Buildings	(\$17,259,973)	(\$1,177,548)	\$0	(\$18,437,521)
Improvements Other Than Buildings	(\$25,427,842)	(\$2,335,343)	\$0	(\$27,763,185)
Machinery and Equipment	<u>(\$6,547,046)</u>	<u>(\$556,114)</u>	<u>\$0</u>	<u>(\$7,103,160)</u>
Total Accumulated Depreciation	<u>(\$49,234,861)</u>	<u>(\$4,069,005)</u>	<u>\$0</u>	<u>(\$53,303,866)</u>
Total Capital Assets Being Depreciated, net	\$48,018,617	\$6,048,129	\$0	\$54,066,745
Total Capital Assets, Net	\$64,418,852	\$15,346,080	\$9,400,766	\$70,364,166

See Note 1 C-6.

Note 5 - Construction Commitments

The Port has active construction projects as of December 31, 2017. The projects include:

- Airfield master plan study.
- Taxiway reconstruction Phase 3 & 4
- Burwood Build to suit.
- Terminal Parking Lot Expansion

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

**PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Project	Spent to Date	Remaining Commitment
Airfield Master Plan	\$562,879	\$59,992
Terminal Airport Parking Lot Expansion	\$688,420	\$50,000
Industrial Park Build-to-Suit Burwood Building	\$512,513	\$24,000
Taxiway Phase 1 & 2	\$7,107,885	\$60,000
Taxiway Phase 3 & 4	\$0	\$7,048,718
Total	\$8,871,697	\$7,242,710

Of the committed balance of \$7,242,710 the Port will provide financing from Cash and Cash Equivalents.

Note 6 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2017:

Aggregate Pension Amounts - All Plans	
Pension liabilities	(\$730,362)
Pension assets	\$74,769
Deferred outflows of resources	\$130,763
Deferred inflows of resources	(\$140,729)
Pension expense/expenditures	\$(21,910)

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)

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July – December 2017

The Port's actual contributions to the plan were \$41,943 to PERS Plan 1 and \$58,711 to PERS Plan 2/3 for the year ended December 31, 2017.

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 2017. 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 2017 with a valuation date of June 30, 2016. 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 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	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	\$410,568	\$337,031	\$273,332
PERS 2/3	\$1,086,616	\$403,331	(\$156,520)
LEOFF 1	(\$55,461)	(\$74,769)	(\$91,350)

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, 2017, the Port reported a total pension liability of \$730,362 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$337,031
PERS 2/3	\$403,331

At June 30, 2017, the Port reported a total pension asset of \$53,236 for its proportionate share of the net pension liabilities as follows:

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

	Asset
LEOFF 1	\$74,769

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.008228%	0.007103%	(0.001125%)
PERS 2/3	0.010575%	0.011608%	(0.001033%)

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
LEOFF 1	0.005166%	0.004205%	(0.000961%)

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, 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 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	(\$46,646)
PERS 2/3	\$33,922
LEOFF 1	(\$9,186)
Total	(\$21,910)

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$12,204)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$21,479	\$0
Total	\$21,479	(\$12,204)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$31,209	(\$10,130)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$82,109)
Changes of assumptions	\$3,271	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$9,009	(\$83,768)
Contributions subsequent to the measurement date	\$31,984	\$0
Total	\$75,473	(\$176,007)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$6,948)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$0	\$0
Total	\$0	(\$6,948)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability

**PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

in the year ended December 31, 2018. 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
2018	(\$8,249)
2019	\$2,604
2020	(\$605)
2021	(\$5,954)
2022	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2018	(\$45,102)
2019	(\$7,508)
2020	(\$20,296)
2021	(\$43,015)
2022	(\$7,216)
Thereafter	(\$9,380)

Year ended December 31:	LEOFF 1
2018	(\$4,360)
2019	\$1,176
2020	(\$470)
2021	(\$3,294)
2022	\$0
Thereafter	\$0

Note 7 – 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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 2017 was \$47,835.

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 \$114,280 is included as a noncurrent liability on the Statement of Net Position.

