



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
Kittitas County

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

Published September 28, 2017

Report No. 1019951





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

September 28, 2017

Board of Commissioners
Kittitas County
Ellensburg, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Kittitas County January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs 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
20.205	Highway Planning and Construction

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

The County qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2016-001.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

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

2016-001 Kittitas County did not have adequate internal controls to ensure compliance with federal suspension and debarment and reporting requirements.

CFDA Number and Title:	20.106 Airport Improvement Program
Federal Grantor Name:	Department of Transportation Federal Aviation Administration
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$0

Description of Condition

During 2016, the County spent \$192,609 from the Department of Transportation - Federal Aviation Administration for the Airport Master Plan Study project.

Suspension and Debarment

Federal grant regulations prohibit grant recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For contracts of \$25,000 or more and all subawards, the County must verify the contractor or subrecipient is not suspended or debarred or otherwise excluded.

To meet this requirement, the County can obtain a written certification from the contractor or subrecipient or insert a clause into the contract where the contractor or subrecipient states it is not suspended or debarred. Alternatively, the County can check for suspended or debarred parties by reviewing the federal Excluded Parties List System (EPLS) issued by the U.S. General Service Administration. The County must meet these requirements before entering into the contract.

Our audit found the County awarded one contract exceeding \$25,000 during 2016 and did not obtain a written certification, insert a clause into the contract or review EPLS to verify the contractor was not suspended or debarred.

We consider this deficiency in internal controls to be a material weakness. This issue was not reported as a finding in the prior audit.

Reporting

Federal regulations require the County to submit one financial report (SF-425) to the granting agency within 90 days of the end of each federal fiscal year and with each Final Project Closeout Report. In addition, the County must submit quarterly performance reports to the granting agency within 30 calendar days from the end of the quarter, beginning with the quarter in which the project begins, and for each following quarter until the project is substantially completed.

The County did not have internal controls to ensure compliance with these reporting requirements. The County contracted with an engineering firm to oversee the project and relied on the firm to prepare and submit the required reports. Our audit found that the firm did not prepare and submit the annual financial report as required. Although the engineering firm prepared all of the quarterly performance reports, County staff did not obtain, review or verify the four quarterly reports were submitted to the granting agency as required.

Cause of Condition

Suspension and Debarment

The County was aware of the requirement to verify the suspension and debarment status of its contractors. The County's normal process is to include suspension and debarment language in the applicable contracts; however, the department experienced turnover during 2016, and the current staff could not locate the language in the contract or any other documentation to demonstrate previous staff verified the contractor's suspension and debarment status.

Reporting

The County relied on the contracted engineering firm and was not aware it needed to monitor the firm to ensure it prepared and submitted the required financial and quarterly performance reports to the granting agency.

Effect of Condition and Questioned Costs

Suspension and Debarment

Without adequate internal controls over suspension and debarment requirements, the County cannot ensure federal funds are provided to contractors that are eligible to participate in federal programs. Any payments made to an ineligible party would be subject to recovery by the funding agency. As we were able to verify that the contractor was not suspended or debarred, we are not questioning costs.

Reporting

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

Recommendation

Suspension and Debarment

We recommend the County follow its established controls and comply with suspension and debarment requirements by ensuring contractors are eligible to participate in federal programs.

Reporting

We recommend the County strengthen internal controls over reporting for federal programs by ensuring all reports are submitted to the granting agency by the deadline identified in the grant requirements.

County's Response

The Public Works department has had turnover in the Finance and Engineering divisions of the department. All suspension and debarment controls are being created for staff along with training to comply with this issue. Staff training has increased on the Finance division to ensure contract compliance.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. 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 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 303 Internal controls, establishes requirements for management of Federal awards to non-Federal entities.

Suspension and Debarment

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.

Reporting

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 302, Financial management, establishes requirements for financial management systems and reporting accurate, current and complete financial results of Federal awards.

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 327, Financial reporting, establishes requirements for reporting financial information related to Federal awards.

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 328, Monitoring and reporting program performance, establishes requirements for operational oversight and reporting performance information related to Federal awards.

**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**

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

Board of Commissioners
Kittitas County
Ellensburg, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kittitas County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 21, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the County in a separate letter dated September 21, 2017.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

September 21, 2017

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

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

Board of Commissioners
Kittitas County
Ellensburg, Washington

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

We have audited the compliance of Kittitas County, Kittitas County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2016. The County'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 County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 County's compliance with those

requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

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 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

County's Response to Findings

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 2016-001 to be a material weakness.

County's Response to Findings

The County'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 County'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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, looped initial "P".

Pat McCarthy

State Auditor

Olympia, WA

September 21, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Commissioners
Kittitas County
Ellensburg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kittitas County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kittitas County, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 31, budgetary comparison information on pages 84 through 86, information on postemployment benefits other than pensions on page 88, infrastructure modified approach information on pages 88 through 92 and pension plan information on pages 93 through 94 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 21, 2017

FINANCIAL SECTION

Kittitas County January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

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

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Fiduciary Net Position – Fiduciary Funds – 2016

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
General Fund – 2016

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
County Road – 2016

Notes to Budgetary Information Schedule – 2016

LEOFF I Retiree Medical Benefits – Schedule of Funding Progress – 2016

Information about Infrastructure Assets Reporting Using the Modified Approach – 2016

Schedule of Employer's Proportionate Share of the Net Pension Liability – PERS 1,
PERS 2&3, PSERS, LEOFF 1, LEOFF 2 – 2016

Schedule of Employer Contributions – PERS 1, PERS 2&3, PSERS, LEOFF 1, LEOFF 2
– 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

KITTITAS COUNTY, WASHINGTON

Management's Discussion and Analysis

Kittitas County's discussion and analysis offers readers of the County's financial statements, for the year ended December 31, 2016, a narrative overview and analysis for the financial activities of the County. We encourage readers to consider the information presented here in conjunction with additional information included in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of Kittitas County exceeded its liabilities at December 31, 2016 by over \$132.0 million. Net Investment in capital assets (net of depreciation and related debt) account for 66.1% of this amount, with a value of \$87.3 million. Of the remaining Net Position, \$6.7 million may be used to meet the government's ongoing obligation to citizens and creditors, without legal restriction.
- As of December 31, 2016 Kittitas County's government activities reported combined ending Net Position of \$123.2 million. Of that amount, \$83.2 million is Investment in Capital Assets.
- Fund Balance for the General Fund at December 31, 2016 was \$16.5 million.
- Fund Balance for the County Road Fund at December 31, 2016 was \$12.3 million.
- The County's total long term debt at December 31, 2016 was \$30.5 million. The County's remaining debt capacity for non-voted debt is at \$76.02 million. The Solid Waste Landfill Post-Closure liability costs are \$1.14 million.
- The General Fund's fund balance increased 33.4% over 2015, showing an increase of \$4,130,588. The amount of unrestricted funds is \$5.53 million. The restricted and assigned fund balances have increased due to increases in restricted revenue and budgeted beginning fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Kittitas County's basic financial statements. The basic financial statements are comprised of three components:

- 1) Government-Wide Financial Statements
- 2) Fund Financial Statements
- 3) Notes to the Financial Statements

Government-Wide Financial Statements

There are two government-wide financial statements, which are designed to provide readers with a broad overview of Kittitas County's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of Kittitas County that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The government activities of the County include a full range of local government services provided to the public, such as law enforcement, jail and probation services, public health, road maintenance and construction, airport, and superior and district courts. Also included are property assessment and collections, elections, licensing and permits and county fair.

The business-type activities are Solid Waste, Community Development Services and Water Mitigation. Solid Waste operates the two transfer stations and two landfills. The Community Development Services as an Enterprise fund, which operates the Permit Center for Building, Planning and Code Enforcement. The Water Mitigation fund is created as an utility fund for Groundwater Mitigation.

The Statement of Net Position presents information on all Kittitas County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as Net Position. This statement serves a purpose similar to that of the statement balance sheet in a private-sector business. Over time, increases or decreases in net position may service as a useful indicator of whether the financial position of the County is improving or deteriorating. However, this is just one indicator of the financial health of the County. Other indicators include the condition of the County's infrastructure systems (roads and bridges, etc), changes in property tax base, and general economic conditions within the County.

The Statement of Activities presents information showing how the County's net position changed during 2016. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2016, and earned but unused employee leave, will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2016.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds in Kittitas County can be divided into three categories:

- 1) Government Funds
- 2) Proprietary Funds
- 3) Fiduciary Funds

Government Funds are used to account for most, if not all, of a government's tax-supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activity. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the County's own programs.

Government Funds

The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance present separate columns of financial data for the General Fund and County Road Fund, which are considered major funds. A major fund is based on criteria established by GASB Statement 34¹. The statement defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise of the following: 1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. Figures from the remaining governmental funds are combined into a single, aggregated presentation.

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term finance requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenses and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The County maintains budgetary control over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level. Capital outlays are approved on an item by item basis or

¹ Governmental Accounting Standards Board, Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments

project basis. A budgetary comparison statement for the General Fund and County Road are included in the basic financial statements.

Proprietary Funds

There are two types of proprietary funds. The first type an Enterprise Fund is used to report the same functions presented as a business-type activity in the government-wide financial statements. Kittitas County has three Enterprise funds, Solid Waste, Community Development Services and Water Mitigation. The second type is an Internal Service fund, used to accumulate and allocate costs internally among the County's various functions. The revenues and expense of the internal service funds that are duplicated into other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow the government fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply to the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Position to the business-type column on the Government-Wide Statement of Net Position, you will notice that the total Net Position agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" and "due to other funds" from the proprietary fund statement in a single line in the asset section of the government-wide statement.

Fiduciary Funds

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

Kittitas County has two types of fiduciary funds: Private Purpose Trust and Agency funds, which are clearing accounts for assets held by Kittitas County in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In accordance with GASB Statement 34², Kittitas County is not required to restate prior periods for the purposes of providing comparative information.

Statement of Net Position

The following is a summary of the Statement of Net Position as of December 31, 2016, with 2015 comparative balances.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Assets:						
Current Assets	\$55,174,220	\$49,388,403	\$9,565,516	\$6,197,079	\$64,739,734	\$55,585,482
Capital Assets	94,395,763	94,054,683	4,513,189	4,515,596	98,908,951	98,570,279
Deferred outflow of Resources-Pension	2,319,949	1,286,035	132,573	73,506	2,452,522	1,359,541
Total Assets	151,889,929	144,729,123	14,211,277	10,786,180	166,101,206	155,515,303
Liabilities						
Other liabilities	2,544,306	2,983,342	517,144	335,110	\$3,061,450	\$3,318,452
Long-term liabilities	25,633,780	21,639,284	4,843,597	2,197,616	30,477,377	23,836,900
Deferred Inflows of Resources-Pension	462,804	1,817,847	37,997	107,843	500,801	1,925,690
Total Liabilities	28,640,890	26,440,474	5,398,738	2,640,569	\$34,039,628	\$29,081,042
Net Position						
Investment in Capital Assets	83,246,034	85,483,191	4,063,188	3,990,595	87,309,221	89,473,785
Non Spendable	69,518	81,746	0	0	69,518	81,746
Restricted	26,701,951	24,507,104	1,153,926	622,033	27,855,877	25,129,137
Committed	3,167,309	2,790,479	0	0	3,167,309	2,790,479
Assigned	6,943,864	6,655,284	0	0	6,943,864	6,655,284
Unassigned	3,120,362	603,090	3,595,426	3,640,827	6,715,788	4,243,917
Total Net Position	\$123,249,039	\$120,120,894	\$8,812,539	\$8,253,455	\$132,061,578	\$128,374,348

Net Position of the County's governmental activities was \$123.2 million. The County's unrestricted Net Position, the part of the Net Position that can be used to finance day-to-day operations \$3,120,362.

Statement of Activities

For fiscal year ended December 31, 2016, the revenues of primary governmental activities totaled \$42.9 million. Property taxes are the largest revenue source at \$12.9 million, while Sales taxes are the second largest at \$10.3 million.

The expenses for governmental activities totaled \$39.7 million. Public Safety was the county's highest commitment at \$10.9 million; Transportation is the second highest expense for 2016 with \$10.4 million.

² Governmental Accounting Standards Board, Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments

Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$7,764,658	\$8,281,163	\$5,849,850	\$5,158,913	\$13,614,508	\$13,440,076
Operating Grants	4,912,991	11,448,725	0	0	4,912,991	11,448,725
Capital Grants	0	0	0	0	0	0
General Revenues:						
Property Taxes	12,942,207	13,416,172	0	0	12,942,207	13,416,172
Sales Taxes	10,349,121	7,702,930	0	0	10,349,121	7,702,930
Other Taxes	4,621,109	4,482,628	0	0	4,621,109	4,482,628
Unrestricted Grants & Contributions	1,014,739	992,530	0	0	1,014,739	992,530
Unrestricted Investment Earnings	1,130,332	943,671	27,605	4,034	1,157,937	947,705
Proceeds on Disposition of Capital Assets	139,859	141,860	0	0	139,859	141,860
Transfers	0	0	0	0	0	0
Total Revenues	\$42,875,017	\$47,409,679	\$5,877,455	\$5,162,947	\$48,752,471	\$52,572,626

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Expenses:						
Judicial	\$3,000,668	\$2,872,052	0	0	\$3,000,668	\$2,872,052
General Government	8,576,946	8,330,564	0	0	8,576,946	8,330,564
Public Safety	10,931,105	10,424,863	0	0	10,931,105	10,424,863
Physical Environment	727,667	603,505	0	0	727,667	603,505
Transportation	10,394,310	9,281,243	0	0	10,394,310	9,281,243
Economic Environment	928,496	901,723	0	0	928,496	901,723
Mental & Public Health	2,734,111	2,730,715	0	0	2,734,111	2,730,715
Culture & Recreation	2,131,806	2,150,742	0	0	2,131,806	2,150,742
Interest on Long Term Debt	304,964	299,918	0	0	304,964	299,918
Garbage & Solid Waste	0	0	3,657,715	3,208,738	3,657,715	3,208,738
Community Development Services	0	0	1,657,448	1,450,352	1,657,448	1,450,352
Total Expenses	\$39,730,073	\$37,595,324	\$5,315,163	\$4,659,090	\$45,045,236	\$42,254,414
Excess (Deficiency) before Special Items and Transfers						
Change in Net Position	3,144,944	9,814,355	562,292	503,857	3,707,236	10,318,211
Net Position as of January 1	120,120,894	117,599,247	8,253,455	8,189,538	128,374,348	125,788,785
Prior Year Adjustments	(4,401)	(4,454)	(3,207)	0	(7,608)	(4,454)
Balancing item	(12,399)	(7,288,253)	0	(439,941)	(12,399)	(7,728,194)
Net Position as of December 31	\$123,249,038	\$120,120,894	\$8,812,539	\$8,253,455	\$132,061,578	\$128,374,348

See the Notes to the Financial Statements, Note 19 on discussion for the Prior Year Adjustments

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds Balance Sheet Analysis

The General Fund and County Road are the two major funds in 2016. Together these funds account for 69% of the total government assets and 68% of the total government fund balance. As of December 31, 2016, the county's government funds reported combined fund balances nearly \$42.41 million. Of this total amount, \$5.53 million is unassigned and available for spending within each of the designated funds. There are five types of fund balance as described in Note 1-11 and the breakdown of those fund balance types are below

Fund Balance Type	Amount
Non Spendable	69,518
Restricted	26,701,951
Committed	3,167,309
Assigned	6,943,864
Unassigned	5,529,794

In the total Assets, the Cash and Investments have increased from the previous year by \$8.29 million; and receivables have increased by \$9,201 and the due from other Governmental decreased by \$4.24 million. The net change in all assets is an 8.9% increase.

In the total Liabilities, the biggest decrease is the Due to other funds/ Interfund Loans by \$1.17 million, and accounts payable by a decrease of \$534,568. The net change in all liabilities is a 24.8% decrease.

Governmental Funds	2016	2015	Net Change
Total Assets	50,119,267	46,009,841	4,109,426
Total Liabilities	4,947,833	6,580,721	(1,632,888)
Total Fund Balance	42,412,437	36,491,784	5,920,653

Governmental Funds Revenues/Expenditure Analysis

The net change in fund balance for the General Fund in 2016 was \$4,130,588. The net change in the County Road fund was a (\$1,584,302). Other Governmental Funds had an overall net change in fund balance of \$3,374,366 for 2016. The changes in fund balances for the General Fund is the additional Sales Taxes collected; County Road is due to the completion of Transportation Construction Projects.

The overall changes in Governmental Revenues were 8.1% decrease. The biggest change in the revenues occurred in Intergovernmental Revenues with a 40% decrease; 2015 \$15.85 million compared to \$9.50 million in 2016; showing a decrease of \$6.35 million.

The overall expenditures decreased 12.9% from 2015. The biggest change in expenses was in Transportation-Capital which decreased \$5.89 Million.

Governmental Funds	2016	2015	Net Change
Revenues	43,847,974	47,712,833	(3,864,859)
Expenditures	(40,892,912)	(46,948,166)	6,055,254
Other Financing Sources	2,965,643	1,248	2,964,395
Net Change in Fund Balance	5,920,706	765,915	5,154,791
Fund Balance Beginning	36,491,784	35,725,869	765,915
Prior Year Adjustments	(53)	0	(53)
Fund Balance Ending	42,412,437	36,491,784	5,920,653

Proprietary Funds Net Position Analysis

The Net Position of the Solid Waste fund as of December 31, 2016 was \$8.34 million; with \$3.19 million in unrestricted funds. The Net Position of the Community Development Services fund as of December 31, 2016 was \$366,946. The internal service funds have net position in the amount of \$10.55 million.

Proprietary Funds Revenue/Expenditure Analysis

The Solid Waste fund collected \$4.29 million in revenues and had an operating expense of \$3.59 million showing a net gain of \$699,410. The changes in net position for 2016 after non-operating revenues and expenses are \$655,012.

