NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

Lewis County was created on December 19, 1845, under the control of the Provisional Government of Oregon and operates under the laws of the state of Washington applicable to a Third Class County. Lewis County is a general purpose government and provides the following services according to the Constitution and laws of the State of Washington: public safety, road improvement, parks, judicial administration, health and social services, and general administrative services.

Lewis County is governed by an elected board of three county commissioners. These financial statements include the financial position and results of operations for all fund types and its component units. The blended component unit, although a legally separate entity is, in substance, part of the County's operations and so data from this unit is combined with data of the primary government. The blended component unit has a December 31 year-end.

Blended Component Unit

The Solid Waste Disposal District No. 1 of Lewis County is a quasi-municipal corporation, and an independent taxing authority and district, which is responsible for implementation of a comprehensive solid waste management plan for the County and other incorporated cities and towns within the county. In order to implement the plan and related goals, the County and the incorporated cities and towns within the county have agreed, through an interlocal agreement to the formation of the District and transfer of certain responsibilities to the District. Among obligations transferred to the District is the obligation to make funds available to the Centralia Landfill Closure Group for the closure, post-closure and remediation activities at the Centralia Landfill (which is operated by the City of Centralia). The District has the authority to provide for disposal of solid wastes within the boundaries of Lewis County. The District is governed by a three-member board, which consists of the three county commissioners. The District is reported as an enterprise fund.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. 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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function of segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 fiscal 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 assessments 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 the county.

The county reports the following major governmental funds:

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

The Road Fund accounts for the design, construction and maintenance of county roads. The main sources of revenue for the Road Fund include taxes and intergovernmental grants and contributions.

The Capital Facilities Plan Fund is used to account for the ½ of 1% real estate excise tax to be used to finance capital improvements and capital projects including debt service for the capital facilities plan.

The county reports the following major proprietary funds:

The Solid Waste Utility Fund is used to account for the activities of the solid waste transfer station located in Centralia. Activities include waste disposal and transfer, code compliance, and recycling, including education. The main source of revenue for the utility is from contractual services with the Solid Waste Disposal District No. 1.

The Solid Waste Disposal District Fund is used to account for activity of Lewis County Solid Waste Disposal District No. 1 and operation of the solid waste transfer station in Centralia. The main source of revenue for the District is from charges to customers for garbage removal services (tipping fees).

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Additionally, the county reports the following fund types:

Internal service funds account for operations that provide goods and services to other departments or funds of the county or to other government units on a cost-reimbursement basis. The County's internal service funds include the following intergovernmental services: equipment rental, risk management, pits and quarries, facilities, county insurance, and information technology services.

The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, 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 county's enterprise funds and of the county's internal service funds are charges to customers for sales and services. 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.

D. Budgetary Information

1. Scope of Budget

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. Annual budgets are adopted by the legislative authority, being the Board of County Commissioners (BOCC), at the fund level, except in the general fund, where expenditures may not exceed appropriations at the department level. The budget sets legal authority for expenditures at these levels.

All annual appropriations lapse at fiscal year-end.

The County does not employ encumbrance accounting.

2. Adoption of the Original Budget

The County's budget is adopted according to the procedures mandated by Washington State law in the Revised Code of Washington (RCW) title/chapter 36.40. After two public hearings, the 2012 budget was adopted by the BOCC on Monday, December 05, 2011.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

3. Amending the Budget

The budget, as adopted, constitutes the legal authority for expenditures. Budgets are reported according to Generally Accepted Accounting Principles (GAAP). Any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions, salary ranges, or other conditions of employment must be approved by the BOCC.

When the county commission determines that it is in the best interest of the county to increase or decrease the appropriation for a particular fund or department, it may do so by resolution approved by a simple majority after holding one 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 original and final budget information for the general and major funds. 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.

4. Excess of Expenditures Over Appropriations

During the current year there were no instances of overspending in the General Fund or Special Revenue Funds.

5. Deficit Fund Net Position

During the current year there were no instances of deficit fund net position in the General Fund or in a Special Revenue Fund.

E. Assets, Liabilities, fund Balance, Net Position

1. Cash and Cash Equivalents

The county pools cash resources of its various funds for the purpose of investing all temporary cash surpluses. At December 31, 2012, the treasurer was holding $10,577,171 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. Income on pooled investments is allocated pursuant to county resolution no. 2002-460. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and summarized by fund type in the combined balance sheet.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2012 were approximately $9,282,107.