The Port's Net OPEB Obligation for 2017 is as follows:

Net OPEB Obligation	Fiscal Year Ending 12/31/2017
Annual OPEB Cost:	
Annual Required Contribution	\$47,835
Interest on Net OPEB Obligation	\$3,388
Adjustment to ARC	(<u>\$7,617</u>)
Annual OPEB Cost	\$43,606
Employer Contributions	\$14,019
Change in Net OPEB Obligations (NOO)	\$29,587
Net OPEB Obligation - Beginning of Year	\$84,693
Net OPEB Obligation - Ending of Year	\$114,280

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 2017 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
12/31/2016	\$46,269	38.82%	\$84,693

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

12/31/2017	\$47,835	30.84%	\$114,280
------------	----------	--------	-----------

Funded Status

As of January 1, 2017, 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 2017 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
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%
December 31, 2016	4/3/2017	\$0	\$545,749	\$545,749	0%	0%	0%
December 31, 2017	8/17/2018		\$531,849	\$531,849	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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

- 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 Project Unit Credit (PUC) cost method was used to calculate the plan's Actuarial Accrued Liability (AAL), normal cost, and funded status and is consistent with governmental accounting standards.
 - Currently, there is no asset valuation method since there are no statewide or Port invested assets in an irrevocable, 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.

Please refer to the Washington State Actuarial Valuation of LEOFF 1 Medical Benefits June 2015 where statements have been referenced for reporting purposes.

Note 8 – Risk Management

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

**PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

- \$1,000,000 deductible on liability loss - the member is responsible for the first \$10,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$990,000 on a liability loss.
- \$250,000 deductible on property loss - the member is responsible for the first \$50,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$200,000 on a property loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

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

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

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

Note 9 – Long-Term Debt

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 Ref. Bonds 1999 Series C - Airport Terminal	2019	3% - 4.2%	\$2,260,000	\$505,000
LTGO Series A 2007 - Burbank Water System	2021	4.40%	\$525,000	\$0
CERB Loan 2005 - Key Technology Building	2025	1.68%	\$750,000	\$47,301
LTGO Bonds 2015 - Crown Building Roof	2026	3.02%	\$800,000	\$71,826

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

Year Ending December 31	Principal	Interest
2018	\$652,090	\$95,202
2019	\$675,133	\$69,900
2020	\$383,256	\$43,676
2021	\$401,463	\$29,249
2022 - 2026	\$559,673	\$35,656
2027 - 2031	\$0	\$0
Total	\$2,571,615	\$273,683

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	\$51,075
.09 Sales Tax Loan - Broadband Loan	2025	1.00%	\$400,000	\$40,000
WSDOT Freight Rail Assistance Loan	2025	0.00%	\$250,000	\$25,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2018	\$117,097	\$13,364
2019	\$118,139	\$11,922

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2020	\$119,201	\$10,459
2021	\$120,285	\$8,975
2022 - 2026	\$553,462	\$21,840
2027 - 2031	\$0	\$0
Total	\$1,028,184	\$66,560

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds are 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 10 – Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred to long-term liabilities:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Bonds Payable:					
General Obligation Bonds	\$3,295,742	\$0	\$624,127	\$2,671,615	\$652,090
Revenue Bonds	\$1,144,259	\$0	\$116,075	\$1,028,184	\$117,097
Discounts	(\$1,433)	\$0	\$0	(\$1,433)	\$0
Total Bonds Payable	\$4,438,568	\$0	\$740,202	\$3,698,366	\$769,187
Compensated Absences	\$310,130	\$0	\$0	\$310,130	\$0
OPEB Obligations	\$84,693	\$29,587	\$0	\$114,280	\$0
Net Pension Obligations	\$974,326	\$0	\$243,964	\$730,362	\$0
	\$5,807,717	\$29,587	\$984,166	\$4,853,138	\$769,187

Note 11 – 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 verified claims.

As discussed in Note 9, Long-Term Debt, the Port is contingently liable for repayment of refunded debt.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 12 – Violation of Finance-Related Legal and Contractual Provisions

The Port of Walla Walla recently established that it may have been investing certain 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 13 – 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, 2017, the Port was holding \$191,119 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, 2017, the Port was holding \$74,211 in grant funds for the City of Prescott shown on the statement of fiduciary funds.