The Community Development Services fund collected \$1.46 million in revenues and had an operating expense of \$1.65 million showing a net loss of (\$195,548). The changes in net position for 2016 after non-operating and expense are (\$198,125).

Continued on the next page

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund Changes in Budget

The following table shows the changes between the original and final General Fund budget as of December 31, 2016.

	Original Budget	Final Budget	Final Budget Positive (Negative)
Revenues			
Taxes	13,106,215	13,145,334	(39,119)
Licenses & Permits	142,500	142,500	-
Intergovernmental	3,354,057	3,019,655	(334,402)
Charges for Services	1,974,333	2,631,220	656,887
Fines & Forfeits	1,563,400	1,563,400	-
Miscellaneous	1,638,937	1,738,937	100,000
Total Revenues	21,779,442	22,241,046	383,366
Expenditures			
General Governmental	7,768,846	7,933,136	164,290
Judicial	2,700,169	2,783,269	83,100
Security of Persons and Property	8,932,579	9,029,144	96,565
Physical Environment	103,275	118,275	15,000
Transportation	3,717	3,717	-
Economic Environment	210,245	425,245	215,000
Mental & Physical Health	200,850	246,850	46,000
Culture & Recreation	1,297,105	1,507,780	210,675
Debt Service	1,306,794	1,306,905	111
Capital Outlay	529,915	2,414,643	1,884,728
Total Expenditures	23,053,495	25,768,964	2,715,469
Excess (Deficit) Revenues over Expenditures	(1,274,053)	(3,527,918)	(2,253,865)
Other Financing Sources (Uses)			
Restitution	350	350	-
Other Loan Proceeds	-	1,452,000	1,452,000
Sale of Fixed Assets	1,150	1,150	-
Transfers In	180,000	80,000	(100,000)
Transfers Out	(601,011)	(501,011)	100,000
Total Other Financing Sources (Uses)	(419,511)	1,032,489	1,452,000
Net Change in Fund Balance	(1,693,564)	(2,495,429)	(801,865)
Fund Balance, January 1	9,882,217	10,447,772	565,555
Fund Balance, December 31	8,188,653	7,952,343	(236,310)

Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

The biggest supplemental expenditure budget increase was in Capital Outlay in the amount of \$1,884,728 for the purchase of property.

General Fund Budget to Actual

The amended General Fund revenue budget was approximately \$22.24 million and total revenues received \$24.99 million, or 12.37% above budget. The specific changes to report are taxes and charges for services. The taxes consist of the real and personal property taxes, timber harvest taxes, sales and use taxes, and excise taxes. Both the real and personal property taxes and sales and use tax collected are slightly above the budgeted amount. Our changes in projections were a little under estimated when the budget was prepared. The charges for services increased due to reclassification of accounts, intergovernmental charges for services are now recorded as a charge for services.

The General Fund budgeted expenses vs. actual came in at 14.92% under budget. The biggest unspent budget was Security of Persons and Property, due to reduction in filled positions and contracted services.

	Final Budget	Actual	with Final Budget Positive (Negative)
Revenues			
Taxes	13,145,334	15,175,127	2,029,793
Licenses & Permits	142,500	169,695	27,195
Intergovernmental	3,019,655	2,965,194	(54,461)
Charges for Services	2,631,220	2,929,726	298,506
Fines & Forfeits	1,563,400	1,632,445	69,045
Miscellaneous	1,738,937	2,120,745	381,808
Total Revenues	22,241,046	24,992,932	2,751,886
Expenditures			
General Governmental	7,933,136	7,226,538	706,598
Judicial	2,783,269	2,616,112	167,157
Security of Persons and Property	9,029,144	7,450,427	1,578,717
Physical Environment	118,275	80,962	37,313
Transportation	3,717	3,717	-
Economic Environment	425,245	405,191	20,054
Mental & Physical Health	246,850	236,712	10,138
Culture & Recreation	1,507,780	1,391,054	116,726
Debt Service	1,306,905	132,094	1,174,811
Capital Outlay	2,414,643	2,381,258	33,385
Total Expenditures	25,768,964	21,924,066	3,844,898
Excess (Deficit) Revenues over Expenditures	(3,527,918)	3,068,866	6,596,784
Other Financing Sources (Uses)			
Restitution	350	1,005	655
Other Loan Proceeds	1,452,000	1,511,000	59,000
Sale of Fixed Assets	1,150	20,249	19,099
Transfers In	80,000	26,792	(53,208)
Transfers Out	(501,011)	(497,324)	3,687
Total Other Financing Sources (Uses)	1,032,489	1,061,722	29,233
Net Change in Fund Balance	(2,495,429)	4,130,588	6,626,017
Fund Balance, January 1	10,447,772	12,370,066	1,922,294
Fund Balance, December 31	7,952,343	16,500,654	8,548,311

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Kittitas County's total investment in capital assets, including construction in progress, for its government and business type activities as of December 31, 2016, amounts to over \$98.9 million, (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, infrastructure, and construction in progress on buildings and systems. Kittitas County has elected to use the modified approach to account for the infrastructure category of Gravel Roads, which eliminates the need to report depreciation expense. The largest increase occurred under Government Activities in Land for the purchase of Shady Brook Mobile Home Court in the amount of \$1,146,773. This also included \$304,838 in Buildings and Improvements, for a total of purchase cost of \$1,451,611.

Additional information on Kittitas County's capital assets can be found in Note 6 in the Notes to the Financial Statements. The information regarding the Modified Approach for Graveled Roads is in the following Required Supplementary Information Schedule.

Long-Term Debt

Kittitas County has total outstanding liabilities as of December 31, 2016 of approximately \$30.5 million; of which Governmental was \$25,612,183 and Business type activities were \$4,843,597.

Additional information on Kittitas County's Long Term Debt can be found in Note 10 and Note 12 for Changes in Long-Term Liabilities in the Notes to the Financial Statements.

Kittitas County has an assigned rating of "AA/Stable" from the Standard & Poor's after a review and report issued on November 29, 2013. The prior rating from Standards & Poor's was affirmed an "AA-/Stable underlining rating.

ECONOMIC FACTORS

There have been a series of voter initiatives over the last several years, as well as State of Washington and Federal legal changes that will have an impact on the future finances of the County.

The Board of County Commissioners has elected over the past several years to increase property taxes by one percent plus new construction. The additional revenue from new construction has not covered the additional expenditures required in union contracts and supply costs.

The sales tax revenues seem to be remaining stable. We are watching very carefully the revenues and all departments are watching and limiting travel and other expenses. With the help of all the departments, not spending their total budgets increased the fund balance of the General

Fund. The 2015 ending fund balance for the General fund was \$12.37 million and the ending 2016 fund balance was \$16.5 million.

The Board of County Commissioners have stated during the budget process that new personnel will not be considered without specific funding for the positions, and they will not use existing fund balance to support operations. The number of positions in the county has increased in 2016 from 2015 by 2 positions; increase in the Prosecutors office and a decrease in the Sheriff's office-Corrections Division.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of Kittitas County's finances for all those interested in the County's finances. Any questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kittitas County Auditor's Office, Finance Department or visit our website at <http://www.co.kittitas.wa.us/auditor/default.aspx>

KITTITAS COUNTY, WASHINGTON

**Statement of Net Position
December 31, 2016**

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Cash & cash equivalents	\$ 31,962,965	\$ 2,260,856	\$ 34,223,820
Investments	17,386,981	2,250,485	19,637,466
Receivables (net)	2,939,520	296,313	3,235,833
Internal Balances	(1,334,143)	1,334,143	-
Inventories	436,113	-	436,113
Pension Assets	556,299	-	556,299
Due from other Governmental	3,172,155	50,990	3,223,144
Prepaid items	54,330	3,915	58,245
Cash restricted			
Cash-Debt Proceeds	-	2,517,000	2,517,000
Cash-landfill closure & postclosure	-	227,243	227,243
Investments restricted for landfill closure & postc	-	624,571	624,571
Capital Assets (net of accumulated depreciation)			
Land, and non-depreciable infrastructure	14,522,648	280,439	14,803,086
Intangible Assets	4,392,889	43,589	4,436,478
Buildings	22,468,970	579,953	23,048,923
Improvements	1,045,252	2,700,483	3,745,734
Equipment	3,810,892	613,983	4,424,875
Infrastructure	47,252,440	-	47,252,440
Construction in progress	902,672	294,742	1,197,415
Total Assets	<u>\$ 149,569,980</u>	<u>\$ 14,078,704</u>	<u>\$ 163,648,684</u>
Deferred outflow of Resources			
Deferred outflow of Resources - Pension	2,319,949	132,573	2,452,522
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	151,889,929	14,211,277	166,101,206
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Accounts payable and accrued exp.	\$ 1,997,157	\$ 517,144	\$ 2,514,301
Unearned revenue	538	-	538
Other current liabilities	546,611	-	546,611
Liabilities payable from restricted assets	-	-	-
Non-Current Liabilities:			
Other Long Term Debt			
Due within one year	793,631	1,083,711	1,877,342
Due in more than one year	24,818,552	3,759,886	28,578,438
Miscellaneous	21,597	-	21,597
Total Liabilities	<u>\$ 28,178,086</u>	<u>\$ 5,360,741</u>	<u>\$ 33,538,827</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources-Pensions	462,804	37,997	500,801
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>28,640,890</u>	<u>5,398,738</u>	<u>34,039,628</u>
NET POSITION			
Net Investment in Capital Assets	\$ 83,246,034	\$ 4,063,188	\$ 87,309,221
Fund Balance			
Non Spendable	69,518	-	69,518
Restricted	26,701,951	1,153,926	27,855,877
Committed	3,167,309	-	3,167,309
Assigned	5,924,463	-	5,924,463
Unassigned/Unrestricted	4,139,763	3,595,426	7,735,189
Total Net Position	<u><u>\$ 123,249,039</u></u>	<u><u>\$ 8,812,539</u></u>	<u><u>\$ 132,061,578</u></u>

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

KITTITAS COUNTY, WASHINGTON

Statement of Activities
For the Year ended December 31, 2016

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue & Changes in Net Position			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Judicial	\$ 3,000,668	\$ 2,007,225	\$ 468,288	\$ -	\$ (525,155)	\$ -	\$ (525,155)
General Government	8,576,946	2,755,785	281,765	-	(5,539,396)	-	(5,539,396)
Public Safety	10,931,105	1,542,486	244,637	-	(9,143,982)	-	(9,143,982)
Physical Environment	727,667	220,196	335,149	-	(172,321)	-	(172,321)
Transportation	10,394,310	281,509	2,104,586	-	(8,008,215)	-	(8,008,215)
Economic Environment	928,496	559,179	101,798	-	(267,519)	-	(267,519)
Mental & Physical Health	2,734,111	171,545	1,322,517	-	(1,240,049)	-	(1,240,049)
Culture & Recreation	2,131,806	226,733	54,250	-	(1,850,823)	-	(1,850,823)
Interest on long-term debt	304,964	-	-	-	(304,964)	-	(304,964)
Total Government Activities	\$ 39,730,073	\$ 7,764,658	\$ 4,912,991	\$ -	\$ (27,052,424)	\$ -	\$ (27,052,424)
Business-type Activities:							
Garbage & Solid Waste	\$ 3,657,715	\$ 4,285,903	\$ -	\$ -	\$ 628,188	\$ -	\$ 628,188
Community Development Services	1,657,448	1,458,542	-	-	(198,906)	-	(198,906)
Water Mitigation	-	105,405	-	-	105,405	-	105,405
Total Business-Type Activities	\$ 5,315,163	\$ 5,849,850	\$ -	\$ -	\$ 534,687	\$ -	\$ 534,687
Total Primary Government	\$ 45,045,236	\$ 13,614,508	\$ 4,912,991	\$ -	\$ (27,052,424)	\$ 534,687	\$ (26,517,737)
General Revenues:							
Property Taxes					\$ 12,942,207	\$ -	\$ 12,942,207
Sales Taxes					10,349,121	-	10,349,121
Other Taxes					4,621,109	-	4,621,109
Unrestricted Grants & Contributions					1,014,739	-	1,014,739
Unrestricted Investment Earnings					1,130,332	27,605	1,157,937
Proceeds on Disposition of Capital Assets					139,859	-	139,859
Transfers					-	-	-
Total General Revenues, Special Items & Transfers					\$ 30,197,368	\$ 27,605	\$ 30,224,973
Change in Net Position					\$ 3,144,944	\$ 562,292	\$ 3,707,236
Net Position as of January 1					\$ 120,120,894	\$ 8,253,455	\$ 128,374,348
Prior Year Adjustment					(4,401)	(3,207)	(7,608)
Balancing item					(12,399)	-	(12,399)
Net Position as of December 31					\$ 123,249,038	\$ 8,812,539	\$ 132,061,578

KITTITAS COUNTY, WASHINGTON

Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	County Road	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 16,956,100	\$ 3,682,852	\$ 8,243,625	\$ 28,882,578
Investments	-	8,997,636	5,679,348	14,676,984
Receivables (net)	2,560,233	180,830	197,109	2,938,171
Due from other funds	219,343	153,310	27,972	400,625
Due from Other Governmental	1,504,627	314,011	1,353,516	3,172,155
Prepaid items	36,332	2,203	10,218	48,753
Total assets	\$ 21,276,636	\$ 13,330,843	\$ 15,511,789	\$ 50,119,267
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued exp.	\$ 569,260	\$ 489,984	\$ 666,075	\$ 1,725,319
Payable to other governments	2,105	13	92,350	94,468
Due to other funds	1,212	389,092	312,637	702,940
Interfund Loans Payable	1,877,956	-	-	1,877,956
Interest Payable	-	-	-	-
Unearned revenue	-	90	449	538
Deposits payable	21,436	7,896	517,279	546,611
Total liabilities	2,471,968	887,075	1,588,789	4,947,833
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources	2,304,013	170,399	284,585	2,758,997
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
	4,775,981	1,057,474	1,873,374	7,706,830
FUND BALANCES				
Non Spendable	52,307	3,253	13,958	69,518
Restricted	3,788,230	12,270,115	10,643,606	26,701,951
Committed	1,207,505	-	1,959,805	3,167,309
Assigned	4,903,418	-	1,021,045	5,924,463
Unassigned	6,549,195	-	-	6,549,195
Total fund balances	16,500,654	12,273,369	13,638,414	42,412,437
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 21,276,636	\$ 13,330,843	\$ 15,511,789	\$ 50,119,267

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	90,725,094
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	2,758,997
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(25,612,183)
Adjustment Related to Pensions -GASB 68	2,413,444
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net position.	10,551,250
Net Position of Governmental Activities	123,249,038

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

KITTITAS COUNTY, WASHINGTON
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	County Road	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 8,605,241	\$ 3,949,488	\$ 626,152	\$ 13,180,881
Sales	6,307,366	-	4,041,755	10,349,121
Other	262,519	9,601	858,053	1,130,173
Licenses & Permits	169,695	19,288	389,207	578,190
Intergovernmental	2,965,194	4,069,071	2,461,065	9,495,329
Charges for Services	2,929,726	280,967	1,628,202	4,838,895
Fines & Forfeitures	1,632,445	-	29,899	1,662,345
Investment Earnings	1,039,633	39,816	24,121	1,103,569
Miscellaneous Revenues	1,081,112	10,358	418,001	1,509,471
Total revenues	\$ 24,982,932	\$ 8,378,588	\$ 10,476,455	\$ 43,847,974
EXPENDITURES				
Current:				
Judicial	\$ 2,616,112	\$ -	\$ 230,522	\$ 2,846,634
General Government	7,226,538	241,970	1,028,566	8,497,074
Public Safety	7,450,427	-	2,581,105	10,031,531
Physical Environ	80,962	-	624,345	705,307
Transportation	3,717	6,329,927	314,709	6,648,353
Health & Human Services	236,712	-	2,380,116	2,616,829
Economic Environment	405,191	-	523,305	928,496
Culture & Recreation	1,391,054	-	480,307	1,871,361
Debt Service:				
Principal	99,462	-	457,910	557,372
Interest/Other Expense	32,632	-	272,331	304,964
Capital Outlay:				
General government	185,730	-	31,157	226,887
Judicial	1,633	-	-	1,633
Public safety	336,526	-	-	336,526
Physical environment	-	-	-	-
Transportation	-	3,461,130	-	3,461,130
Health & Human services	-	-	11,445	11,445
Economic environment	-	-	-	-
Culture & recreation	-	-	-	-
Total expenditures	\$ 1,847,369	\$ 10,033,027	\$ 8,935,819	\$ 40,892,912
Excess (deficiency) of revenues over (under) expenditures	\$ 3,088,866	\$ (1,654,439)	\$ 1,540,636	\$ 2,955,063

Continued on Next Page

KITTITAS COUNTY, WASHINGTON
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	County Road	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 26,792	\$ 150,340	\$ 1,140,873	\$ 1,318,005
Transfers out	(497,324)	(80,203)	(820,681)	(1,398,208)
Debt Proceeds	1,511,000	-	1,511,000	3,022,000
Proceeds on Disposition of capital assets	21,254	-	2,592	23,846
Total other financing sources (uses)	<u>\$ 1,061,722</u>	<u>\$ 70,137</u>	<u>\$ 1,833,784</u>	<u>\$ 2,965,643</u>
SPECIAL ITEMS				
Gain on Disposition of Capital Assets	-	-	-	-
Net change in fund balances	4,130,588	(1,584,302)	3,374,419	5,920,706
Fund balances--beginning	12,370,066	13,857,670	10,264,047	36,491,784
Prior Period Adjustments	-	-	(53)	(53)
Fund balances--ending	<u>\$ 16,500,654</u>	<u>\$ 12,273,369</u>	<u>\$ 13,638,414</u>	<u>\$ 42,412,437</u>
Net changes in fund balances for governmental funds			\$	\$ 5,920,706

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

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Capital Outlays	\$ 5,884,991
Depreciation	(3,732,392)
Reduction Construction in Progress	(470,680)
Cost of Assets Sold	(842,610)
Adjustments to Assets	(214,664)
Donated Assets	71,337
	695,982

The issuance of long-term debt (e.g., bonds, leases) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net position.