For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents, except for certificates of deposit and deposits with fiscal agents.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. Investments

Investments for the county are reported at fair value. The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares (See Deposits and Investments Note No. 4).

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Property Taxes Note No. 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2012, $1,842 of special assessments receivable were delinquent.

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

4. Amounts Due to and from Other Funds and Governments, 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 "advance 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 Note 14 – Interfund Balances and Transfers.

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 and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. With the exception of receipt books in the general fund, the cost is recorded as expenditure at the time individual inventory items are purchased. Receipt books in the general fund are valued at cost using the first-in/first-out (FIFO) method, which approximates the market value. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued by the weighted average method which approximates the market value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

6. Restricted Assets and Liabilities

This account contains resources for self-insurance programs held in internal service funds. In the internal service funds, restricted cash and investments at year-end were:

Fund	Cash	Investments
County Insurance	-	417,718

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the county as assets with an initial, individual cost of more than $5,000. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements for amounts greater than $50,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The costs for normal maintenance and repairs are not capitalized.

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

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

Assets	Years
Autos, Computers, Office Equipment	3 - 7
Heavy Equipment	8 -20
Buildings, Land Improvements	40
Infrastructure	15 - 60

8. Compensated Absences

The county records all accumulated unused vacation and sick leave benefits. Vacation pay, which may accumulate up to 240 hours, is payable upon resignation, retirement, or death. Sick leave may accumulate up to 1,320 hours. Fifty percent of outstanding sick leave to a maximum of 360 hours is payable upon resignation, retirement, or death.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

NOTES TO FINANCIAL STATEMENTS
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10. Long-term Debt: See Long-term Debt Note No. 11.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Deferred Revenues

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

12. Fund Balance Classification

In the fund financial statements, governmental funds classify fund balance as Nonspendable, Restricted, Committed, Assigned, or Unassigned.

13. Fund Balance Details

a) Nonspendable: Portion that cannot be spent due to form (prepaid items, inventories) or must be maintained intact due to legal or contractual requirements.
b) Restricted: Portion with externally enforceable limitations; such as those imposed by creditors, grantors, or laws of other governments.
c) Committed: Portion with limitations imposed by formal action (Resolution) by the Board of County Commissioners.
d) Assigned: Portion with limitations resulting from intended use as established by the Board of County Commissioners or their designee(s).
e) Unassigned: Portion in the General Fund (Current Expense) in excess of Nonspendable, Restricted, Committed, and Assigned; deficit in Special Revenue Funds.

Lewis County has not adopted a spending policy; therefore, it is presumed that the order of spending is restricted fund balance then, committed fund balance then, assigned fund balance, and last unassigned fund balance.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

14. Fund Balances

	General Fund	Roads	Capital Projects	Special Revenue	Debt Service	Capital Facilities Plan	Total Funds
Fund Balances:							
Nonspendable:							
Inventory	870	-	-	-	-	-	870
Prepaids	55,284	18,921	-	80,645	-	-	154,850
Total Nonspendable	56,154	18,921	-	80,645	-	-	155,720
Restricted:							
Debt Service	-	-	-	-	21,361	-	21,361
General Government Services	319,760	-	-	614,227	-	6,369,006	7,302,993
Security of Persons & Property	-	-	-	287,935	-	-	287,935
Transportation	-	10,884,700	-	-	-	-	10,884,700
Economic Environment	-	-	-	4,755,694	-	-	4,755,694
Mental & Physical Health	-	-	-	373,921	-	-	373,921
Public Services	-	-	-	796,726	-	-	796,726
Total Restricted	319,760	10,884,700	-	6,828,503	21,361	6,369,006	24,423,330
Committed:							
General Government Services	-	-	-	63,157	-	-	63,157
Total Committed	-	-	-	63,157	-	-	63,157
Assigned:							
General Government Services	-	-	-	23,990	-	-	23,990
Security of Persons & Property	4,822	-	-	1,276,261	-	-	1,281,083
Utilities & Environment	25,278	-	-	-	-	-	25,278
Transportation	-	826,552	-	-	-	-	826,552
Mental & Physical Health	-	-	-	545,771	-	-	545,771
Culture & Recreation	34	-	-	226,248	-	-	226,282
Public Services	-	-	-	10,544	-	-	10,544
Capital Projects	-	-	1,073,844	-	-	150,019	1,223,863
Total Assigned	30,134	826,552	1,073,844	2,082,814	-	150,019	4,163,363
Unassigned:	10,378,815						10,378,815
Total Fund Balances:	10,784,863	11,730,173	1,073,844	9,055,119	21,361	6,519,025	39,184,385