Note 14 – 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, 2016, for these facilities are as follows:

	Port	Airport	Elimination	Total
Condensed Statement of Net Position				
Assets:				
Current Assets	\$9,172,686	\$1,910,295		\$11,082,982
Capital Assets	\$39,884,046	\$30,480,123	\$0	\$70,364,169
Other Assets	\$535,333	\$74,769	(\$535,333)	\$74,769
Total Assets	\$49,592,065	\$32,465,187	(\$535,333)	\$81,521,920

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Deferred Outflows of Resources	\$85,083	\$56,801		\$141,884
Liabilities:				
Current Liabilities	(\$992,187)	(\$285,670)		(\$1,277,857)
Long-Term Liabilities:	(\$3,428,946)	(\$1,186,204)	\$535,333	(\$4,079,817)
Total Liabilities	(\$4,421,133)	(\$1,471,874)	\$535,333	(\$5,357,674)
Deferred Inflows of Resources	(\$33,357)	(\$107,372)		(\$140,729)
Net Position:				
Net Investment in Capital Assets	\$36,145,736	\$30,480,121	\$0	\$66,625,857
Unrestricted	\$13,578,935	(\$4,039,391)	\$0	\$9,539,543
Total Net Position	\$49,724,671	\$26,440,730	\$0	\$76,165,400
Condensed Statement of Revenues, Expenses, and Changes in Net Position				
Operating Revenues	\$2,122,858	\$2,866,758	\$808,224	\$5,797,840
Operating Expenses Before Depreciation	(\$1,060,678)	(\$1,677,945)	(\$808,224)	(\$3,546,848)
Depreciation Expense	(\$1,959,886)	(\$2,109,121)	\$0	(\$4,069,007)
Operating Income (Loss)	(\$897,706)	(\$1,463,808)	\$0	(\$2,361,515)
Tax Revenues	\$2,035,942	\$0	\$0	\$2,035,942
Nonoperating Revenues (Expenses)	(\$121,475)	\$19,248	\$0	(\$102,227)
Capital Contributions	\$24,521	\$7,187,981	\$0	\$7,212,502
Increase (Decrease) in Net Position	\$1,041,282	\$5,743,421	\$0	\$6,784,702
Beginning Net Position	\$48,912,432	\$20,468,266	\$0	\$69,380,698
Ending Net Position	\$49,953,714	\$26,211,687	\$0	\$76,165,400
Condensed Statement of Cash Flows				
Net Cash Provided (Used) by:				
Operating Activities	\$248,713	\$1,121,905	\$0	\$1,370,618
Noncapital Financing Activities	\$2,064,717	\$32,573	\$0	\$2,097,290
Capital and Related Financing Activities	(\$1,809,264)	(\$2,465,621)	\$0	(\$4,274,885)
Investing Activities	\$557,729	\$11,939	\$0	\$569,667
Total Net Cash Provided (Used)	\$1,061,895	(\$1,299,204)		(\$237,310)
Beginning Cash and Cash Equivalents	\$7,710,714	\$2,289,902	\$0	\$10,000,617
Ending Cash and Cash Equivalents	\$8,772,609	\$990,698	\$0	\$9,763,307

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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	\$10,987,568	\$14,100
Noncurrent Assets	\$53,225	\$0
Net Capital Assets	<u>\$64,418,852</u>	<u>\$0</u>
Total Assets	\$75,459,645	\$14,100
Deferred Outflows of Resources	\$198,412	\$0
Current Liabilities	\$509,738	\$0
Current Bonds, Notes and Loans Payable	\$740,194	\$0
Noncurrent Liabilities	\$1,298,249	\$0
Noncurrent Bonds, Notes and Loans Payable	<u>\$3,698,374</u>	<u>\$0</u>
Total Liabilities	\$6,246,555	\$0
Deferred Inflows of Resources	\$44,903	\$0

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Condensed Statement of Net Assets	Port of Walla Walla	Walla Walla Public Corp
Invested in Capital Assets, Net of Debt	\$59,980,284	\$0
Unrestricted	<u>\$9,386,315</u>	<u>\$14,100</u>
Total Net Position	\$69,366,599	\$14,100

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	\$5,137,054	\$0
Operating Expenses Before Depreciation	\$3,590,633	\$0
Depreciation	<u>\$4,548,465</u>	<u>\$0</u>
Operating Income (Loss)	(\$3,002,044)	\$0
Ad Valorem Tax Revenues	\$1,995,062	\$0
Interest Expense	(\$165,515)	\$0
Other, net	<u>\$1,486,173</u>	<u>\$3</u>
Total Nonoperating Revenues	\$3,315,720	\$3
Capital Contributions	<u>\$663,855</u>	<u>\$0</u>
Change in Net Position	\$977,531	\$3
Beginning Net Position	\$68,389,068	\$14,097
Ending Net Position	\$69,366,599	\$14,100

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	\$1,387,695	\$0
Noncapital financing activities	\$2,100,899	\$0
Capital and related financing activities	\$442,692	\$0
Investing activities	\$627,367	\$3
Beginning cash and cash equivalent	<u>\$5,427,864</u>	<u>\$14,097</u>
Ending cash and cash equivalent	\$9,986,517	\$14,100

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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016, the Port was holding \$10,000,617 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 12.