Debt Proceeds	\$ (3,022,000)
Debt Retired	557,372
	(2,464,628)

Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.

(178,338)

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

(1,522,669)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.

693,892

Change in Net Position of governmental activities

\$ 3,144,944

KITTITAS COUNTY, WASHINGTON

**Proprietary Funds Statement of Net Position
December 31, 2016**

	Solid Waste	Community Development Services	Water Mitigation	TOTAL Business- type Activities-- Enterprise Funds	Governmental Activities-- Internal Service funds
ASSETS					
Current assets:					
Cash & cash equivalents	\$ 1,755,056	\$ 403,145	\$ 102,655	\$ 2,260,856	\$ 3,080,386
Investments	2,000,622	249,863	-	2,250,485	2,709,997
Receivables	293,563	-	2,750	296,313	1,348
Prepayment for Services	3,915	-	-	3,915	5,576
Due From Funds	-	37	-	37	344,281
Interfund Loan Receivables	1,366,050	-	-	1,366,050	511,906
Inventories	-	-	-	-	436,113
Due From Other governments	40,978	10,012	-	50,990	-
Total Current Assets	\$ 5,460,185	\$ 663,056	\$ 105,405	\$ 6,228,646	\$ 7,089,607
Noncurrent assets:					
Restricted Cash, Cash Equivalents and Investments:					
Cash restricted Debt	-	-	2,517,000	2,517,000	-
Cash restricted for landfill closure & postclosure	227,243	-	-	227,243	-
Investments restricted for landfill closure & postclosure	624,571	-	-	624,571	-
Total Restricted Assets	851,813	-	2,517,000	3,368,813	-
Capital assets:					
Land	280,439	-	-	280,439	97,707
Intangible Assets	40,999	2,590	-	43,589	-
Buildings	1,389,478	-	-	1,389,478	936,747
Improvements	4,538,949	-	-	4,538,949	221,046
Equipment	1,686,104	119,602	-	1,805,707	8,148,709
Construction in progress	294,742	-	-	294,742	89,553
Less Depreciation	(3,782,659)	(57,056)	-	(3,839,715)	(5,823,093)
Total Capital Assets	\$ 4,448,052	\$ 65,136	\$ -	\$ 4,513,189	\$ 3,670,669
Total Noncurrent Assets	5,299,865	65,136	2,517,000	7,882,002	3,670,669
Deferred Outflow of Resources	-	-	-	-	-
Deferred Outflow of Resources-Pension	54,917	77,656	-	132,573	-
Total Assets and Deferred Outflows	\$ 10,814,967	\$ 805,849	\$ 2,622,405	\$ 14,243,221	\$ 10,760,276
LIABILITIES					
Current liabilities:					
Accounts payable and accrued exp.	\$ 507,120	\$ 9,981	\$ -	\$ 517,101	\$ 177,226
Due to other funds	24,674	7,270	-	31,944	10,059
Due to other governments	43	-	-	43	143
Unearned Revenue	-	-	-	-	-
Landfill Closure Cost	207,462	-	-	207,462	-
Compensated absences	2,059	4,191	-	6,250	-
Bonds, notes, loans payable	75,000	-	795,000	870,000	-
Total Current Liabilities	\$ 816,357	\$ 21,442	\$ 795,000	\$ 1,632,799	\$ 187,429
Noncurrent liabilities:					
Compensated absences	\$ 111,399	\$ 87,704	\$ -	\$ 199,103	\$ -
Bonds, notes, loans payable	375,001	-	1,722,000	2,097,001	-
Pension Obligations	219,985	308,423	-	528,408	-
Condo Reserves	-	-	-	-	21,597
Landfill Closure Cost	935,374	-	-	935,374	-
Total Noncurrent Liabilities	\$ 1,641,759	\$ 396,127	\$ 1,722,000	\$ 3,759,886	\$ 21,597
Deferred Inflow of Resources	-	-	-	-	-
Deferred Inflow of Resources - Pensions	16,663	21,334	-	37,997	-
Total Combined Liabilities and Deferred Inflows of Resources	\$ 2,474,778	\$ 438,903	\$ 2,517,000	\$ 5,430,682	\$ 209,025
NET POSITION					
Net Investment in Capital Assets	\$ 3,998,051	\$ 65,136	\$ -	\$ 4,063,187.81	\$ 3,670,669
Restricted Net Position	1,153,626	300	-	1,153,925.57	3,672,782
Unrestricted Net Position	3,188,512	301,509	105,405	3,595,426.04	3,207,799
Total Net Position	\$ 8,340,189	\$ 366,946	\$ 105,405	\$ 8,812,539	\$ 10,551,250
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:	-	-	-	-	-
Net Position of business-type activities	\$ 8,340,189	\$ 366,946	\$ 105,405	\$ 8,812,539	\$ 10,551,250

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

KITTITAS COUNTY, WASHINGTON

**Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2016**

	<u>Solid Waste</u>	<u>Community Development Services</u>	<u>Water Mitigation</u>	<u>TOTAL Business-type Activities-- Enterprise Funds</u>	<u>Governmental Activities- Internal Service funds</u>
OPERATING REVENUES					
Charges for Services:					
Garbage & Solid Waste	\$ 4,285,877	\$ -	\$ -	\$ 4,285,877	\$ -
Other services	-	1,458,542	105,405	1,563,947	2,601,315
Total operating revenues	\$ 4,285,877	\$ 1,458,542	\$ 105,405	\$ 5,849,824	\$ 2,601,315
OPERATING EXPENSES					
Operations and Cost of Sales	\$ 3,279,340	\$ 1,627,710	\$ -	\$ 4,907,050	\$ 1,417,922
Administrative, General & Maintenance	-	-	-	-	103,750
Depreciation	307,127	26,379	-	333,506	601,417
Total operating expenses	\$ 3,586,467	\$ 1,654,090	\$ -	\$ 5,240,557	\$ 2,123,089
Operating income (loss)	\$ 699,410	\$ (195,548)	\$ 105,405	\$ 609,267	\$ 478,226
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	\$ 26,824	\$ 781	\$ -	\$ 27,605	\$ 26,762
Debt Interest Expense	(2,625)	-	-	(2,625)	-
Gain (loss) on Disposition of Capital Assets	26	-	-	26	116,013
Landfill Closure Revenues (Cost)	(57,156)	-	-	(57,156)	-
Compensated Absences	(11,467)	(3,358)	-	(14,825)	-
Miscellaneous nonoperating revenues (expenses)	-	-	-	-	(7,312)
Total non-operating income (expense)	\$ (44,399)	\$ (2,577)	\$ -	\$ (46,976)	\$ 135,463
Income before contributions & transfers	\$ 655,012	\$ (198,125)	\$ 105,405	\$ 562,292	\$ 613,689
Capital Contributions	-	-	-	-	-
Transfers In	-	-	-	-	80,203
Change in net assets	\$ 655,012	\$ (198,125)	\$ 105,405	\$ 562,292	\$ 693,892
Net Position--beginning	7,688,384	565,070	-	8,253,455	9,861,813
Prior Year Adjustment	(3,207)	-	-	(3,207)	(4,455)
Net Position--ending	\$ 8,340,189	\$ 366,946	\$ 105,405	\$ 8,812,539	\$ 10,551,250

KITTITAS COUNTY, WASHINGTON

Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2016

	Solid Waste	Community Development Services	Water Mitigation	TOTAL Business-type Activities-- Enterprise Funds	Governmental Activities Internal Service funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 4,306,531	\$ 1,548,908	\$ 102,655	\$ 5,958,094	\$ 2,566,117
Cash payments to suppliers	(2,951,825)	(1,646,642)	-	(4,598,467)	(1,460,620)
Net cash provided (used) by operating activities	\$ 1,354,706	\$ (97,734)	\$ 102,655	\$ 1,359,626	\$ 1,105,497
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfer from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Received (Paid) on loans from other funds	159,895	-	-	159,895	-
Non-Operating Rents and Charges	-	-	-	-	-
Net cash provided from noncapital activities	\$ 159,895	\$ -	\$ -	\$ 159,895	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from Sale of Capital Assets	\$ 26	\$ -	\$ -	\$ 26	\$ 116,013
Payments for Capital Acquisition	(328,509)	(2,590)	-	(331,100)	(253,828)
Proceeds from Debt	-	-	2,517,000	2,517,000	-
Transfer from Other Funds In (Out)	-	-	-	-	80,203
Payment on Long Term Debt	(75,000)	-	-	(75,000)	-
Debt Interest Expense	(2,625)	-	-	(2,625)	-
Net cash provided (used in) capital financing activities	\$ (406,109)	\$ (2,590)	\$ 2,517,000	\$ 2,108,301	\$ (57,612)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment Interest	\$ 26,341	\$ 781	\$ -	\$ 27,122	\$ 26,302
Interfund Loans Receivable	-	-	-	-	984,746
Prior Year Adjustment Cash in Bank	-	-	-	-	-
Proceeds Reserves Condominium	-	-	-	-	2,745
Purchase of Investment	246,258	(249,863)	-	(3,605)	(11,048)
Net cash flows from investing activities	\$ 272,600	\$ (249,082)	\$ -	\$ 23,518	\$ 1,002,745
Net increase (decrease) in cash and cash equivalent	\$ 1,381,092	\$ (349,407)	\$ 2,619,655	\$ 3,651,340	\$ 2,050,630
Cash and cash equivalents at beginning of year	\$ 601,207	\$ 752,551	\$ -	\$ 1,353,758	\$ 1,029,756
Cash and cash equivalents at end of year	\$ 1,982,298	\$ 403,145	\$ 2,619,655	\$ 5,005,098	\$ 3,080,387
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Net operating income (loss)	\$ 699,410	\$ (195,548)	\$ 105,405	\$ 609,267	\$ 478,226
ADJUSTMENT TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Depreciation expense	\$ 307,127	\$ 26,379	\$ -	\$ 333,506	\$ 601,417
Pension Expense	1,260	1,827	-	3,087	-
(Increase) decrease in Accounts Receivable	(9,389)	-	(2,750)	(12,139)	(306)
(Increase) decrease in Due from other Funds	-	100,378	-	100,378	(34,892)
(Increase) decrease in Due from other Governmental	30,043	(10,012)	-	20,031	-
(Increase) decrease in Prepayment for Services	(842)	-	-	(842)	(2,191)
Increase (decrease) in Salaries payable	6,356	-	-	6,356	-
Increase (decrease) in Vouchers Payable	300,617	(20,248)	-	280,370	-
Increase (decrease) in Unearned Revenue	-	-	-	-	-
Increase (decrease) in Due to other Funds	20,179	(512)	-	19,668	5,299
Increase (decrease) in Inventory	-	-	-	-	20,168
Increase (decrease) in Payables	-	-	-	-	43,049
Increase (decrease) in Due to other Governments	-	-	-	-	(5,274)
Increase (decrease) in Taxes Payable	(56)	-	-	(56)	-
Total Adjustments	\$ 655,295	\$ 97,814	\$ (2,750)	\$ 750,359	\$ 627,271
Net cash provided by operating activities	\$ 1,354,706	\$ (97,734)	\$ 102,655	\$ 1,359,626	\$ 1,105,497

KITTITAS COUNTY, WASHINGTON

**Statement of Fiduciary Net Position
December 31, 2016**

	Private Purpose Trust	Agency Funds
ASSETS		
Cash/Petty Cash	\$ 5,185	\$ 13,651,283
Cash with Fiscal Agency	-	136,115
Investments	1,971	50,177,148
Taxes Receivable	-	1,776,751
Other Receivables	<u>1</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 7,156</u>	<u>\$ 65,741,297</u>
DEFERRED OUTFLOWS of RESOURCES		
LIABILITIES		
Warrants Payable	\$ -	\$ 5,142,227
Salary/Vouchers Payable	-	499,081
Custodial Accounts	<u>-</u>	<u>58,323,237</u>
TOTAL LIABILITIES	\$ -	\$ 63,964,546
DEFERRED INFLOWS of RESOURCES		
Deferred Inflows of Resources - Taxes	<u>-</u>	<u>1,776,751</u>
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	-	65,741,297
NET POSITION		
Held in Trust for Other Purposes	<u>\$ 7,156</u>	<u>\$ 0</u>
Total Net Position	<u>\$ 7,156</u>	<u>\$ 0</u>

KITTITAS COUNTY, WASHINGTON

**Statement of Change in Fiduciary Net Position
Private Purpose Trust
For the Year Ended December 31, 2016**

		Private Purpose Trust
Additions		
Investment Earnings	\$	8
Miscellaneous Revenues		<u>-</u>
Total Additions	\$	8
Deductions		
Culture & Recreation	\$	<u>-</u>
Total Deductions	\$	<u>-</u>
Change in Net Position		
Net Position--beginning		8
		<u>7,148</u>
Net Position--ending	\$	<u><u>7,156</u></u>

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

KITTITAS COUNTY, WASHINGTON
Notes to the Basic Financial Statements
Dated as of and for the year Ended December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kittitas County have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The chart of accounting conforms to the Budgeting, Accounting, and Reporting Systems (BARS) prescribed by the office of the State Auditor, to promote uniformity among cities and counties of Washington resulting in better comparability. The significant accounting policies are described below.

A. REPORTING ENTITY

Kittitas County was dedicated by the State of Washington as a public entity on November 28, 1883 and operates under the laws of the State of Washington applicable to a fourth-class County with a commissioner form of government. The accounting and reporting policies of the County conform to generally accepted accounting principles for local governments.

Kittitas County is a general purpose government and provides public safety, road improvement, parks and recreation, judicial administration, health and social services, airport and general administration services. In addition, the County owns a solid waste disposal system. Kittitas County's combined financial statements include the financial positions and results of operations which are controlled by or dependent on the County (except that the operations of and equity in joint ventures are not included in the statements as explained in note 15). Control by the County was determined on the basis of budget adoption and resource allocation criteria. Dependence on the County was determined by the County's obligation to redeem the organization's debts, to finance the organization's deficits and the extent to which subsidies from the County constitute a major portion of the organizations' total non-grant resources. The financial statements include the assets and liabilities of all funds for which the county has a custodial responsibility.

The Agency funds, which include Irrigation, Fire, Hospital, PUD, School, Sewer, Cemetery, Water, Weed, Parks & Recreation, Cities, and State Funds, are reported as Fiduciary funds. Kittitas County does not significantly contribute to or control the operations of these districts; however the County Treasurer acts as the "bank" for these fund types and is charge with the collection of the taxes.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of Kittitas County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

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

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

Kittitas County reports the following major funds: the General Fund is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The major fund reported is County Road. In the Proprietary funds, Solid Waste is considered a major fund but we choose to report both Solid Waste, Community Development Services and Water Mitigation. Additionally, reported are the following fund types: Internal service funds account for Equipment, Rental & Revolving and Unemployment Compensation provided to other departments of the county on a cost reimbursement basis.

Governmental Accounting Standards Board (GASB) defines major funds as those meeting the following criteria:

- Total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues, and other financing sources, or expenditures/expenses and other financing uses of the individual governmental or enterprise fund are equal to or greater than 10 percent of the corresponding element total (assets, liabilities, and so forth) for all funds that considered governmental funds or enterprise funds.
- Total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Both criteria must be met in the same element (assets, liabilities, etc.) for both the 10 percent and 5 percent tests for a fund to be defined as major. However, Statement 34 permits a government to designate a particular fund that is of interest to users as a major fund and to individually present its information in the basic financial statements, even if it does not meet the criteria. However, a government does not have the option to NOT report a fund as major if it meets the criteria above.

It should be noted that in applying the major fund criteria to enterprise funds, the reporting entity should consider both operating and non-operating revenues and expenses, as well as gains, losses, capital contributions, additions to permanent endowments, and special items. When the major fund criteria are applied to governmental funds, revenues do not include other financing sources and expenditures do not include other financing uses. However, special items would be included.

The private-purpose trust fund is used to account for the Jerry Williams Library Trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option

of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

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

As required by GASB 34, Kittitas County's procedure was to use non-restricted resources first and then restricted resources as needed. With GASB 54 our procedure is to have committed amounts reduced first, followed by assigned amounts, and then unassigned, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

D. BUDGETARY INFORMATION

1. SCOPE OF BUDGET

Annual appropriated budgets are adopted for the General and Special Revenue Funds on the modified accrual basis of accounting, except Treasurer M&O as per RCW 84.56.020 no budget is required. All Proprietary funds are budgeted on a full accrual basis. For Governmental Funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted Governmental Funds only. NCGA Statement 1 does not require and the financial statements do not present budgetary comparisons for proprietary fund types.

Annual appropriated budgets are adopted at the level of each fund and the budget constitutes the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for all funds lapse at year-end.

2. AMENDING THE BUDGET

The County Auditor is authorized to transfer budget amounts between object classes within departments. However, any revisions that alter the total budget of a fund, or that affect the number of authorized employee positions, salary ranges, hours or other conditions of employment must be approved by the County Commissioners.

When the County determines that it is in the best interest of the County to increase or decrease the appropriations for a particular fund/department it may do so by resolution approved by a simple majority after holding a public hearing. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

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

E. ASSETS, LIABILITIES, FUND BALANCE, NET POSITION

1. CASH AND EQUIVALENTS

It is the County's policy to invest all temporary cash surplus. The amounts are classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is credited to the General Fund.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered.

The County's deposits at year-end were entirely covered by Federal Depository Insurance and the State Public Deposit Protection Commission.

For purposes of the statement of cash flows the proprietary Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. TEMPORARY INVESTMENTS

See Investment Note 3.

3. RECEIVABLES

Taxes & Assessment receivables consist of property taxes and related interest and penalties, see Property Taxes Note 4. Taxes and Assessment receivables are offset by deferred inflow of resources.

Accrued interest receivables consist of amounts earned on investments, notes and contracts at the end of the year.