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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

open accounts from private individuals or organizations for goods and services rendered. Unbilled \$8,046 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 \$83,207.

The Port's policy for estimating and writing off uncollectible accounts is found in Resolution 01-14-16, 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. Restricted Assets

These accounts contain resources for construction and debt service. The Port did not have any restricted assets as of December 31, 2016.

6. Capital Assets and Depreciation

Capital assets are defined by the Port as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

7. Other Assets and Debits

Prepayments consist of amounts paid in 2016 for 2017 expenses.

8. Deferred Inflows and Outflows of Resources

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.

9. Custodial Accounts

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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016.

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 9.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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. The Port measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

As of December 31, 2016, the Port had the following investments at fair market value:

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

Investment	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
State Investment Pool	\$172	\$172	\$0	\$0
Baker Boyer Bank	\$2,630	\$2,630	\$0	\$0
Total	\$2,802	\$2,802	\$0	\$0

b. Current and Noncurrent Investments

Investment	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Baker Boyer Bank:				
Compass Bank CD	\$250,728	\$250,728	\$0	\$0
Discover Bank CD	\$250,085	\$250,085	\$0	\$0
Umpqua Bank CD	\$150,000	\$150,000	\$0	\$0
Total	\$650,813	\$650,813	\$0	\$0

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 12.

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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 2016 was \$0.36843405 per \$1,000 on an assessed valuation of \$5,374,636,850 for a total regular levy of \$1,965,336 plus additions of \$14,863, which equals \$1,980,199.

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, 2016 was as follows:

Capital Assets Activity	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital Assets, Not Being Depreciated				
Land	\$13,884,521	\$0	\$66,776	\$13,817,745
Construction in Progress	<u>\$1,862,393</u>	<u>\$1,491,543</u>	<u>\$771,447</u>	<u>\$2,582,490</u>
Total Capital Assets, Not Being Depreciation	\$15,746,914	\$1,491,543	\$838,222	\$16,400,235
Capital Assets, Being Depreciated				
Buildings	\$31,778,960	\$1,006,533	\$1,435,980	\$31,349,513
Improvements Other Than Buildings	\$52,812,070	\$251,032	\$0	\$53,063,102
Machinery and Equipment	<u>\$12,781,734</u>	<u>\$59,129</u>	<u>\$0</u>	<u>\$12,840,863</u>
Total Capital Assets Being Depreciated	\$97,372,764	\$1,316,694	\$1,435,980	\$97,253,478
Less Accumulated Depreciation For:				
Buildings	(\$15,749,863)	(\$1,659,872)	(\$149,762)	(\$17,259,973)
Improvements Other Than Buildings	(\$23,084,185)	(\$2,343,657)	\$0	(\$25,427,842)
Machinery and Equipment	<u>(\$6,002,110)</u>	<u>(\$544,936)</u>	<u>\$0</u>	<u>(\$6,547,046)</u>
Total Accumulated Depreciation	(\$44,836,158)	(\$4,548,465)	(\$149,762)	(\$49,234,861)
Total Capital Assets Being Depreciated, net	\$52,536,606	(\$3,231,770)	\$1,286,218	\$48,018,617
Total Capital Assets, Net	\$68,283,520	(\$1,740,227)	\$2,124,441	\$64,418,852

See Note 1 C-6.

Note 5 - Construction Commitments

The Port has active construction projects as of December 31, 2016. The projects include:

- Airfield ARFF truck design and bid assistance.
- Airfield AFRR truck acquisition.
- Airfield master plan study.
- Terminal airport parking lot expansion.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

- Industrial Park build-to-suit Burwood building and Reiff Manufacturing building.
- 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 ARFF Truck Design & Bid Assistance	\$29,655	\$6,369
Airfield ARFF truck acquisition	\$0	\$734,857
Airfield Master Plan	\$562,879	\$25,539
Terminal Airport Parking Lot Expansion	\$221,812	\$591,213
Industrial Park Build-to-Suit Burwood Building	\$37,092	\$462,908
Industrial Park Build-to-Suit Reiff Manufacturing Building	\$122,403	\$97,597
City of College Place Fiber	\$193,137	\$122,052
Total	\$1,166,978	\$2,040,535

Of the committed balance of \$2,040,535 the Port will provide financing from Cash and Cash Equivalents.

Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2016:

Aggregate Pension Amounts - All Plans	
Pension liabilities	(\$974,326)
Pension assets	\$53,225
Deferred outflows of resources	\$187,290
Deferred inflows of resources	(\$44,903)
Pension expense/expenditures	\$60,827

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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 2016 were as follows:

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

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

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:

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

- 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 2016 were as follows:

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

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

The Port's actual contributions to the plan were \$46,488 to PERS Plan 1 and \$60,717 to PERS Plan 2/3 for the year ended December 31, 2016.

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:

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

- 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 2016. 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 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% 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.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of 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.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$532,865	\$441,883	\$363,586
PERS 2/3	\$980,323	\$532,443	(\$277,167)
LEOFF 1	(\$31,618)	(\$53,225)	(\$71,694)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the Port reported a total pension liability of \$974,326 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$441,883
PERS 2/3	\$532,443

At June 30, 2016, the Port reported a total pension asset of \$53,236 for its proportionate share of the net pension liabilities as follows:

	Asset
LEOFF 1	\$53,225

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.008856%	0.008228%	(0.000628%)
PERS 2/3	0.011441%	0.010575%	(0.000866%)

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
LEOFF 1	0.006027%	0.005166%	(0.000861%)

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 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, 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,

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

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

Pension Expense

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

Pension Expense	
PERS 1	(\$11,182)
PERS 2/3	\$72,008
LEOFF 1	\$1,741
Total	\$62,567

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, 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	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$11,126	\$0
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$24,413	\$0
Total	\$35,539	\$0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$28,353	(\$17,577)
Net difference between projected and actual investment earnings on pension plan investments	\$65,156	\$0
Changes of assumptions	\$5,503	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$15,444	(\$27,326)
Contributions subsequent to the measurement date	\$31,885	\$0
Total	\$146,341	(\$44,903)

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$5,410	\$0
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$0	\$0
Total	\$5,410	\$0

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	(\$2,739)
2018	(\$2,739)
2019	\$10,218
2020	\$6,387
2021	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2017	(\$1,736)
2018	(\$1,736)
2019	\$43,853
2020	\$29,172
2021	\$0
Thereafter	\$0

Year ended December 31:	LEOFF 1
2017	(\$1,118)
2018	(\$1,118)
2019	\$4,686
2020	\$2,961
2021	\$0
Thereafter	\$0

Note 7 – 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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 services 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 2016 was \$49,085.

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 \$84,693 is included as a noncurrent liability on the Statement of Net Position.

The Port's Net OPEB Obligation for 2016 is as follows:

Net OPEB Obligation	Fiscal Year Ending 12/31/2016
Annual OPEB Cost:	
Annual Required Contribution	\$49,085
Interest on Net OPEB Obligation	\$2,255
Adjustment to ARC	(\$5,071)
Annual OPEB Cost	\$46,269
Employer Contributions	\$17,963
Change in Net OPEB Obligations (NOO)	\$28,306
Net OPEB Obligation - Beginning of Year	\$56,387
Net OPEB Obligation - Ending of Year	\$84,693

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 2016 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
12/31/2016	\$46,269	38.82%	\$84,693

Funded Status

As of January 1, 2016, 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 2016 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
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%
December 31, 2016	4/3/2017	\$0	\$545,749	\$545,749	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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 Project Unit Credit (PUC) cost method was used to calculate the plan's Actuarial Accrued Liability (AAL), normal cost, and funded status and is consistent with governmental accounting standards.
 - Currently, there is no asset valuation method since there are no statewide or Port invested assets in an irrevocable, 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.

Please refer to the Washington State Actuarial Valuation of LEOFF 1 Medical Benefits June 2015 were statements have been referenced for reporting purposes.