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

4. AMOUNTS DUE TO/FROM OTHER FUNDS INTERFUND LOANS/ AND ADVANCES RECEIVABLE

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Interfund Balances and Transfers Note No. 13.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. INVENTORIES

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

Inventories in Proprietary Funds are valued at cost using the average cost method, which approximates the market value. Items that are inventoried are Pits, Central Stores, Mechanical Parts, Fuel Depot and Sign Inventory. The amount of the inventory will be recorded as reserved in Net Position. Inventories in proprietary funds are valued by the average method (which approximates the market value).

6. CAPITAL ASSETS

See Note Number 5.

Capital assets, which includes property, plant, equipment, and infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the county 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. Kittitas County has elected to use the modified approach to account for the infrastructure account; Gravel Roads, which eliminates the need to report depreciation expense.

Computer Software is reported as Intangible Assets with a capitalization limit of \$5,000 and is not depreciated.

Capital Leases are defined as long term debt to the county. The asset is tracked but there is not value placed in the Capital Assets. Capital Leases are determined by one of the following four criteria; 1) The lease transfers ownership of the property to the lessee by, or at, the end of the lease term; 2) The lease contains an option to purchase the leased property at a bargain price; 3) The lease is equal to or greater than 75% of the estimated economic life of the leased property; 4) The present value of rental and other minimum lease payments, excluding that portion representing executory costs to be paid by the lessor, equals or exceeds 90% of the fair value of the lease property. See Note Number 10.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There were no projects in 2016 that had interest allocated to an asset.

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

Assets	Years
Buildings & Improvements	5-60
Improvements other than Buildings	5-50
Machinery & Equipment	3-20
Roads, Guardrails & Traffic Signals	20
Bridges	51

7. OTHER PROPERTY AND INVESTMENTS

See Deposits and Investments Note No 3.

8. COMPENSATED ABSENCES

The County records all accumulated unused vacation, sick leave and compensatory time. For Governmental Funds, unused vacation, sick leave and compensatory time are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In Proprietary funds, the expenses are accrued when incurred and the liability is recorded in the fund.

Vacation pay, which may be accumulated up to 30 days is payable upon resignation, retirement or death; sick leave may accumulate up to a maximum of 1056 - 1120 hours; twenty-five percent of outstanding sick leave is payable upon retirement, lay-off or death, depending on which bargaining unit the employee belongs. The following is a schedule of those bargaining units:

Washington State Council of County & City Employees
Local 792CH - Courthouse Employees
Vacation - accumulated to a total of 30 working days

Sick - accumulated to a total of 140 working days
 Local 792 - County Road Employees
 Vacation - accumulated to a total of 30 working days
 Sick - accumulated to a total of 140 working days
 Local 2658 - Appraisers
 Vacation - accumulated to a total of 30 working days
 Sick - accumulated to a total of 140 working days
 Teamsters
 Local 760 - Sheriff Deputies & Correction Officers
 Vacation - accumulated to a total of 30 working days
 Sick - accumulated to a total of 132 working days
 Local 760 - Misdemeanant Probation
 Vacation - accumulated to a total of 30 working days
 Sick - accumulated to a total of 140 working days
 Non-Union Personnel Policies
 Vacation - accumulated to a total of 30 working days
 Sick - accumulated to a total of 140 working days

9. LONG-TERM DEBT

See Long-Term Debt and Leases Note No 9.

10. DEFERRED OUTFLOW/INFLOW OF RESOURCES

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

This account also includes amounts received in the current fiscal period that are for the next fiscal period and is the offset account for taxes and assessment receivables. Also included are court receivables for the General Fund and Misdemeanant Probation. This account includes amounts recognized as a receivable, but not revenues in Governmental Funds because the revenue recognition criteria have not been met.

11. FUND RESERVES AND DESIGNATIONS

Kittitas County has an adopted policy to maintain unrestricted fund balance in the general fund of not less than two months of regular general fund operating expenditures

A. Governmental Fund Types

Fund Balance types for Governmental Fund Types and reporting practice

Non-spendable Fund Balance:

Non-spendable Fund Balance is the portion of fund balance including amounts that cannot be spent and are, therefore, not included in the current year appropriation. There are two components to this fund balance category: 1) not in spendable form and 2) legally or contractually required to be maintained intact.

Petty Cash, Revolving Funds and Till Accounts: The portion of fund balance that represents the asset amount of petty cash, held by a given fund as authorized by the Board of County Commissioners.

Inventories: The portion of fund balance that represents the asset amount of supply inventories, held by a given fund.

Prepaid Expenditures: The portion of fund balance that represents the asset amount of prepaid expenditures, held by a given fund.

Notes Receivable: The portion of fund balance that represents the asset amount of notes receivable, held by a given fund as authorized by the Board of County Commissioners.

Advances to Other Funds: The portion of fund balance that represents the asset amount of cash advanced to other funds, held by a given fund, as authorized by the Board of County Commissioners.

Loans Receivable: The portion of fund balance that represents the asset amount of loans receivable, held by a given fund, as authorized by the Board of County Commissioners.

Restricted Fund Balance:

Restricted Fund Balance reports on resources that have spending constraints that are either 1) externally imposed by creditors, grantors, contributors or laws and regulation of other governments or 2) imposed by law through constitutional provisions or enabling legislation. The amounts represented by this fund balance category have very stringent conditions imposed by external parties or by law.

Debt Redemption: The portion of fund balance derived from those funds within a given fund that has been set aside for debt redemption.

Bond Reserve: The portion of fund balance derived from those funds that are set aside from debt proceeds and maintained as a security for holders of the debt.

Fund Balance Restricted: The portion of fund balance that is in any governmental fund that is restricted under the “Restricted Fund Balance” definition as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

Committed Fund Balance:

Committed Fund Balance represents amounts that have internally imposed restrictions mandated by formal action by the government’s highest level of decision- making authority, Board of County Commissioners. The committed amounts cannot be redeployed for other purposes unless the same type of formal action is taken by the Board of County Commissioners to reverse or modify the previously imposed restriction.

Capital Projects: The portion of fund balance that has been appropriated for specified capital projects and remains unspent.

OPEB Expenditures: The portion of fund balance that is set aside each year during budget adoption to be used in future years to meet the County’s OPEB obligations.

Fund Balance – Committed: The portion of fund balance that is in any governmental fund that is committed under the “Committed Fund Balance” as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

Assigned Fund Balance:

Assigned Fund Balance reports amounts that are constrained by the governments’ intent that they will be used for specific purposes. Decision-making with regard to these amounts may be made by a committee or other governmental official.

GASB 31 Adjustment: Used to account for that portion of fund balance that is the result of unrealized investment gains that have been recorded in accordance with Governmental Accounting Standards Board Statement No. 31.

Encumbrances: Used to account for that portion of fund balance that portion of fund balance that is being used to fund appropriations being carried over from the prior year into the current fiscal year.

Rainy Day Fund: Used to account for the rainy day fund established by the management team in

accordance with the current policy.

New Year Budget Appropriation – The appropriation of existing fund balance to eliminate the projected budgetary deficit in the subsequent year’s budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

Fund Balance – Assigned: The portion of fund balance that is in any governmental fund that is committed under the “Assigned Fund Balance” as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

Unassigned Fund Balance (General Fund Only):

Unassigned Fund Balance is the residual fund balance for the General Fund. While the unassigned is intended to report exclusively by the General Fund, there is an exception that if any other fund type has a negative fund balance due to expenditures incurred exceeding the amount other fund balances types, then the funds would be reported as a negative unassigned fund balance.

Prior Year Available Fund Balance: The portion of fund balance that is brought forward from the prior fiscal year and is available for appropriation to fund current fiscal year activities.

Fund Balance: Any portion of fund balance that does not fall under any of the fund balance definitions presented above.

Fund Balance Actuals

The following is the classifications for the Governmental funds fund balances as of December 31, 2016:

	General Fund	Road Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Prepaid items	36,332	2,203	10,218	48,753
Petty Cash	15,975	1,050	3,740	20,765
Total Nonspendable	52,307	3,253	13,958	69,518
Restricted for:				
Law & Justice	3,738,230	-	-	3,738,230
Paths Trails	-	112,349	-	112,349
Information Technology	50,000	-	-	50,000
Special Revenue	-	12,157,766	7,857,248	20,015,014
Construction Performance Bond	-	-	-	-
GO Refunding Bond	-	-	9,790	9,790
Refund Fund	-	-	310	310
206 CRID 96-1 Bond	-	-	174,235	174,235
CRID Guaranty Fund	-	-	3	3
Other Capital Projects	-	-	2,602,020	2,602,020
Total Restricted	3,788,230	12,270,115	10,643,606	26,701,951
Committed to:				
Vehicle Replacement	838,725	-	-	838,725
Special Revenue	-	-	1,941,573	1,941,573
County Capital Improvements	368,780	-	-	368,780
Rodeo Grounds Capital Improvements	-	-	18,232	18,232
Total Committed	1,207,505	-	1,959,805	3,167,309
Assigned to:				
NY Budget	4,903,418	-	-	4,903,418
Special Revenue	-	-	1,021,045	1,021,045
Equipment Reserve	-	-	-	-
Total Assigned	4,903,418	-	1,021,045	6,943,864

Unassigned	6,549,195	-	-	6,549,195
Total Fund Balance	16,500,654	12,273,369	13,638,414	42,412,437

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

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental funds' balance sheet includes reconciliation between fund balance – total governmental funds and net position–governmental activities as reported in the government-wide statement of net position.

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

December 31, 2016 Total Fund Balance		\$42,412,437
Capital assets used in governmental activities are not financial resources and are not reported in the funds		90,725,094
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds		2,758,997
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(25,612,183)
Adjustment Related to Pensions-GASB 68		2,413,444
Internal service funds are used by management to change the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net position		<u>10,551,250</u>
Net adjustment to increase total governmental funds to arrive at net position-governmental activities		<u>\$123,249,038</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

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

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

December 31, 2016 Net Changes in Fund Balances for Governmental Funds		\$5,920,706
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Capital outlays	5,884,991	
Depreciation	(3,732,392)	
Reduction Construction in Progress	(470,680)	
Cost of Assets Sold	(842,610)	
Adjustments to Assets	(214,664)	
Donated Assets	71,337	695,982

The issuance of long-term debt (e.g., bonds, leases) is a resource and the repayment of

bond principle is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net position.

Debt Proceeds	(3,022,000)	
Debt Retired	<u>557,372</u>	(2,464,628)
Some revenues reported in the statement of activities are not yet available and therefore are not reported as revenues in the governmental funds		(178,338)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		(1,522,669)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities		693,892
Change in Net Position of governmental activities		<u>\$3,144,944</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

The County maintains deposit relationships with several Washington State commercial banks and savings and loan institutions.

The Public Deposit Protection Commission of the State of Washington (PDPC) covers all deposits not covered by the Federal Depository Insurance Corporation (FDIC). The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool that insures public deposits. In such a pool, a group of financial institutions, holding public funds, pledge collateral to a common pool. The PDPC provides protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, by monitoring the financial condition of all public depositories, and by optimizing collateralization requirements. All deposits are held by the County's agent, in the name of the County.

B. CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in event of a failure of the counterparty to an investment transaction the county would not be able to recover the value of the investment or collateral securities. The county's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Kittitas County does not participate in making deposits or investments that are exposed to this type of risk.

C. INVESTMENTS

For investment purposes, the County uses the fund by fund approach of cash balances of County funds and allows for participation by other legally separate entities such as special districts and public agencies, for which the

County is *ex officio* treasurer. Kittitas County plans to establish an Investment Pool effective January 1, 2018.

Through the office of the County Treasurer, Kittitas County collects taxes, licenses, fees and other revenues. It collects not only for the County but also for special purpose districts located within the County. In its custodial role, the Treasurer has the authority to deposit any public funds available for investment and to secure those funds by appropriate collateral. Cash is deposited and invested on behalf of the County and local districts as legally prescribed in the form of certificates of saving or time accounts, in designated qualified public depositories, or in municipal bonds of the State of Washington, or in certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or at any corporation wholly owned by the government of the United States; in bankers' acceptances purchased on the secondary market; in federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures or guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board or governors of the Federal Reserve System; or deposit such funds or any portion thereof in investment deposits. Starting in 2016 the State Treasurer allowed counties the authority to purchase corporate notes.

The County invests in the Washington State Treasurer's Local Investment Pool (LGIP). The amount is carried at amortized cost, which approximates fair value. The LGIP is a 2a7-like pool that is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee and the Washington State Auditor's Office. The LGIP also contracts for an annual outside independent audit. The State Treasurer's Office maintained a third-party custodial arrangement with Citibank N.A. during 2016, in order to provide a high level of safety. The LGIP also publishes monthly, quarterly and annual reports that allow participants to stay abreast of LGIP issues and activity.

Money from districts who have not directed the County Treasurer by written or electronic request to place individual investments, as well as County departments that cannot invest their own money, is invested by the Treasurer as surplus cash. The interest on these investments is credited to the General Fund, except where prohibited by statute or bond covenant.

The total of Kittitas County's investments totaled \$117,721,513 on December 31, 2016. Premiums and discounts are distributed in earnings to the fund in which earned. Management intends to hold all time deposits and securities until maturity. During 2016, the County did not realize any gains or losses from the sale of investments because management held all securities until maturity.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The policy also states that no single security will be purchased with a maturity date of more than three years from the date of purchase.

Kittitas County measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy by: Level 1 Quoted prices in active markets for identical assets or liabilities, Level 2 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, or Level 3 Unobservable inputs for an asset or liability. As of December 31, 2016, Kittitas County had the following fair value measurement:

<u>Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Agency Notes	\$0	\$ 299,922	\$0	\$ 299,922
Municipal Bonds	<u>\$0</u>	<u>\$4,265,876</u>	<u>\$0</u>	<u>\$4,265,876</u>
Total	\$0	\$4,565,798	\$0	\$4,565,798

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County investment policy minimizes its credit risk by limiting investments to selected types of securities and pre-qualifying the financial institutions, broker/dealers and intermediaries with which the County will do business. The credentials of these business partners are reviewed at least annually. Kittitas County did not have securities lending transactions in 2016.

Concentration of credit risk on investments is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County's investment policy minimizes concentration risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. The County continues to work towards diversifying its portfolio. Below you will see investments measured at amortized cost as of December 31, 2016.

<u>Type of Investment</u>	<u>Maturities</u>	<u>County's own investments</u>	<u>Investments held by county as an agent for others</u>	<u>Total</u>
State Investment		\$70,441,155	\$42,714,560	\$113,155,715

D. Investments by Fund

Fund	Total Investments
County Road	\$8,997,636
Special Revenue-Non Major	5,036,726
Debt Service	324,453
Capital Projects	318,169
Total Governmental Funds	14,676,984
Proprietary Fund	2,875,056
Internal Service Funds	2,709,997
Total Proprietary Funds	5,585,053
Agency Funds	50,179,118
TOTAL	\$70,441,155

Balance Sheet – Governmental Funds				
	General Fund	County Road	Other Governmental Funds	Total Governmental Funds
Assets				
Investments	\$ -	\$8,997,636	\$5,679,348	\$14,676,984

Proprietary Funds Statement of Net position		
	Business-type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Assets		
Investments	\$2,875,056	\$2,709,997

Agency Funds Combining Balance Sheet	
Assets	
Investments	\$50,179,118

NOTE 4 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar	
January 1	Taxes are 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% of market value
October 31	Second installment is due

Property taxes are recorded as a receivable when levied, offset by deferred inflows of resources. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 60 days. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

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

A. Washington State Law RCW's 84.55.010 and 84.55.0101 limits the growth of regular property taxes to 1 percent or less per year, plus adjustments for new construction. If the assessed valuation increases due to revaluation, the levy rate will be decreased.

B. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

For 2015 for the 2016 tax County levied the following property taxes on an assessed value of \$6,037,489,794. The Road district property value assessed was \$4,329,898,002.

Fund	Levy	Amount
General fund	1.370508	\$8,274,428.06
Mental Health/Development Disabilities	.025000	150,937.24
Veterans Relief	.007453	44,997.41
Total General fund Levy	1.402961	\$8,470,362.72
Road Levy	.888275	\$3,846,140.15
County Road Diverted	.046190	199,997.99
Total Road Levy	.934465	\$4,046,138.14
Flood Control Regular Levy	.069401	419,007.83
GRAND TOTAL	2.439912	\$12,935,508.68

NOTE 5 – CAPITAL ASSETS

A. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is shown by asset type in the following table. The largest increase occurred under Government Activities in Land for the purchase of Shady Brook Mobile Home Court in the amount of \$1,146,773. This also included \$304,838 in Buildings and Improvements for a total of purchase cost of \$1,451,611.

(including Internal Service Funds) GOVERNMENT ACTIVITIES	Beginning Balance	Increase	Decrease	Adjustments	Ending Balance
Assets not being depreciated					
Land	4,087,878	1,172,533	-	-	5,260,412
Infrastructure - Gravel Roads*	3,995,365	-	11,154	-	3,984,211
Land - Easements & Right of Ways	5,278,025	-	-	-	5,278,025
Intangible Assets	1,732,114	176,803	12,680	-	1,896,237
Intangible Assets - Water Banks	2,496,651	-	-	-	2,496,651
Construction in Progress	868,035	743,921	501,847	(207,436)	902,672
Total	18,458,069	2,093,257	525,681	(207,436)	19,818,209
Assets Being Depreciated					
Buildings & Improvement	36,822,009	321,348	108,489	(5,248)	37,029,620
Improvements	2,504,407	68,387	-	-	2,572,794
Equipment	13,112,218	719,059	1,133,424	-	12,697,853
Infrastructure	155,441,110	3,044,520	-	(7,228)	158,478,402
Total	207,879,744	4,153,314	1,241,913	(12,476)	210,778,669
Grand Total	226,337,814	6,246,571	1,767,594	(219,912)	230,596,878
Less accumulated depreciation for:	Beginning Balance	Increase	Decrease		Ending Balance
Buildings & Improvements	13,540,325	1,078,758	58,433	-	14,560,650
Improvements	1,345,400	182,143	-	-	1,527,543
Equipment & Machinery	9,146,968	864,080	1,124,086	-	8,886,961
Infrastructure	108,250,439	2,982,751	-	(7,228)	111,225,962
Total	132,283,131	5,107,732	1,182,519	(7,228)	136,201,116
Total Government Activities, net	94,054,683	1,138,839	585,075	(227,140)	94,395,762
BUSINESS TYPE ACTIVITIES	Beginning Balance	Increase	Decrease		Ending Balance
Assets not being depreciated					
Land	2,285,908	-	-	-	2,285,908
Intangible Assets	39,704	3,885	-	-	43,589
Construction in Progress	-	294,742	-	-	294,742
Total	2,325,612	298,628	-	-	2,624,240
Assets Being Depreciated					
Buildings & Improvement	1,389,478	-	-	-	1,389,478
Improvements	2,533,480	-	-	-	2,533,480
Equipment	1,773,235	32,472	-	-	1,805,707
Total	5,696,193	32,472	-	-	5,728,665
Grand Total	8,021,805	331,100	-	-	8,352,904
Less accumulated depreciation for:	Beginning Balance	Increase	Decrease		Ending Balance
Buildings & Improvements	757,694	51,831	-	-	809,525
Improvements	1,739,091	99,375	-	-	1,838,466
Equipment & Machinery	1,009,424	182,300	-	-	1,191,723
Total	3,506,209	333,506	-	-	3,839,715
Business Activities Capital Assets, net	4,515,596	(2,407)	-	-	4,513,189

B. ADJUSTMENTS

An adjustment of \$207,436 was made to Construction in Progress for abandoned road projects.

C. DEPRECIATION EXPENSE

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

Government Activities	
Function/Program	Amount
Government activities	\$637,787
Judicial Services	38,061
Public Safety	222,069
Physical Environment	6,547
Transportation	3,904,155
Health and Human Service	11,861
Economic Environment	0
Culture and Recreation	287,252
Total	\$5,107,732

Depreciation expense was charged to the business activities as follows:

Business Activities	
	Amount
Solid Waste & Garbage	\$307,127
Community Development Services Public Safety	18,346
Community Development Services Economic Environment	8,033
Total	\$333,506

*See Required Supplementary Information

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	\$(11,476,870)
Pension assets	556,299
Deferred outflows of resources	2,452,524
Deferred inflows of resources	(500,801)
Pension expense/expenditures	1,037,130

State Sponsored Pension Plans

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

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

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98540-8380

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

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:

- 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 county actual PERS plan contributions were \$638,541 to PERS Plan 1 and \$683,790 to PERS Plan 2/3 for the year ended December 31, 2016.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full time basis and:

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

PSERS membership includes:

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

- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member’s 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member’s age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 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. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2016 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.54%	6.59%

The county actual plan contributions were \$84,928 to PSERS Plan 2 and \$61,473 to PERS Plan 1 for the year ended December 31, 2016.

Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)

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 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other 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. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%

The county actual contributions to the plan were \$119,395 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the county as its proportionate share of this amount is \$39,225.

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:** 3.0% 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.
- 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.

		% Long-Term Expected
--	--	-----------------------------

Asset Class	Target Allocation	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 the Net Pension Liability/(Asset)

The table below presents the county proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the county 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	\$6,890,469	\$5,713,966	\$4,701,514
PERS 2/3	10,326,719	5,608,751	(2,919,679)
PSERS 2	670,359	154,384	(213,147)
LEOFF 1	(59,006)	(99,330)	(133,798)
LEOFF 2	1,281,468	(456,969)	(1,767,246)

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 county reported a total pension liability of \$11,476,870 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$5,713,966
PERS 2/3	5,608,751
PSERS 2	154,153
LEOFF 1	(99,330)
LEOFF 2	(456,969)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the county. The amount recognized by the county as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the county were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	(99,330)	(456,969)
State's proportionate share of the net pension asset associated with the employer	(671,865)	(297,911)
TOTAL	(771,195)	(754,880)

At June 30, the county 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	.110864%	.106396%	.004468%
PERS 2/3	.118491%	.111397%	.007094%
PSERS 2	.424215%	.362730%	.061485%
LEOFF 1	.009538%	.009641%	(.000103%)
LEOFF 2	.099703%	.078567%	.021136%

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, 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 county recognized pension expense as follows:

	Pension Expense
PERS 1	\$65,640
PERS 2/3	715,938
PSERS 2	109,100
LEOFF 1	-13,879
LEOFF 2	160,331
TOTAL	1,037,130

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 143,869	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 334,587	\$ -
TOTAL	\$ 478,455	\$ -

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 298,662	\$ (185,154)
Net difference between projected and actual investment earnings on pension plan investments	\$ 686,349	\$ -
Changes of assumptions	\$ 57,971	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ (239,076)
Contributions subsequent to the measurement date	\$ 357,379	\$ -
TOTAL	\$ 1,400,361	\$ (424,231)

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,509	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 31,793	\$ -
Changes of assumptions	\$ 599	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 88	\$ (5,293)
Contributions subsequent to the measurement date	\$ 47,398	\$ -
TOTAL	\$ 132,386	\$ (5,293)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 10,097	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	\$ 10,097	\$ -

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 62,617	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 164,207	\$ -
Changes of assumptions	\$ 1,723	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 142,508	\$ (71,278)
Contributions subsequent to the measurement date	\$ 60,168	\$ -
TOTAL	\$ 431,224	\$ (71,278)

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

Year ended December 31:	PERS 1
2017	\$ (35,423)
2018	\$ (35,423)
2019	\$ 132,128
2020	\$ 82,588
2021	\$ -
Thereafter	\$ -

Year ended December 31:	PERS 2/3
2017	\$ (72,424)
2018	\$ (72,424)
2019	\$ 452,302
2020	\$ 311,298
2021	\$ -
Thereafter	\$ -

Year ended December 31:	PSERS 2
2017	\$ 9,472
2018	\$ 9,472
2019	\$ 29,059
2020	\$ 22,577
2021	\$ 9,697
Thereafter	\$ (581)

Year ended December 31:	LEOFF 1
2017	\$ (2,087)
2018	\$ (2,087)
2019	\$ 8,744
2020	\$ 5,525
2021	\$ -
Thereafter	\$ -

Year ended December 31:	LEOFF 2
2017	\$ 9,302
2018	\$ 9,302
2019	\$ 147,215
2020	\$ 104,948
2021	\$ 29,011
Thereafter	\$ -

NOTE 7 - RISK MANAGEMENT

A. GENERAL LIABILITY & PROPERTY INSURANCE

Kittitas County is a participating member of the Washington Counties Risk Pool (WCRP). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to join together for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in August of 1988 when 15 counties in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2016, 26 counties participate in the WCRP.

The Pool allows members to jointly establish a plan of self-insurance, and provides related services, such as risk management and claims administration. Members enjoy occurrence-based, jointly purchased and/or jointly self-insured liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits are \$25 million per occurrence and each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. For losses occurring in 2016, Kittitas County selects a per-occurrence deductible of \$25,000.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance for further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions (“SIRs”) equal to the greater of the deductible for the member with the claim or \$100,000. More recent years’ reinsurance programs have included “corridor deductibles” with aggregated stop losses which have the effect of

increasing the Pool's SIR. For 2015-16, this "corridor" increased the SIR to \$2 million, but with an aggregated stop loss of \$3.45 million. Other reinsurance agreements respond to the applicable policy limits. Those reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer). Since the Pool is a cooperative program, there is a joint liability among the participating members.

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

The Pool is fully funded by its member participants. Claims are filed directly with the Pool by members and adjusted by one of the six staff members responsible for evaluating each claim for coverage, establishing reserves, and investigating for any risk-shared liability. The Pool does not contract with any third party administrators for claims adjustment or loss prevention services.

During 2015-16, Kittitas County was also one of twenty-six (26) counties which participated in the Washington Counties Property Program (WCPP). Property losses are covered under the WCPP to the participating counties' buildings and contents, vehicles, mobile/contractor equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes 'All Other Perils ("AOP")' coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Each participating county is solely responsible for paying their selected deductible, ranging between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

Kittitas County also participates in the jointly purchased cyber risk and security coverage from a highly-rated commercial insurer.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. The Board of Directors generally meets three-times each year with the Annual Meeting of the Pool' being held in summer. The Board approves the extent of risk-sharing, approves the Pool's self-insuring coverage documents, approves the selection of reinsurance and excess agreements, and approves the Pool's annual operating budget.

An 11-member executive committee is elected by and from the WCRP Board for staggered, 3-year terms. Authority has been delegated to the Committee by the Board of Directors to, a) approve all disbursements and reviews the Pool's financial health, b) approve case settlements exceeding the applicable member's deductible by at least \$50,000, c) review all claims with incurred loss estimates exceeding \$100,000, and d) evaluate the Pool's operations, program deliverables, and the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board to consider and act upon.

During 2015-16, the WCRP's assets decrease 4% to \$46.8 million while its liabilities increased slightly to \$29 million. The Pool's net position decreased slightly from \$18.9 million to \$17.9 million. The Pool more than satisfies the State Risk Manager's solvency requirements (WAC 200.100.03001). The Pool is a cooperative program with joint liability amongst its participating members.

Deficits of the Pool resulting from any fiscal year are financed by reassessments of the deficient year's membership in proportion with the initially levied and collected deposit assessments. The Pool's reassessments receivable balance as of December 31, 2016 was zero (\$0). As such, there were no known contingent liabilities at that time for disclosure by the member counties.

B. WORKERS COMPENSATION

The County pays premiums to State of Washington Department of Labor and Industries based on hours worked for each employee. The County belongs to the Retrospective Rating program with Labor & Industries in which we joined in 1988. Each year the County selects a rate plan, showing the maximum refund/maximum premium the County is willing to risk based upon claims management. On December 2016, the County has a credit account balance of \$57,744.

C. UNEMPLOYMENT COMPENSATION

The County is currently on the Reimbursable basis with the Washington State Employment Security Department. The County paid Employment Security \$29,786 in unemployment charges in 2016. The County also contracts with TALX Corporation to assist with the claims handling, and in 2016 we paid \$1,891.

NOTE 8 – SHORT TERM DEBT

Kittitas County had no outstanding short term debt as of December 31, 2016 and no short-term debt activities during 2016.

NOTE 9 - LONG-TERM DEBT

A. LONG TERM DEBT – GOVERNMENTAL TYPE

LIMITED TAX G.O. & REFUNDING BONDS 2010

During 2010, the County issued bonds in the amount of \$11,185,000. The Bonds are being issued for the purpose of construction of repairs and expansion of the County Jail, acquisition of a building for court facilities, remodel of a building on the County fairgrounds, refunding of an advanced basis the County’s Limited Tax General Obligation Bonds, 2001, paying the costs of issuance of the Bonds, and other legal purposes of the County. The federal arbitrage regulations apply to the 2010 GO & Refund Bonds debt.

The Limited Tax General Obligation and Refunding Bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Limited Tax General Obligation and Refunding Bonds, 2010	20 years Dec 2010-2030	2%-3.75%	\$11,185,000	\$450,000

The bond debt service requirement to maturity is as follows:

Year Ending December 31	Principal	Interest
2017	455,000	263,331
2018	475,000	253,094
2019	485,000	234,094
2020	510,000	214,694
2021-2025	2,760,000	835,913
2026-2030	3,240,000	356,825
TOTAL	\$7,925,000	\$2,157,951

LIMITED TAX G.O. & REFUNDING BONDS 2016A

During 2016, the County issued bonds in the amount of \$1,511,000. The Bonds are being issued for the purpose of construction of repairs to the Jail HVAC. The federal arbitrage regulations apply to the 2016 General Obligation Bond Series 2016A debt.

The Limited Tax General Obligation currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Limited Tax General Obligation Bond Series 2016A (Jail HVAC System)	10 years Dec 2016-2026	1.080%- 2.780%	\$1,511,000	\$0

The bond debt service requirement to maturity is as follows:

Year Ending December 1	Principal	Interest
2017	134,000	28,763
2018	143,000	28,918
2019	144,000	27,059
2020	147,000	24,899
2021	149,000	22,385
2022-2026	794,000	62,612
TOTAL	\$1,511,000	\$194,636

LIMITED TAX G.O. & REFUNDING BONDS 2016C

During 2016, the County issued bonds in the amount of \$1,511,000. The Bonds are being issued for the purpose of purchasing the Mobile Home Park(Taxable) The federal arbitrage regulations apply to the 2016 General Obligation Bond Series 2016C debt.

The Limited Tax General Obligation Bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Limited Tax General Obligation Bond Series 2016C (Mobile Home Park)	16 years Dec 2016-2032	1.660%- 2.890%	\$1,511,000	\$0

The bond debt service requirement to maturity is as follows:

Year Ending December 1	Principal	Interest
2017	72,000	43,163
2018	77,000	44,372
2019	79,000	42,832
2020	81,000	41,006
2021	83,000	38,877
2022	85,000	36,478
2023-2027	474,000	134,227
2028-2032	560,000	49,419
TOTAL	\$1,511,000	\$430,376

B. LONG TERM LIABILITIES – BUSINESS TYPE

LIMITED TAX G.O. & REFUNDING BONDS 2016B

During 2016, the County issued bonds in the amount of \$2,517,000. The Bonds are being issued for the purpose of Water Bank Purchases (Taxable). The federal arbitrage regulations apply to the 2016 General Obligation Bond Series 2016B debt.

The Limited Tax General Obligation and Refunding Bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Limited Tax General Obligation Bond Series 2016B (Water Bank Purchases)	3 years Dec 2016-2019	1.660%- 2.310%	\$2,517,000	\$0

The bond debt service requirement to maturity is as follows:

Year Ending December 1	Principal	Interest
2017	795,000	47,677
2018	852,000	37,137
2019	870,000	20,097
TOTAL	\$2,517,000	\$104,911

SOLID WASTE PUBLIC WORKS TRUST FUND LOAN

The Solid Waste Public Works Trust Fund Loan debt currently outstanding for the Upper County Transfer Station:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount
Solid Waste Loan	March 2002 – July 2022	5%	\$1,425,000	\$75,000

The Solid Waste Public Works Trust Fund Loan debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2017	75,000	2,250
2018	75,000	1,875
2019	75,000	1,500
2020	75,000	1,125
2021-2022	150,000	1,125
TOTAL	\$450,000	\$7,875

C. DEBT LIMITS

State Law provides that debt cannot be incurred in excess of the following percentages of the value of taxable property of the County:

- 1.5% - Without a vote of the people
- 2.5% - With a vote of the people

The total tax property value was \$6,037,489,794 and the debt limits for the County as of December 31, 2016 was as follows:

Purpose of Indebtedness	Remaining Capacity
-------------------------	--------------------

General Purposes – without a vote of the people	\$ 90,562,347
General Purposes – with a vote of the people	150,937,245

NOTE 10 – LEASES

A. OPERATING LEASES

The county leased two copiers under non-cancelable operating leases. Total cost for such leases was \$7,996 for the year ended December 31, 2016. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2017	5,574
2018	344
Total	\$5,918

B. CAPITAL LEASES

The county leases office equipment under non-cancelable capital leases for governmental activities. These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. We do not depreciate capital leases. There were no leases for Business-Type Activities to report.

The following table is a listing of the outstanding debt on the capital leases for 2016:

Asset	Governmental Activities
Postbase 65-UDC	7,926
Sharp MX-3640N-UDC	6,116
Sharp MX-M623N-Treasurer	-
Sharp MX-5111-Prosecutor	-
Canon IR-ADV C5250-Prosecutor	9,084
ViewScan II-Auditor	-
Mail Machine-Centormail 140-Auditor	-
Mail Machine-Centormail 140-Auditor	38,782
Sharp MX-3100N-Sheriff	-
Sharp MX M453N (2) Copiers-Sheriff	-
Sharp MX-M453N-Sheriff	-
Sharp MX3140N (3) Copiers-Sheriff	32,213
Sharp MX3070N (1), MXM465N (2) Copiers-Sheriff	59,453
Sharp MX465N Copiers – Sheriff	12,471
ViewScan II-Clerk	-
Canon IR 6265- Juvenile/Clerk/Sup Court	6,747
NetApp IT Server	24,759
OCE CM4521 Copier-Public Health	783
Canon C33330i-Assessor	4,396
Total	\$202,729

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2016, are as follows:

Year Ending December 31	Governmental Activities
2017	71,566
2018	45,783
2019	43,455
2020	25,806
2021	16,223
Total Minimum Lease Payments	\$202,833
Less: Interest	(241)
Present Value of Minimum Lease Payments	\$202,592

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities: Two departments have upgraded their copiers for an increase in leases of \$119,913.33. The amount reported for Capital Leases on the following chart and on the General Ledger includes sales tax.

Compensated absences are recorded using the actual leave balances accumulated for each employee. The liability for the governmental funds for 2016 is \$2,612,055. The due within one year amount is the average of the past three year payoff to separated employees. The average due within one year for Governmental Activities is \$66,306 and the Business type was estimated at \$6,249.80 due within one year. Total vacation, sick leave and compensatory time pay-off recorded during 2016 for all Governmental Funds was \$68,876. At this time, the liability to the Proprietary Funds for unused vacation, sick leave and compensatory time is \$205,352.

The landfill closure cost liability has been reported for Business-Type Activities (See Note 17).