Note 8 – Risk Management

The Port of Walla Walla is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2016, there are 524 Enduris members representing a broad

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

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

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

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

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

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

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 9 – 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 Ref. Bonds 1999 Series C - Airport Terminal	2019	3% - 4.2%	\$2,260,000	\$485,000
LTGO Series A 2007 - Burbank Water System	2021	4.40%	\$525,000	\$0
CERB Loan 2005 - Key Technology Building	2025	1.68%	\$750,000	\$46,519
LTGO Bonds 2015 - Crown Building Roof	2026	3.02%	\$800,000	\$69,720

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

Year Ending December 31	Principal	Interest
2017	\$624,126	\$118,871
2018	\$652,090	\$95,202
2019	\$675,133	\$69,900
2020	\$383,256	\$43,676
2021	\$401,463	\$29,249
2022 - 2026	\$559,673	\$35,656
2027 - 2031	\$0	\$0
Total	\$3,295,742	\$392,555

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	\$50,074
.09 Sales Tax Loan – Broadband Loan	2025	1.00%	\$400,000	\$40,000
WSDOT Freight Rail Assistance Loan	2025	0.00%	\$250,000	\$25,000

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2017	\$116,075	\$14,785
2018	\$117,097	\$13,364
2019	\$118,139	\$11,922
2020	\$119,201	\$10,459
2021	\$120,285	\$8,975
2022 - 2026	\$553,462	\$21,840
2027 - 2031	\$0	\$0
Total	\$1,144,259	\$81,345

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds are 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 10 – Changes in Long-Term Liabilities

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

	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Bonds Payable:					
General Obligation Bonds	\$3,896,981	\$0	\$601,239	\$3,295,742	\$624,126
Revenue Bonds	\$1,259,333	\$0	\$115,074	\$1,144,259	\$116,068
Discounts	(\$2,035)	\$0	(\$601)	(\$1,433)	\$0
Total Bonds Payable	\$5,154,279	\$0	\$715,711	\$4,438,568	\$740,194
Compensated Absences	\$461,889	\$0	\$151,759	\$310,130	\$70,900
OPEB Obligations	\$56,387	\$28,306	\$0	\$84,693	\$0
Net Pension Obligations	\$872,045	\$102,281	\$0	\$974,326	\$0
	\$6,544,599	\$130,587	\$867,470	\$5,807,717	\$811,094

Note 11 – 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 self-insurance reserves are adequate to pay all known or pending verified claims.

As discussed in Note 9, Long-Term Debt, the Port is contingently liable for repayment of refunded debt.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 12 – 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 13 – Prior Period Adjustments

During the year ended December 31, 2016, errors of \$2,420,873.01 were found. \$235,977.98 were found in recognition of accounts receivable, due from other governments and \$2,184,895.03 attributed to incorrect useful lives for various capital assets. The errors were made in fiscal year 2015 and resulted in the 2015 due from other governments to be underreported by \$235,977.98 and accumulated depreciation under reported by \$2,184,895.03. The errors have been corrected in the 2016 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 \$1,948,917.05 which restated the December 31, 2015 Statement of Net Position from \$70,352,082 to \$68,403,164.95.

Note 14 – 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, 2016, the Port was holding \$178,031 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, 2016, the Port was holding \$85,258 in grant funds for the City of Prescott shown on the statement of fiduciary funds.

Note 15 – 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, 2016, for these facilities are as follows:

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

	Port	Airport	Elimination	Total
Condensed Statement of Net Position				
Assets:				
Current Assets	\$8,535,037	\$2,466,631	\$0	\$11,001,668
Capital Assets	\$40,168,647	\$24,250,205	\$0	\$64,418,852
Other Assets	\$562,000	\$53,225	(\$562,000)	\$53,225
Total Assets	\$49,265,684	\$26,770,061	(\$562,000)	\$75,473,745
Deferred Outflows of Resources	\$91,999	\$106,412	\$0	\$198,411
Liabilities:				
Current Liabilities	(\$959,533)	(\$290,399)	\$0	(\$1,249,932)
Long-Term Liabilities:	(\$4,182,175)	(\$1,376,448)	\$562,000	(\$4,996,623)
Total Liabilities	(\$5,141,708)	(\$1,666,847)	\$562,000	(\$6,246,555)
Deferred Inflows of Resources	(\$28,599)	(\$16,304)	\$0	(\$44,903)
Net Position:				
Net Investment in Capital Assets	\$35,730,080	\$24,250,204	\$0	\$59,980,284
Unrestricted	\$12,580,496	(\$3,180,081)	\$0	\$9,400,415
Total Net Position	\$48,310,576	\$21,070,123	\$0	\$69,380,699
Condensed Statement of Revenues, Expenses, and Changes in Net Position				
Operating Revenues	\$2,245,648	\$2,639,050	\$252,356	\$5,137,054
Operating Expenses Before Depreciation	(\$1,390,639)	(\$1,947,638)	(\$252,356)	(\$3,590,633)
Depreciation Expense	(\$2,024,862)	(\$2,523,604)	\$0	(\$4,548,466)
Operating Income (Loss)	(\$1,169,853)	(\$1,832,192)	\$0	(\$3,002,045)
Tax Revenues	\$1,995,062	\$0	\$0	\$1,995,062
Nonoperating Revenues (Expenses)	\$1,366,747	(\$46,086)	\$0	\$1,320,661
Capital Contributions	\$0	\$663,855	\$0	\$663,855
Increase (Decrease) in Net Position	\$2,191,956	(\$1,214,423)	\$0	\$977,533
Beginning Net Position	\$46,720,476	\$21,682,689	\$0	\$68,403,165
Ending Net Position	\$48,912,432	\$20,468,266	\$0	\$69,380,698
	Port	Airport	Elimination	Total
Condensed Statement of Cash Flows				
Net Cash Provided (Used) by:				
Operating Activities	(\$197,057)	\$1,584,752	\$0	\$1,387,695
Noncapital Financing Activities	\$2,074,863	\$26,036	\$0	\$2,100,899
Capital and Related Financing Activities	\$970,894	(\$528,202)	\$0	\$442,692
Investing Activities	\$619,825	\$7,545	\$0	\$627,370
Total Net Cash Provided (Used)	\$3,468,525	\$1,090,131		\$4,558,656
Beginning Cash and Cash Equivalents	\$4,242,191	\$1,199,770	\$0	\$5,441,961
Ending Cash and Cash Equivalents	\$7,710,716	\$2,289,901	\$0	\$10,000,617

PORT OF WALLA WALLA
MCAG NO. 1764
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
OTHER POST EMPLOYMENT BENEFITS (OPEB) PLAN SCHEDULES AND NOTES
FOR THE YEAR ENDED DECEMBER 31, 2017

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%
December 31, 2016	4/3/2017	\$0	\$545,749	\$545,749	0%	0%	0%
December 31, 2017	8/17/2018	\$0	\$531,849	\$531,849	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)	ARC Percentage of NOO
December 31, 2013	\$11,225	\$32,055	\$32,055	\$43,280	135.0%
December 31, 2014	\$10,617	\$61,306	\$29,251	\$41,469	67.6%
December 31, 2015	\$15,536	\$56,387	(\$4,919)	\$41,469	73.5%
December 31, 2016	\$17,963	\$84,693	\$28,306	\$49,085	57.9%
December 31, 2017	\$14,068	\$114,230	\$29,587	\$47,835	41.9%

The accompanying notes to the required supplementary information are an integral part of this statement.

**PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (RSI)
OTHER POST EMPLOYMENT BENEFITS (OPEB)
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017
 LAST 10 FISCAL YEARS

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

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.008856%	0.008228%	0.006892%
Employer's proportionate share of the net pension liability	\$463,251	\$441,883	\$327,031
Total	\$463,251	\$441,883	\$327,031
Employer's covered employee payroll	\$1,015,126	\$981,475	\$940,794
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.63%	45.02%	34.76%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%

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, 2017
LAST 10 FISCAL YEARS

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.011441%	0.010575%	0.008865%
Employer's proportionate share of the net pension liability	\$408,794	\$532,443	\$308,010
Total	\$408,794	\$532,443	\$308,010
Employer's covered employee payroll	\$1,015,126	\$981,475	\$940,794
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.25%	32.74%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%

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, 2017
LAST 10 FISCAL YEARS

	2015	2016	2017
Statutorily or contractually required contributions	\$45,675	\$46,488	\$41,943
Contributions in relation to the statutorily or contractually required contributions	(\$45,675)	(\$46,488)	(\$41,943)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$1,045,999	\$974,589	\$856,025
Contributions as a percentage of covered employee payroll	4.37%	4.77%	4.90%

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, 2017
LAST 10 FISCAL YEARS

	2015	2016	2017
Statutorily or contractually required contributions	\$58,741	\$60,717	\$58,711
Contributions in relation to the statutorily or contractually required contributions	(\$58,741)	(\$60,717)	(\$58,711)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$1,045,999	\$974,589	\$856,025
Contributions as a percentage of covered employee payroll	5.62%	6.23%	6.86%