	Beginning Balance 01/01/16	Additions	Adjustments	Reductions	Ending Balance 12/31/16	Due Within One Year
Governmental Activities						
Bonds Payable: Revenue/Assessment Bonds	\$8,375,000	3,022,000	-	\$450,00	\$10,947,000	\$656,000
Capital Leases	196,492	119,913	(6,305)	107,372	202,729	71,325
Compensated Absences	2,497,168	114,886	-	-	2,612,055	66,306
Other Post Employment Benefits	842,237	59,701	-	-	901,938	-
Pension Liabilities	9,713,989	1,234,704	-	-	10,948,693	-
Total	\$21,624,886	\$4,551,204	\$ (6,305)	\$557,372	\$25,612,415	\$ 793,631
Business-Type Activities						
Limited Tax General Obligation Bond Series 2016B	\$0	\$2,517,000	\$0	\$0	\$2,517,000	\$795,000
Compensated Absences	190,527	14,825	-	-	205,352	\$6,250
Pension Liabilities	396,948	132,000	(540)	-	528,408	-
Long-Term Liabilities	525,001	-	-	75,000	450,001	75,000
Landfill Closure Cost	1,085,680	106,796	(1)	49,640	1,142,835	207,462
Total	\$ 2,198,156	\$2,770,621	\$(541)	\$124,640	\$ 4,843,597	\$1,083,711
GRAND TOTAL	\$23,823,043	\$7,321,825	\$(6,846)	\$682,011	\$30,456,012	\$1,877,342

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Kittitas County's internal service funds did not have any short or long term liabilities. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 12 – CONTINGENCIES AND LITIGATIONS

Kittitas County 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 Kittitas County will have to make payment. In the opinion of management, the County's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

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

Amounts received or receivables from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable Funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

Kittitas County is named as the defendant in a few legal actions. Claims which have been classified as "reasonably possible" by the Prosecuting Attorney's office for 2016 are expected to be immaterial at this time.

LAWSUITS PENDING IN WHICH KITTITAS COUNTY, ITS OFFICERS AND/OR AGENTS ARE PARTIES AND MONEY DAMAGES ARE SOUGHT AS OF DECEMBER 31, 2016

1. Allen et al v. Kittitas County
Yakima County Superior Court Cause No. 11-2-00887-7

A claim for damages was initially filed and subsequently denied on January 6, 2011. The parties proceeded to file a summons and complaint for damages asserting that the County owned and maintained a system of flood control dykes and levees along the Teanaway River that were to protect the parties' property from flooding. Weather caused flooding in the area of the parties' properties and some of those properties are in the FEMA 100 year flood plain. The parties believe that the County is responsible for the flooding and damages to their properties. Risk Pool retained counsel is handling the case.

2. Kittitas County v. Sky Allphin, Chem-Safe Environmental, Inc. and the Washington State Department of Ecology
Kittitas County Superior Court Cause No. 13-2-00074-4

Sky Allphin submitted a broad public records request in October of 2012 to the County. The County filed a complaint for declaratory judgment and injunctive relief to enjoin disclosure of confidential work product and to protect attorney-client privileged records. This case is currently on appeal. Risk Pool retained counsel is handling the case.

3. Joseph A. Richmond
United States District Court – Eastern District Court Cause No. 1:15-CV-3147-SAB

Plaintiff filed Civil Right Complaint by a Prisoner under 42 U.S.C. ~ 1983 alleging that Kittitas County Corrections staff were negligent in dealing with his dental issues while incarcerated in Kittitas County Corrections Center. Risk Pool retained counsel is handling the matter.

4. Kittitas County v Deanna Jo Panattoni and Western Surety Company
Kittitas County Superior Court Cause No. 16-2-00095-1

Plaintiff Kittitas County filed a complaint for forfeiture of \$150,000.00 official bond of a public officer, alleging that Deanna Jo Panattoni, appointed Kittitas County Treasurer, did not faithfully perform the duties of the elected office. Risk Pool retained counsel are handling the matter.

5. Randall Hoffman v. Kittitas County and Kittitas County Sheriff's Office
Kittitas County Superior Court Cause No. 16-2-00063-3

Plaintiff Randall Hoffman filed a complaint for violations of the Washington Public Records Act, alleging that the Kittitas County Sheriff's Office failed to provide records in response to his public records request. The plaintiff prevailed and was awarded a \$15,498 penalty award and attorney's fees and costs in the amount of \$42,922.99. Judgment was paid by Kittitas County on May 9, 2017. Plaintiff appealed the case on February 27, 2017, to the Washington State Court of Appeals under Cause No. 35091-6-III.

6. New Suncadia LLC

New Suncadia LLC has filed several appeals for assessments of its resort property as valued by the Kittitas County Assessor's office. Per the appeal, appellant is claiming that the assessment is overvalued. Risk Pool coverage is denied because the matter deals with the potential for refund of taxes.

7. OneEnergy and Iron Horse SEPA Appeal

This is a Land Use Petition and Claim for Damages related to the construction of a solar photovoltaic facility. The relief requested is an award of monetary damages and attorney fees and costs, and equitable relief regarding the County's denial of a Conditional Use Permit. This matter is being handled jointly by Risk Pool retained counsel and the Kittitas County Prosecutor's Office.

8. Russell Smith v. Kittitas County Veterans Coalition, et al.
Kittitas County Superior Court Cause No. 16-2-00174-5

The allegations in this lawsuit are difficult to summarize, but relate to a denial of veteran's benefits to Mr. Smith by a third party veteran's assistance organization. Mr. Smith is asking for monetary damages of unknown amount. The County does not appear to be properly included in this lawsuit, so a Motion for Summary Judgment has been filed, but is yet to be heard by the Court. This matter was removed to US District Court for Eastern Washington. This is being handled by Risk Pool retained counsel.

9. Donald M. Sadler, III and Mahannah Sadler v. Mark A. Rickey and Kittitas County
Yakima Superior Court Cause No. 16-2-01531-39

Complaint for Damages filed June 2, 2016, alleging economic and non-economic damages of an amount to be determined, resulting from a motor vehicle/motorcycle accident that involved the claimants and a sheriff employee, while said employee was on duty. Risk Pool retained counsel are handling the matter.

10. Jared Anthony Winterer v. Kittitas County Correction Center, et al.
U.S. District Court, Eastern District of Washington, Cause No. 1:16-CV-3171-RMP

Plaintiff filed Civil Right Complaint by a Prisoner under 42 U.S.C. §1983 alleging that Kittitas County Corrections staff and court staff were negligent in dealing with his issues while incarcerated in Kittitas County Corrections Center. Risk Pool counsel was retained, and the case was dismissed for failure to state a claim on February 7, 2017.

11. Stanley B Blazynski v. Kittitas County Assessor
Board of Tax Appeals No. 14-063, 15-024, and 16-086

Blazynski has filed an appeal for the 2014, 2015, and 2016 assessments of his property as valued by the Kittitas County Assessor's office. Per the appeal, appellant is claiming that the assessment is overvalued. Risk Pool coverage is denied because the matter deals with the potential for refund of taxes. The Board of Tax Appeals issued an opinion on June 27, 2017 finding for Mr. Blazynski, and overturning the County's assessment

CLAIMS FOR DAMAGES AGAINST KITTITAS COUNTY THROUGH DECEMBER 31, 2016

1. Clayton and Dorothy Snyder:

Claim for Damages filed December 29, 2016, for an amount to be determined, alleging that debris fell from a county public works snowplow truck damaging claimant’s vehicle windshield. The claim was referred to risk claim, was approved by the BOCC in the amount of \$618.45, and paid upon the receipt of an executed release of all claims.

2. Stowe, Michael:

Claim for Damages filed December 20, 2016, for an amount to be determined, alleging he was involved in a vehicle accident caused by the driver of a county coroner vehicle. The claim was referred to Risk Pool, was resolved in the total amount of \$13,415.08, was approved by the BOCC, and paid upon the receipt of an executed release of all claims.

NOTE 13 – INTERFUND BALANCES AND TRANSFERS

Interfund balances and transfers are activities between the funds of Kittitas County. Interfund activities are divided into two broad categories: reciprocal and non-reciprocal. Reciprocal interfund activity comprises interfund loans and interfund services provided and used. Non-reciprocal interfund activity comprises interfund transfers and interfund reimbursements.

A. INTERFUND BALANCES

Interfund balances at December 31, 2016 included billings for items such as postage, scan/phone, building rents, copies, central services, computer hardware/software, advertising, and shared copier leases. The balances are as follows:

	Due From						Total
	General fund	County Road	Community Development Services	Equipment Rental & Revolving	All Others		
General Fund	-	\$122	-	-	\$1,090	\$1,212	
County Road	49,142	-	-	338,655	1,295	\$389,092	
Solid Waste	24,674	-	-	-	-	\$24,674	
Community Development Services	7,160	110	-	-	-	\$7,270	
Equipment Rental & Revolving	7,321	2,738	-	-	-	\$10,059	
All Others	131,047	150,340	37	5,626	25,587	\$312,637	
Total	\$219,343	\$153,310	\$37	\$344,281	\$27,972	\$744,943	

B INTERFUND TRANSFERS

Interfund transfers during 2016 included contributions between funds. The balances were as follows:

		Transfer From			
Transfer To		General Fund	Road	Non Major Government	TOTAL
	General Fund	-	-	\$26,792	\$26,792
	Road	-	-	150,340	\$150,340
	ER&R	-	80,203	-	\$80,203
	Non-Major Governmental	497,324	-	643,549	\$1,140,873
	TOTAL	\$497,324	\$80,203	\$820,681	\$1,398,208

C. INTERFUND LOANS

Interfund Loans between funds for 2016 were as follows:

		Loan From			
Loan To		Solid Waste	Equipment Rental & Revolving	Total	Loan Purpose
	General Fund	\$1,366,050	\$511,906	\$1,877,956	SW-WSDC-Energy Efficiency Grant \$725,945 SW-Armory Renovation \$800,000 ER&R-Trust Water Rights
	Total	\$1,366,050	\$511,906	\$1,877,956	

NOTE 14 – RECEIVABLE AND PAYABLE BALANCES

A. RECEIVABLES

Receivables at December 31, 2016 were as follows:

		Type								
		Accounts	Court	Employee	Interest	Recording Unbilled	Special Assessments	Rent	Taxes	Total
Funds	General	\$212,685	\$1,985,867	\$2,907	\$20,424	\$5,234	\$14,999	\$12,944	\$303,147	\$2,558,208
	Non Major Governmental	11,505	150,176	-	2,145	-	9,813	-	23,471	197,109
	Road	5,949	-	-	4,482	-	-	-	170,399	180,830
	Solid Waste	225,278	-	-	1,010	-	-	67,275	-	293,563
	Water Mitigation	2,750	-	-	-	-	-	-	-	2,750
	Equipment Rental & Revolving	306	-	-	1,042	-	-	-	-	1,348
	Total	\$458,474	\$2,136,043	\$2,907	\$29,103	\$5,234	\$24,812	\$80,219	\$497,016	\$3,233,808

B. PAYABLES

Payables at December 31, 2016 were as follows:

		Type					
		Vouchers	Salaries	Retainage	Due to Other Governmental	Deposits	Total
Funds	General	\$548,264	\$20,996	\$-	\$2,105	\$21,186	\$592,551
	Non Major Governmental	653,036	12,403	636	92,350	517,529	1,275,954
	Road	244,131	234,168	11,685	13	7,896	497,894
	Solid Waste	483,717	12,958	10,445	43	-	507,163
	Community Development Services	9,295	687	-	-	-	9,981
	Equipment Rental & Revolving	130,434	35,155	-	143	-	165,732
	Unemployment	11,637	-	-	-	-	11,637
	Total	\$2,080,513	\$316,368	\$22,766	\$94,654	\$546,611	\$3,060,912

NOTE 15 - JOINT VENTURES

A. City of Ellensburg

Kittitas County and the City of Ellensburg entered into a cooperative service enterprise to purchase and operate the facility known as the City/County Community Center effective July 19, 1987. The \$62,500 in initial costs of the facility were split \$15,625 to the County and \$46,875 to the City.

The City is responsible for operations and maintenance of the facility. The operating costs are allocated between the City and County based upon the percent of non-city resident users. Complete financial information can be obtained from the City of Ellensburg, 501 N. Anderson Street, Ellensburg, WA 98926.

The City accounts for the operations of the facility in the Recreation Department of the General Fund. The 2016 operations are as follows:

	BUDGET	ACTUAL
Kittitas Co. Support	\$49,000	\$51,321
Tour Fees	5,500	7,887
Other	21,600	32,070
Total Revenues	76,100	91,279
City of Ellensburg Support	\$80,504	\$90,868

B. Snoqualmie Pass Utility District

The E. R. & R. Fund and the Snoqualmie Pass Utility District constructed a joint shop at Hyak. We each own ½ of the building and have joint responsibility for the small common entrance area. A condominium agreement was filed and an owner's association/board formed for legal purposes. The county will manage the reserves for future repairs and maintenance of the common parts of the building, grounds, etc. The current amount in reserve is \$21,596.88.

C. Related Parties

The Board of County Commissioners has the appointment authority of the several governing boards. The Board has no responsibility or influence in each of their financial transactions. Those boards include Housing Authority of Kittitas County, Television Improvement District, and the Water Conservancy Board.

NOTE 16 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

A. PLAN DESCRIPTION

In addition to the retirement described in the Pension note 6 above, the County provides certain medical insurance benefits for retired public safety employees. Substantially the entire County's LEOFF 1 employees may become eligible for these benefits if they reach normal retirement age while working for the County. Kittitas County does not currently have any active LEOFF 1 employees employed. There are 7 retired LEOFF 1 employees who are eligible to receive these benefits.

B. FUNDING POLICY

In 2016, expenditures of \$57,867 for medical premiums and billings were recognized for post employment health benefits. The program is funded "pay as you go".

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

The net OPEB obligation of \$901,938 is included as a noncurrent liability on the Statement of Net position.

Annual Required Contribution (ARC)	\$ 158,091
Net OPEB Obligation Interest	37,901
Net OPEB Obligation Amortization	<u>(78,424)</u>
Annual OPEB cost	\$ 117,568
Less: Contributions made	<u>(57,867)</u>
Increase in net OPEB obligation	\$ 59,701
Net OPEB Obligation beginning of year 2016	<u>842,237</u>
Net OPEB Obligation end of year 2016 (NOO)	\$901,938

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation through 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	\$204,692	33.0%	\$137,106
12/31/2009	193,917	32.0%	131,549
12/31/2010	187,723	41.1%	110,570
12/31/2011	185,991	36.1%	118,934
12/31/2012	158,320	41.3%	92,963
12/31/2013	153,848	39.3%	93,433
12/31/2014	136,958	36.5%	86,974
12/31/2015	125,602	43.7%	70,708
12/31/2016	117,568	49.2%	59,701
		TOTAL	\$901,938

D. FUNDING STATUS

As of December 31, 2016, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$1,697,824 and the actuarial value of the assets was \$0 resulting in a UAAL of \$1,697,824. Historically, Kittitas County has used a pay-as-you-go approach to funding.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As 2008 was the first year Kittitas County implemented GASB 45, only nine years are presented.

E. ACTUARIAL METHODS AND ASSUMPTIONS

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

NOTE 17 - CLOSURE AND POST CLOSURE CARE COSTS

Kittitas County's only municipal landfill was established in 1980 to accept mixed solid waste. The landfill, owned by the county, was established on a parcel of 640 acres of arid land reserved for the landfill and related activities. The following table depicts events affecting Ryegrass landfill operations:

Date	Change/Modification
November 1993	Promulgation of new State Landfill Regulation WAC 173-351
December 1995	A new operations contractor was chosen in the bid process to operate each transfer Station and the balefill. A three year contract was signed.
February 1996	Major Flooding at the Ellensburg transfer station
March 1996	Leachate observed flowing from the southern tip of Ryegrass balefill
August 1996	Fire at balefill
December 1996	Record snowfall and snowload resulted in the collapse of the Ellensburg transfer station baler building
December 1996	A major fire broke out at Ryegrass balefill
January 1998	Flooding at Ellensburg transfer station
June 1998	Department of Ecology Air Quality Program issued an Order under RCW 70.94 requiring corrective action in operations of the balefill.
September and December 1998	Chloride levels in ground watering monitoring Well B-4 exceeded groundwater standards.

April 1998	Began discussion/negotiations on an Agreed order under the Model Toxics Control Act for closure of the landfill with the Department of Ecology.
April 1998	The Landfill is closed and not accepting any more garbage. The landfill has been covered and must be monitored for 30 years.
December 21, 2004	Resolution 2004-132 Established Reserve Fund 401-011 CDL Post Closure. This money is to be used for the closure and post closure care of the Limited Purpose Landfill which the County operates.
January 2005	CDL post Closure account was started with \$200,000

The Ryegrass landfill was closed to new garbage waste in 1998 due to a Washington Department of Ecology Agreed Order. The closed bale fill will be monitored through 2028. The County still continues to accept construction demolition at its limited purpose landfill. The limited purpose landfill is expected to be operational until 2021 after which time it will be monitored for 20 years. State and federal laws and regulations including WAC 1273.350 required Kittitas County to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. GASB 18 establishes the standards for accounting and financial reporting for municipal solid waste landfill closure and post-closure costs.

As a result of the Department of Ecology Agreed Order, a Remedial Action Grant was allocated to Kittitas County for landfill closure/cleanup. This grant funds 75% of the total landfill closures costs. Landfill Closure operations began in July 2000 with construction scheduled to be completed in accordance with the Agreed Order. In August 2000, the Board of County Commissioners adopted Resolution 99-81 reserving solid waste funds for the purpose of post-closure for Ryegrass Landfill. In January 2005, a CDL post Closure account was established with \$200,000 from the Ryegrass Closure Account.

In addition to the Remedial Action Grant, \$1.55 per ton of the tip fee and \$2.44 per ton for the construction debris goes to the post-closure account each year. Each year the Solid Waste budget includes the annual post-closure costs needed for the Ryegrass landfill. Post closure care is funded as a regular part of the Solid Waste budget process.

A. RYEGRASS LANDFILL POST CLOSURE

In 2015, the County estimated the liability for post-closure care cost for the Ryegrass landfill to be \$343,601. The 2016 actual costs for post-closure care was \$49,640 leaving a liability of \$293,962. As required by federal, state, and local regulations, cash in the amount of \$554,406 has been restricted for post-closure care. The tip fee for the post-closure cash reserve for 2016 was \$50,517.24 (32,592 tons of garbage at \$1.55 per ton), which will be placed into the reserve in 2017. A plan update was completed in 2012 for regulating compliance with Department of Ecology for monitoring. A plan for cost and air space analysis is to be updated in 2017.