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 EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Agency (Pass Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed Through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-030- 2015	\$ -	\$ 63,921.00	\$63,921	\$ -	1,2,3
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-35-0083-032- 2016	\$ -	\$ 675,184.00	\$675,184	\$ -	1,2,3
Department of Transportation Federal Aviation Administration	Airport Improvement Program	20.106	3-53-0083-033- 2016	\$ -	\$ 6,446,403.00	\$6,446,403	\$ -	1,2,3
Total CFDA 20.106				\$ -	\$ 7,185,508.00	\$7,185,508	\$ -	1,2,3
Department of Homeland Security Transportation Security	Law Enforcement Officer Reimbursement Agreement Program	97.075	HSTS02-16-H- SLR602	\$ -	\$ 26,513.00	\$26,513	\$ -	1,2,3
Total CFDA 97.075				\$ -	\$ 26,513.00	\$26,513	\$ -	1,2,3
	Total Federal Awards Expended			\$ -	\$7,212,021	\$7,212,021	\$ -	

The accompanying notes are an integral part of this schedule.

PORT OF WALLA WALLA
MCAG NO. 1764
NOTES TO THE SCHEDULE EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

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.

WALLA WALLA REGIONAL AIRPORT

NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED

FOR THE YEAR ENDED DECEMBER 31, 2017

1. BASIS OF ACCOUNTING

This schedule is prepared generally on the same basis of accounting as the Airport's financial statements. However, while the Airport uses the full or modified-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented represent only those revenues actually received following the next month after the quarter reported. PFC revenues not received prior to the end of the next month after each quarter are not accrued and are reported as revenues of the subsequent reporting period.

2. PROGRAM COSTS

The amounts shown as current year revenues and expenses represent only the Passenger Facility Charges

Port of Walla Walla

Schedule of Passenger Facility Charges Collected, Held and Used

	Quarter Ending			
	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Unexpended passenger facility charges and interest, beginning of period	0	0	0	0
Add:				
Passenger Facility Charges Revenues	54,975	34,967	43,623	52,914
Interest Earned	3	1	1	0
	54,978	34,968	43,624	52,914
Expenses/Expenditures	54,978	34,968	43,624	52,914
Unexpended passenger facility charges and interest, end of period	0	0	0	0

WALLA WALLA REGIONAL AIRPORT

NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED

FOR THE YEAR ENDED DECEMBER 31, 2016

1. BASIS OF ACCOUNTING

This schedule is prepared generally on the same basis of accounting as the Airport's financial statements. However, while the Airport uses the full or modified-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, the PFC revenues presented represent only those revenues actually received following the next month after the quarter reported. PFC revenues not received prior to the end of the next month after each quarter are not accrued and are reported as revenues of the subsequent reporting period.

2. PROGRAM COSTS

The amounts shown as current year revenues and expenses represent only the Passenger Facility Charges

Port of Walla Walla

Schedule of Passenger Facility Charges Collected, Held and Used

	Quarter Ending			
	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Unexpended passenger facility charges and interest, beginning of period	0	0	0	0
Add:				
Passenger Facility Charges Revenues	50,968	45,374	51,430	43,473
Interest Earned	2	3	3	4
	50,970	45,377	51,433	43,477
Expenses/Expenditures	50,970	45,377	51,433	43,477
Unexpended passenger facility charges and interest, end of period	0	0	0	0



310 A Street
Walla Walla Regional Airport
Walla Walla, Washington 99362-2269

Phone: (509) 525-3100 • FAX: (509) 525-3101 • www.portwallawalla.com • www.wallawallaairport.com

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Port of Walla Walla January 1, 2016 through December 31, 2017

This schedule presents the corrective action planned by the Port for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2017-001	Finding caption: The Port did not have adequate internal controls to ensure compliance with federal reporting requirements on the Airport Improvement Program.
Name, address, and telephone of Port contact person: Scott Pritcher, Auditor/Treasurer 310 A Street Walla Walla, WA 99362 (509) 525-3100	
Corrective action the auditee plans to take in response to the finding: <i>'The Port of Walla Walla will insure that all federal reporting requirements will be completed within the timeframes contained within the federal reporting requirements of the Airport Improvement Programs. Since the FAA did not provide a reporting notice reminder, the Port will provide an internal measure to meet the reporting requirements. In order to comply, the Port will have reporting reminders that will alert multiple staff, in advance, of the reporting due dates. The Executive Director, the Airport Manager and the Auditor/Treasurer will have the reporting requirements identified in the master calendar of events for the Port of Walla Walla. This will allow for multiple staff to acknowledge the reporting requirements and the deadline to provide the required reports.'</i>	
Anticipated date to complete the corrective action: 9/30/2018	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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