Rye Grass Closure Account	Recorded Liability	Actual Costs	Year	Cash Reserve
12/31/08	\$662,080	\$(16,602)	2009	\$326,209
12/31/09	645,477	(51,108)	2010	326,209
12/31/10	594,369	(48,589)	2011	326,209
12/31/11	545,781	(46,157)	2012	326,209
12/31/12	499,623	(55,396)	2013	418,259
12/31/13	444,227	(46,280)	2014	462,856
12/31/14	397,947	(54,345)	2015	507,561
12/31/15	343,601	(49,640)	2016	554,406
12/31/16	293,962			

B. LIMITED LANDFILL POST CLOSURE

In 2004 an estimate for post-closure care cost for the Limited purpose landfill was done by RW Beck Inc. Based upon the report from RW Beck, the estimated closure costs are \$908,847. The closure is estimated to be 2021 with post-closure activities to occur through 2041. The total cost of completing post-closure for the 20 year period is \$242,760 (2004 dollars). The total landfill capacity is 470,258 cubic yards. The total amount of capacity used through December 31, 2016 is 346,637 cubic yards.

The recorded liability for December 31, 2016 is calculated as follows:

Total Closure Cost	\$1,151,607.00	(\$908,847 + 242,760 post-closure)
X	<u>346,637.00</u>	Cumulative capacity used in 2016
	399,189,595,659.00	
÷	<u>470,258.00</u>	Total landfill capacity
	848,873.59	Estimated liability for post-closure
-	<u>742,077.78</u>	2009 thru 2015 Total recorded liability
	\$106,795.81	2016 Total liability

As required by federal, state, and local regulations, cash in the amount of \$297,407 has been restricted for post-closure care. The tip fee of \$2.44 per ton for the post-closure cash reserve for 2016 was \$17,761.15, which will be placed into the reserve in 2017.

The future liability costs are estimates and are subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

NOTE 18 – OTHER DISCLOSURES

A. ACCOUNTING AND REPORTING CHANGES

1. PRIOR YEAR ADJUSTMENT TO STATEMENT OF ACTIVITIES

The following list of funds had prior period adjustments. The adjustments will reflect differences in ending and beginning balances on the Statement of Net position; Net Activity and Statement of Revenues, Expenses and Changes in Fund Equities.

Governmental Activities had a balancing item in the amount of (\$12,399) balancing item and Equipment Rental Revolving fund had a change in prior year for reserve balance in the amount of (\$4,401) and prior period adjustment for the Construction Performance Bond fund in the amount of (\$53).

Solid Waste fund had a change in prior year for a revenue tax correction in the amount of \$3,207.

2. ADJUSTMENTS TO EXPENSED CAPITAL OUTLAY

Kittitas County's budget policy is to show in the actual budget any asset that is over \$5,000. The Washington State Auditor requires all government entities to use the Budgeting, Accounting and Reporting System (BARS). Because of this requirement there are several items that are actually treated as capital items but are not capitalized, i.e.; see Note 1- E (6). The following amounts were adjusted for reporting purposes from operating to capital totaling the following:

County Road	
Transportation	\$1,068,270.79

3. PRIOR YEAR ERROR – Statement of Revenues, Expenditures and Changes in Fund Balance

In the Other Governmental Funds there is a prior year adjustment in the amount of (\$53) in the Construction Performance Bond fund to correct prior year fund balance.

4. PRIOR YEAR ERROR – Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position

Solid Waste fund had a change in prior year for revenue tax correction in the amount of (\$3,207).

Equipment Rental Revolving fund had a change in prior year for reserve balance in the amount of (\$4,401).

4. ERROR IN REPORTING – Fund 110 EIS Trust Fund Balance

The fund balance for fund 110 EIS Trust was reported as restricted fund balance in the amount of (\$27,688). The amount \$27,688 was reported as an expenditure, and the revenue was recorded as a deposit on account. The journal entry was not completed to move the amount from deposits to revenue to offset the negative fund balance.

5. PROPERTY PURCHASE – SHADY BROOK (ACRES) MOBILE HOME PARK

On April 19, 2016, the Board of County Commissioners adopted Resolution 2016-053, authorizing the Chairman of the Board to execute the Real Estate Purchase and Sale Agreement for the purchase of Shady Brook (Acres) Mobile Home Park from Jerold and Diane Barton for the purchase price of \$1,450,000.

6. 2016 GO BOND

On December 9, 2016, the Board of County Commissioners adopted Resolution 2016-165, providing for the issuance and sale of Limited Tax General Obligation Bonds of the County in the aggregate principal amount \$5,539,000 for the purpose of acquiring property, financing water acquisitions and making capital improvements to County Facilities.

The 2016A Bond is for the HVAC system and capital improvements to the County jail facility in the amount of \$1,511,000.

The 2016B Bond is for financing water bank acquisitions in the amount of \$2,517,000.

The 2016C Bond is for the acquisition of Shady Brook in the amount of \$1,511,000.

7. NEW FUNDS – WATER MITIGATION

We created a new proprietary fund called the Water Mitigation Department for the Yakima River Drainage Basin, which comprises the majority of Kittitas County, is fully-appropriated. There is no water available for new appropriations. Senior water rights are defined with priority dates prior to May 10, 1905. All later priority dates are junior and are at risk of curtailment during drought years, whether they are surface water or ground water uses.

Kittitas County is also currently under a compliance order from the Growth Management Hearings Board which requires the county, among other things, to employ measures to protect the quality and quantity of surface water and ground water resources.

The County has negotiated a settlement proposal with the appellants in the Growth Management Hearings Board case, including the Department of Ecology (Ecology). As part of the settlement, the county agrees to consider regulations which will require mitigation for new uses of ground water in Lower Kittitas County residing in the Yakima River Drainage Basin.

B. SUBSEQUENT EVENTS

1. FUND ACTIVITY

COMPUTER REPLACEMENT INTERNAL SERVICE (CRIS)

On January 17, 2017, the Board of County Commissioners adopted Resolution #2017-010 creating fund 517 Computer Replacement Internal Service fund (CRIS). The Board of County Commissioners authorized the Information Technology Department to participate in a Lean Kaizen through the State Auditor's office in August of 2015. On August 7, 2015 the Lean Academy Team recommended to the Board of County

Commissioners to implement the Computer Rotation to create a computer equipment rental program (ERR) which will meet the board's requirement of a consistent and predictable annual computer rotation costs.

The Director of Information Services presented to the Board of County Commissioners at a special meeting on May 24, 2016 two options on the computer rotation:

- Option 1 - Computer Rotation Equipment Rental & Revolving Fund (ER&R fund), or
- Option 2 - Normalize Over Time

The Board of County Commissioners passed a motion to accept Option 1 and the 2017 County Budget was prepared with established rental rates to be charged to all users.

2. WATER BANK PURCHASES

On February 25, 2016, the Board of County Commissioners agreed to purchase significantly more senior water rights to add to the County's fledgling water banking program. The deal, worth about \$2.7 million, includes an 1886 water right and a portion of an 1871 water right, both from Coleman Creek. The County expects to receive a total combined consumptive use amount of about 583 acre feet. The per acre foot selling price agreed to by the County and the sellers is \$4,632.45 per acre foot. The County currently owns about 106 consumptive acre feet of water. The purchase has not occurred as of May 2017, as the County is waiting on approval from the Department of Ecology.

3. SOLID WASTE PROJECTS

Solid Waste had two improvement projects, Ryegrass West Septage Pond Reconstruction, is construction in progress. The total cost of the project is \$251,153 with the anticipation project completion by the end of 2017.

The Board of County Commissioners has approved for a feasibility study performed by CH2M for the relocation of the current transfer station. The current Ellensburg transfer station was built in 2001 to service the lower Kittitas County area. Since its construction the services provided at the facility have grown and the need for material diversion has changed. With the current facility we are limited on space which in turn limits the types of services we can provide. The first phase of the project has been completed which provided the size and layout of the property needed. Phase two will look closely at areas of the lower county which would be able to accommodate the facility and the necessary infrastructure.

KITTITAS COUNTY, WASHINGTON

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2016**

General Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 13,106,215	\$ 13,145,334	\$ 15,175,127	\$ 2,029,793
Licenses & Permits	142,500	142,500	169,695	27,195
Intergovernmental	3,354,057	3,019,655	2,965,194	(54,461)
Charges for Services	1,974,333	2,631,220	2,929,726	298,506
Fines & Forfeits	1,563,400	1,563,400	1,632,445	69,045
Miscellaneous	1,638,937	1,738,937	2,120,745	381,808
Total Revenues	\$ 21,779,442	\$ 22,241,046	\$ 24,992,932	\$ 2,751,886
Expenditures				
General Governmental	\$ 7,768,846	7,933,136	\$ 7,226,538	\$ 706,598
Judicial	2,700,169	2,783,269	2,616,112	167,157
Security of Persons and Property	8,932,579	9,029,144	7,450,427	1,578,717
Physical Environment	103,275	118,275	80,962	37,313
Transportation	3,717	3,717	3,717	-
Economic Environment	210,245	425,245	405,191	20,054
Mental & Physical Health	200,850	246,850	236,712	10,138
Culture & Recreation	1,297,105	1,507,780	1,391,054	116,726
Debt Service	1,306,794	1,306,905	132,094	1,174,811
Capital Outlay	529,915	2,414,643	2,381,258	33,385
Total Expenditures	\$ 23,053,495	\$ 25,768,964	\$ 21,924,066	\$ 3,844,898
Excess (Deficit) Revenues over Expenditures	\$ (1,274,053)	\$ (3,527,918)	\$ 3,068,866	\$ 6,596,784
Other Financing Sources (Uses)				
Restitution	\$ 350	\$ 350	\$ 1,005	\$ 655
Other Loan Proceeds	-	1,452,000	1,511,000	59,000
Sale of Fixed Assets	1,150	1,150	20,249	19,099
Transfers In	180,000	80,000	26,792	(53,208)
Transfers Out	(601,011)	(501,011)	(497,324)	3,687
Total Other Financing Sources (Uses)	\$ (419,511)	\$ 1,032,489	\$ 1,061,722	\$ 29,233
Net Change in Fund Balance	\$ (1,693,564)	\$ (2,495,429)	\$ 4,130,588	\$ 6,626,017
Fund Balance, January 1	\$ 9,882,217	\$ 10,447,772	\$ 12,370,066	\$ 1,922,294
Fund Balance, December 31	\$ 8,188,653	\$ 7,952,343	\$ 16,500,654	\$ 8,548,311

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

KITTITAS COUNTY, WASHINGTON

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2016**

County Road

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 4,067,452	4,067,452	\$ 3,959,089	\$ (108,363)
Licenses & Permits	20,100	20,100	19,288	(812)
Intergovernmental	5,396,456	5,238,906	4,069,071	(1,169,835)
Charges for Services	41,700	199,250	280,967	81,717
Miscellaneous	28,000	28,000	50,173	22,173
Total Revenues	<u>\$ 9,553,708</u>	<u>\$ 9,553,708</u>	<u>\$ 8,378,588</u>	<u>\$ (1,175,120)</u>
Expenditures				
General Governmental	\$ 177,000	\$ 177,000	\$ 241,970	\$ (64,970)
Transportation	9,857,569	9,857,569	7,398,198	2,459,371
Capital Outlay	5,978,800	5,978,800	2,392,859	3,585,941
Total Expenditures	<u>\$ 16,013,369</u>	<u>\$ 16,013,369</u>	<u>\$ 10,033,027</u>	<u>\$ 5,980,342</u>
Excess (Deficit) Revenues over Expenditures	\$ (6,459,661)	\$ (6,459,661)	\$ (1,654,439)	\$ 4,805,222
Other Financing Sources (Uses)				
Sale of Fixed Assets	\$ -	\$ -	\$ -	\$ -
Transfers In	100,000	100,000	150,340	50,340
Transfers Out	-	0	(80,203)	(80,203)
Total Other Financing Sources (Uses)	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 70,137</u>	<u>\$ (29,863)</u>
Net Change in Fund Balance	\$ (6,359,661)	\$ (6,359,661)	\$ (1,584,302)	\$ 4,775,359
Fund Balance, January 1	\$ 15,969,412	\$ 15,969,412	\$ 13,857,670	\$ (2,111,742)
Fund Balance, December 31	<u>\$ 9,609,751</u>	<u>\$ 9,609,751</u>	<u>\$ 12,273,369</u>	<u>\$ 2,663,618</u>

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

Kittitas County, Washington
Required Supplemental Information
Notes to Budgetary Comparison Schedule
Year Ended December 31, 2016

A. Budgetary Basis

Annual appropriated budgets are adopted for the general, special revenue, debt service, capital projects and all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles.

B. Material Violations

There were no material violations of finance-related legal or contractual provisions in the general fund and special revenue funds. In addition, these fund's expenditures did not exceed legal appropriation for 2016.

Kittitas County, Washington
Required Supplemental Information
LEOFF I Retiree Medical Benefits
Schedule of Funding Progress
Year Ended December 31, 2016

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/08	\$ -	\$2,198,297	\$2,198,297	0%	-	-
12/31/09	\$ -	\$2,082,585	\$2,082,585	0%	-	-
12/31/10	\$ -	\$2,016,062	\$2,016,062	0%	-	-
12/31/11	\$ -	\$2,193,414	\$2,193,414	0%	-	-
12/31/12	\$ -	\$1,957,698	\$1,957,698	0%	-	-
12/31/13	\$ -	\$1,957,698	\$1,957,698	0%	-	-
12/31/14	\$ -	\$1,824,594	\$1,824,594	0%	-	-
12/31/15	\$ -	\$1,747,571	\$1,747,571	0%	-	-
12/31/16	\$ -	\$1,697,824	\$1,697,824	0%	-	-

*2008 is the first year Kittitas County implemented GASB 45, and only nine years are presented.

KITTITAS COUNTY

Required Supplementary Information

2016 Annual Report

Information about Infrastructure Assets Reported Using the Modified Approach

Asset Management System

Kittitas County maintains an Asset Management System that includes an up-to-date inventory of all gravel roads. This inventory also identifies the condition of gravel roads owned by the County. The County's Public Works Department assesses the condition of gravel roads on an annual basis.

Required Documentation

The Governmental Accounting Standards Board (GASB) Statement #34 requires the County to report infrastructure capital assets. The County has elected to use the "Modified Approach", as defined by GASB Statement #34, for reporting its gravel roads, thereby forgoing depreciation of these assets. Under this alternative method, the County reports certain maintenance and preservation costs and does not report depreciation expenses. In order to utilize the modified approach, the County is required to:

- Maintain an up-to-date asset management system and inventory.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate the annual cost to maintain and preserve the assets at the condition level established and disclosed by the County.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Condition Assessment Methods

Kittitas County's Public Works Department had previously used maintenance and financial records to determine the condition level of gravel roads. In 2012, Kittitas County's Public Works Department began a new assessment system (see Attachment A). This rating system is conducted by the Road Log Engineering Technician who fills out rating forms for each gravel road while doing a field assessment. This new rating system is more robust and thorough because each gravel road is physically surveyed and scored by one person, instead of relying on maintenance and financial records provided by various maintenance personnel.

Gravel Roads in Kittitas County

Kittitas County owns and maintains over 67 miles of gravel roads, of which about 23 miles are standard gravel roads (non-primitive) and about 44 miles are primitive gravel roads. The standard gravel roads (non-primitive) are those roads that have an average of 101 or more annual daily vehicles and have road signs and warning signs placed along the roadway in accordance with the Manual on Uniform Traffic Control Devices. Primitive gravel roads have 100 or less annual daily vehicles and no design, signing, or maintenance standards are required other than the requirement that warning signs be placed that apply to primitive roads.

G/ENG/ROAD LOG/ANNUAL ROAD STATISTICAL DATA/2017 FOR 2016 REPORTING

Budgeted and Estimated Costs to Maintain Infrastructure

The County’s estimate of spending to preserve and maintain gravel roads at or above the established condition levels is shown in Table A below. This table indicates the estimated budgeted amount and the actual amount spent during the past six fiscal years.

Table A Costs to Maintain Gravel Roads in Kittitas County		
<i>Fiscal Year</i>	<i>Estimated Spending</i>	<i>Actual Spending</i>
2009	\$372,000	\$218,576
2010	\$347,000	\$311,164
2011	\$225,000	\$158,237
2012	\$241,016	\$229,327
2013	\$363,466	\$281,487
2014	\$552,324	\$275,667
2015	\$457,378	\$299,906
2016	\$555,756	\$391,388

Condition Level Description

Kittitas County manages its gravel road network using a priority array program. The gravel road condition rating is a numerical condition scale ranging from 1 (severely deficient) to 5 (excellent condition). The ratings are described as follows:

Table B Gravel Road Condition Rating Description		
<i>Score</i>	<i>Attribute</i>	<i>Description</i>
1	Severely Impaired and load restricted	Impassable for heavy loads and requires load restrictions or road closure until repaired.
2	Poor Condition	Rough ride in places, requires spot grading, spot graveling, shoulder damage repair, or roadside flood damage repair.
3	Fair Condition	Road surface is in fair condition, rough ride in places but does not require grading or graveling.
4	Good Condition	Road surface is not new but in good condition and no maintenance needed.
5	Excellent Condition	New road surface, no maintenance needed.

Established Condition Level

The County has established an acceptable condition level of 3 (Fair Condition) and preserves 80% of its assets (non-primitive gravel roads) at or above this level. The condition of some gravel roads may drop below fair condition due to very limited use of the section of road.

The established condition level has been revised for gravel roads that are classified as primitive roads. Primitive roads do not have an established condition level because they are, by definition, not required to have any design, signing, or maintenance standards or requirements other than the requirement that warning signs be placed as provided in RCW 36.75.300. The condition of primitive roads is assessed and shown in Table E for general information.

Detailed documentation of disclosed assessment levels is kept on file.

Table C							
Condition Rating of All Gravel Roads in Kittitas County Prior to New Assessment Methodology							
Year	Total Miles	Gravel Road Condition Rating Scores as a Percentage					
		1	2	3	4	5	% Rated 3 +
2009	67.84	0	19.7	42.9	37.4	0	80%
2010	67.84	0	0	0	98.4	1.6	100%
2011	67.84	0	10.6	56.9	32.5	0	89%
2016	63.31	0	30.7	6.42	23.8	39.05	69.3%

Table D							
Condition Rating of Standard Gravel Roads (non-primitive) in Kittitas County							
Year	Total Miles	Gravel Road Condition Rating Scores as a Percentage					
		1	2	3	4	5	% Rated 3 +
2012	22.69	.09mi 0.44%	0.26mi 1.15%	1.68mi 7.40%	15.03mi 66.24%	5.63mi 24.77%	22.34mi 98.41%
2013	23.16	0	0.05mi 0.22%	4.06mi 17.53%	16.06mi 69.34%	2.45mi 10.57%	22.57mi 97.44%
2014	22.52	0	.05 mi 0.22%	1.12mi 4.97%	7.91mi 35.12%	13.44mi 59.68%	22.47mi 99.78%
2015	20.63*	.05 mi 1 %	0	.07 mi 1%	3.85 mi 18%	16.54mi 80%	20.46 mi 99%
2016	20.04*	0	0	1.01mi 5.039%	10.92mi 54.491%	8.11mi 40.469%	20.04 mi 100%

* Chip Sealed Schnebly Rd (0.52 miles)

G/ENG/ROAD LOG/ANNUAL ROAD STATISTICAL DATA/2017 FOR 2016 REPORTING

Table E
Condition Rating of
Primitive Gravel Roads in Kittitas County

Year	Total Miles	Primitive Gravel Road Condition Rating Scores as a Percentage					
		1	2	3	4	5	% Rated 3 +
2012	44.13	2.87mi 6.50%	15.02mi 34.03%	8.82mi 19.99%	11.56mi 26.20%	5.86mi 13.28%	26.24mi 59.47%
2013	42.76	1.81mi 4.25%	17.57mi 41.29%	13.29mi 31.22%	9.27mi 21.79%	0.62mi 1.45%	23.18mi 54.46%
2014	43.40*	0.87mi 2.01%	13.5mi 31.25%	3.47mi 8.26%	12.42mi 28.75%	12.84mi 29.72%	28.83mi 66.74%
2015	43.40	.87mi 2%	13.5mi 31%	1.49mi 3%	11.47mi 26%	16.07mi 38%	29.03mi 67%
2016	43.40	0	20.64mi 47.55%	3.06mi 7.05%	4.15mi 9.56%	15.55mi 35.82%	26.91mi 62%

**Attachment A
Gravel Road Condition Rating Form**

**Kittitas County
Department of Public Works 9/19/2017
Gravel Road Rating Worksheet**

Road Name: _____ Road No. _____

From: _____ to _____

ADT _____ FFC _____ Posted Speed Limit _____ Scorer _____

Check the following:

CROWN

DRAINAGE

GRAVEL LAYER

SURFACE DEFORMATION

SURFACE DEFECTS

ROUTES :

US Mail Route ?

School Bus Route?

CONNECTOR

MAINTENANCE COSTS _____

5 Excellent	No distress. Dust controlled. Excellent surface condition and ride.	New construction or total reconstruction. Excellent drainage. Little or no maintenance needed.
4 Good	Dust under dry conditions. Moderate loose aggregate. Slight wash boarding.	Recently re-graded. Good crown & drainage. Adequate gravel for traffic. Routine grading & dust control may be needed.
3 Fair	Good crown(3"-6"). Adequate ditches on more than 50% of road. Gravel layer mostly adequate/ additional may be needed to correct wash boarding or potholes/ ruts. Some culvert cleaning needed. Moderate wash boarding (1"-2" deep) over 10%-25%. Moderate dust. None or slight rutting. Occasional small potholes. Some loose aggregate.	Shows traffic effects. Re-grading (re-working) needed to maintain. Needs some ditch improvement and culvert maintenance. Some areas may need additional gravel
2 Poor	Little or no roadway crown (less than 3"). Adequate ditches on less than 50% of road. Portions of ditches may be filled / overgrown / eroded. 25% with little or no aggregate. Culverts partially full of debris. Moderate to severe wash boarding (over 3" deep) over 25% of area. Moderate rutting (1" – 3") over 10%-25% . Severe loose aggregate.	Travel at slow speeds (less than 25mph) required. Needs additional new aggregate. Major ditch construction and culvert maintenance also required.
1 Failed	No roadway crown or roadway is bowl shaped with extensive ponding. Little if any ditching. Filled or damaged culverts. Severe rutting (over 3" deep), over 25% of the area. Severe potholes (over 4" deep), no aggregate.	Travel is difficult and road may be closed at times. Needs complete rebuilding and/ or new culverts.

TOTAL PROJECT RATING _____ DATE _____

G/ENG/ROAD LOG/ANNUAL ROAD STATISTICAL DATA/2017 FOR 2016 REPORTING

INFORMATION - State Sponsored Plans

KITTITAS COUNTY, WASHINGTON
 Schedule of Proportionate Share of the Net Pension Liability
 Pension Plans: PERS 1, PERS 2 & 3, PSERS 2, LEOFF 1, LEOFF 2
 As of June 30, 2016

	2015	2016
PERS 1		
Total Net Pension Liability	\$ 5,230,930,000	5,370,471,000
Employer's proportion of the net pension liability (asset)	0.110864%	0.106396%
Employer's proportionate share of the net pension liability	\$ 5,799,218	5,713,966
TOTAL	<u>\$ 5,799,218</u>	<u>5,713,966</u>
Employer's covered employee payroll	\$ 12,275,361	12,751,139
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	211.67%	223.16%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%
PERS 2 & 3		
Total Net Pension Liability	\$ 3,573,057,000	5,034,921,000
Employer's proportion of the net pension liability (asset)	0.118491%	0.111397%
Employer's proportionate share of the net pension liability	\$ 4,233,751	5,608,751
TOTAL	<u>\$ 4,233,751</u>	<u>5,608,751</u>
Employer's covered employee payroll	\$ 10,519,395	10,975,818
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	248.47%	195.69%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%
PSERS 2		
Total Net Pension Liability	\$ 18,252,000	42,498,000
Employer's proportion of the net pension liability (asset)	0.424215%	0.362730%
Employer's proportionate share of the net pension liability	\$ 77,428	154,153
TOTAL	<u>\$ 77,428</u>	<u>154,153</u>
Employer's covered employee payroll	\$ 1,242,054	1,288,743
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	1604.14%	836.02%
Plan fiduciary net position as a percentage of the total pension liability	90.92%	90.41%
LEOFF 1		
Total Net Pension Liability	\$ (1,205,221,000)	(1,030,286,000)
Employer's proportion of the net pension liability (asset)	0.009538%	0.009641%
Employer's proportionate share of the net pension liability	\$ (114,954)	(99,330)
TOTAL	<u>\$ (114,954)</u>	<u>(99,330)</u>
Employer's covered employee payroll	\$ 0	0
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	127.36%	123.74%
LEOFF 2		
Total Net Pension Liability	\$ (1,027,800,000)	(581,630,000)
Employer's proportion of the net pension liability (asset)	0.0099703%	0.078567%
Employer's proportionate share of the net pension liability	\$ (1,024,747)	(456,969)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (58,166)	(297,911)
TOTAL	<u>\$ (1,082,913)</u>	<u>(754,880)</u>
Employer's covered employee payroll	\$ 2,894,005	2,364,248
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-267.24%	-313.20%
Plan fiduciary net position as a percentage of the total pension liability	111.67%	106.04%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

KITTITAS COUNTY, WASHINGTON

Schedule of Employer Contributions

Pension Plans; PERS 1, PERS 2 &3, PSERS 2, LEOFF 1, LEOFF 2

As of December 31, 2016

	2015	2016
PERS 1		
Statutorily or contractually required contributions	\$ 566,744	638,541
Contributions in relation to the statutorily or contractually required contributions	\$ (566,744)	(638,541)
Contribution deficiency (excess)	\$ 0	0
Covered employer payroll	\$ 12,275,361	12,751,139
Contributions as a percentage of covered employee payroll	% 4.62%	5.01%

PERS 2 & 3		
Statutorily or contractually required contributions	\$ 593,742	683,790
Contributions in relation to the statutorily or contractually required contributions	\$ (593,742)	(683,790)
Contribution deficiency (excess)	\$ 0	0
Covered employer payroll	\$ 10,547,981	10,975,818
Contributions as a percentage of covered employee payroll	% 5.63%	6.23%

PSERS 2		
Statutorily or contractually required contributions	\$ 78,916	84,928
Contributions in relation to the statutorily or contractually required contributions	\$ (78,916)	(84,928)
Contribution deficiency (excess)	\$ 0	0
Covered employer payroll	\$ 1,219,050	1,288,743
Contributions as a percentage of covered employee payroll	% 6.47%	6.59%

LEOFF 1		
Statutorily or contractually required contributions	\$ 0	0
Contributions in relation to the statutorily or contractually required contributions	\$ 0	0
Contribution deficiency (excess)	\$ 0	0
Covered employer payroll	\$ 0	0
Contributions as a percentage of covered employee payroll	% 0.00%	0.00%

LEOFF 2		
Statutorily or contractually required contributions	\$ 130,605	119,395
Contributions in relation to the statutorily or contractually required contributions	\$ (130,605)	(119,395)
Contribution deficiency (excess)	\$ 0	0
Covered employer payroll	\$ 2,586,232	2,364,248
Contributions as a percentage of covered employee payroll	% 5.05%	5.05%

**Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

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		
SNAP Cluster								
Food And Nutrition Service, Department Of Agriculture (via Washington St Department of Health)	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C17114	39	-	39	-	
	Total SNAP Cluster:			39	-	39	-	
Forest Service Schools and Roads Cluster								
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	NA	-	38,813	38,813	-	4.8,9
	Total Forest Service Schools and Roads Cluster:			-	38,813	38,813	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation-Conservation Office)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	PRISM#13- 1315P	10,860	-	10,860	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation-Conservation Office)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	PRISM#13- 1347	4,347	-	4,347	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation-Conservation Office)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	PRISM#12- 1358	2,511	-	2,511	-	
	Total CFDA 11.438:			17,719	-	17,719	-	
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	15-62210-008	60,838	-	60,838	58,831	8

The accompanying notes are an integral part of this schedule.

Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

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		
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	16-62210-008	40,961	-	40,961	39,502	
Total CFDA 14.228:				101,798	-	101,798	98,334	
Bureau Of Reclamation, Department Of The Interior	Yakima River Basin Water Enhancement (YRBWE)	15.531	NA	-	151,770	151,770	-	
Violence Against Women Office, Department Of Justice (via Central Wa Comprehensive Mental Health via WA State Dept Justice)	Violence Against Women Formula Grants	16.588	F14-31103-018	14,824	-	14,824	-	7
Bureau Of Justice Assistance, Department Of Justice	State Criminal Alien Assistance Program	16.606	2016-AP-BX- 0724	-	5,785	5,785	-	7,8
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	NA	-	192,609	192,609	-	
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department Transportation)	Highway Planning and Construction	20.205	LA-8802	4,237	-	4,237	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department Transportation)	Highway Planning and Construction	20.205	LA-8708	67,003	-	67,003	-	
Total Highway Planning and Construction Cluster:				71,240	-	71,240	-	
Highway Safety Cluster								

The accompanying notes are an integral part of this schedule.

Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

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		
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State Traffic Safety Commission)	State and Community Highway Safety	20.600	2015/16 HVE	2,993	-	2,993	-	7,8
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State Traffic Safety Commission)	National Priority Safety Programs	20.616	2016/16 HVE	3,079	-	3,079	-	7,8
Total Highway Safety Cluster:				6,072	-	6,072	-	
U.s. Election Assistance Commission (via WA State Secretary of State)	Help America Vote Act Requirements Payments	90.401	G2844#4	2,113	-	2,113	-	8
Office Of The Secretary, Department Of Health And Human Services (via Grant County)	Medical Reserve Corps Small Grant Program	93.008	MRC-115-2569C	3,375	-	3,375	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department of Health)	Public Health Emergency Preparedness	93.069	C-17114	28,297	-	28,297	-	7,8
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department of Health)	Public Health Emergency Preparedness	93.069	C-17114	18,729	-	18,729	-	7
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department of Health)	Public Health Emergency Preparedness	93.069	C-17114	4,885	-	4,885	-	7,8
Total CFDA 93.069:				51,912	-	51,912	-	

The accompanying notes are an integral part of this schedule.

**Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

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		
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Kittitas County Community Network Coalition)	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	NA	823	-	823	-	4,7,8
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department of Health)	Immunization Cooperative Agreements	93.268	C-17114	7,735	-	7,735	-	5,6,7,8
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department of Health)	Immunization Cooperative Agreements	93.268	NA	28,363	-	28,363	-	3,4,5,8
Total CFDA 93.268:				36,098	-	36,098	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Kittitas County Community Network Coalition)	Drug-Free Communities Support Program Grants	93.276	NA	3,696	-	3,696	-	4,7,8
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Grant County)	National State Based Tobacco Control Programs	93.305	NA	460	-	460	-	4,7
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via WA State Department of Social Health Services)	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	NA	26,777	-	26,777	-	4,7

The accompanying notes are an integral part of this schedule.

Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Expenditures						Passed through to Subrecipients	Note
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
Administration For Children And Families, Department Of Health And Human Services (via WA State Department Social Health Services)	Child Support Enforcement	93.563	2110-80579	14,201	-	14,201	-	7,8
Administration For Children And Families, Department Of Health And Human Services (via WA State Department Social Health Services)	Child Support Enforcement	93.563	2110-80577	90,341	-	90,341	-	7,8
		Total CFDA 93.563:		104,542	-	104,542	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department of Health)	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	93.733	C-17114	863	-	863	-	8
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department Social Health Services)	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	NA	26,417	-	26,417	-	4
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Department of Health)	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	NA	1,731	-	1,731	-	4
Medicaid Cluster								

The accompanying notes are an integral part of this schedule.

Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

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		
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via WA State Health Care Authority)	Medical Assistance Program	93.778	K763	4,487	-	4,487	-	
		Total Medicaid Cluster:			4,487	-	4,487	-
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department Social Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1563-43842	15,140	-	15,140	15,140	8
Health Resources And Services Administration, Department Of Health And Human Services (via WA State Department of Health)	Maternal and Child Health Services Block Grant to the States	93.994	C-17114	28,669	-	28,669	-	7,8
Health Resources And Services Administration, Department Of Health And Human Services (via WA State Department of Health)	Maternal and Child Health Services Block Grant to the States	93.994	C-17114	7,976	-	7,976	-	7
Total CFDA 93.994:				36,646	-	36,646	-	
United States Coast Guard (uscg), Department Of Homeland Security (via WA State Parks Recreation)	Boating Safety Financial Assistance	97.012	3316FAS16015 3	17,855	-	17,855	-	7,8
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-619	5,510	-	5,510	-	8,12

The accompanying notes are an integral part of this schedule.

**Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

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		
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-619	6,761	-	6,761	-	8,12
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-619	8,764	-	8,764	-	8,12
Total CFDA 97.036:				21,035	-	21,035	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Emergency Management Performance Grants	97.042	E16-157	15,875	-	15,875	-	8
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Pre-Disaster Mitigation	97.047	E15-243	54,350	-	54,350	-	
Total Federal Awards Expended:				635,887	388,977	1,024,864	113,473	

The accompanying notes are an integral part of this schedule.

KITTITAS COUNTY

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the county's financial statements. The county uses the modified accrual system 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 county's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Noncash Awards - Vaccinations

The amount of \$28,362.78 reported on the schedule is the value of vaccine received by the county during current year and priced as prescribed by Washington State Department of Health.

Note 4 – Not Available (N/A)

The county was unable to obtain other identification number.

Note 5 – Vaccine for Children's Programs

Vaccine supplied by Federal Government for vaccine for children program

Note 6 – Vaccine for 317 Programs

Vaccine supplied by Federal Government for vaccine for 317 programs.

Note 7 – Indirect Cost Rate

County: The amount expended includes an indirect cost recovery using an approved indirect cost rate of 11.25 percent.

Public Health: The amount expended includes an indirect cost recovery using an approved indirect cost rate of 29.00 percent

The county has not elected to use the 10-percent de minimis indirect cost rate allowed

Note 8 – Project has been completed or expired

Project has been completed or expired.

Note 9 – In-Lieu of Taxes/Unrestricted Funds

In-lieu of taxes, unrestricted funds used for general operations of County Road Fund.

Note 10 – Grant Project Shared

This grant is shared between county funds.

Notes to Schedule 16

KITTITAS COUNTY

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

Note 11 –Project Carryover

Large project carryover: Project pending environmental review and permits.

Note 12-Fema Disaster Assistance

Disaster assistance is usually classified by FEMA as either a “small” or “large” project. Some grantees might experience a long delay from the time they incur costs to recover from a disaster and the date they actually are approved to receive federal disaster relief funding for projects. As with other federal awards, grantees should report the disaster-related costs in the year they are incurred.

Notes to Schedule 16

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER UNIFORM GUIDANCE**

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

This schedule presents the corrective action planned by the auditee 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). The information in this schedule is the representation of the Kittitas County.

Finding ref number: 2016-001	Finding caption: Kittitas County does not have adequate internal controls to ensure compliance with federal suspension and debarment and reporting requirements.
Name, address, and telephone of auditee contact person: Kittitas County Judy Pless, Budget and Finance Manager 205 W. 5 th Ellesburg, WA 98926 (509) 962-7502	
Corrective action the auditee plans to take in response to the finding: <i>The Public Works department has had turnover in the Finance and Engineering divisions of the department. All suspension and debarment controls are being created for staff along with training to comply with this issue. Staff training has increased on the Finance division to ensure contract compliance.</i>	
Anticipated date to complete the corrective action: September 19, 2017	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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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