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

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

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

Fund balances - total governmental funds	$ 39,184,385
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 therefore are not reported in the governmental funds.	86,949,420
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.	1,802,342
Some receivable balances are not yet available and are not reported as revenue in the governmental funds.	4,449,617
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(25,457,665)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	23,355,922
Net Position of government activities.	$ 130,284,021

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

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

Net changes in fund balances - total governmental funds	$ (178,040)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.	5,556,884
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations) is to increase/decrease net position.	153,025
Repayment of bond principal and accrued interest is an expenditure in funds, but the repayment reduces long-term liabilities in the governmental statement of net position. Loan/Bond Proceeds provide current financial resources to governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,183,702
Some revenues or expenditures reported in the statement of activities are not yet available or expensed and therefore are not reported as revenue or expenses in governmental funds.	(3,995,219)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.	242,556
Change in net position of governmental activities.	$ 2,962,908

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At December 31, 2012 no funds reported deficits in fund balances or fund net positions in violation of state statute.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

The county's deposits and certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The county maintains an internal cash pool for idle cash that has not been invested for the benefit of specific funds. All interest earnings from this pool are credited to the General Fund. Cash balances of the individual funds constitute a portion of the Local Government Investment Pool and are reported on the balance sheet as Cash and Cash Equivalents or Investments depending on the maturity of the underlying investments. In addition, certain investments are held separately by several county funds and reported accordingly.

As of December 31, 2012, the county had the following investments:

Investment Type:	Carrying Amount	Market Value
U.S. Gov't Securities	17,476,367	17,587,971
Municipal Bonds	20,076,670	20,517,757
Subtotal - Investments Subject to Credit Risk Classification	37,553,037	38,105,728
State Treasurer's Investment Pool	62,391,729	62,391,729
Time Deposits	355,384	355,384
Subtotal - Investments Not Subject To Credit Risk Classification	62,747,113	62,747,113
Total Investments	**100,300,150**	**100,852,841**

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. The difference between the carrying value and market value is the unrealized gain (loss) on investments.

Interest Rate Risk
In accordance with its investment policy, the county manages its exposure to declines in fair values by limiting the maximum maturity of an individual investment in its investment portfolio to less than sixty months.

Credit Risk
Washington State statutes and county investment policy authorize the county to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers acceptances, primary certificates of deposit issued by qualified public depositories, the state treasurer's Local Government Investment Pool (LGIP), municipal bonds issued by Washington State or its local governments, and repurchase agreements collateralized by any previously authorized investments. Accordingly, credit risk, if any, is extremely limited.

NOTE 5 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed as collected and those collections requiring remittance are distributed to other jurisdictions 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 is established for next year's levy at 100% of market value.
October 31	Second installment is due.

NOTES TO FINANCIAL STATEMENTS

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Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as deferred revenue and recognized as revenue of the period to which it applies. The balance of taxes receivables includes related interest and penalties. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

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

The county is also authorized to levy $2.25 per $1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general governmental services. The county road levy for 2012 was $2.065 per $1,000 on an assessed valuation of $5,347,385,674 or a total road tax of $11,042,581.

The diverted county road levy for 2012 was $0.2415 per $1,000 on an assessed valuation of $5,347,385,674 for a total diverted road levy of $1,291,657.

A shift in the County Road fund levy to the Current Expense fund is allowed by RCW 84.52.043 as long as the shift from the County Road fund does not reduce the levy capacity of any other taxing districts. A shift from the County Road fund levy to Current Expense was authorized in the amount of $17,000 for 2012.

The county's total regular levy for 2012 was $1.5152 per $1,000 on an assessed valuation of $7,447,241,218 for a total regular tax of $11,283,897. The components of the regular levy are:

	Levy	Tax
General Fund	1.470178165	10,948,771
Veteran;s Relief	0.020000000	148,945
Social Services	0.024999999	186,181
Totals	1.515178164	11,283,897

NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – CAPITAL ASSETS

Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

GOVERNMENTAL TYPE ACTIVITIES	Beginning Balance 01/01/2012	Increases	Adjustments	Decreases	Ending Balance 12/31/2012
Capital Assets, not being depreciated:					
Land	$ 4,110,321	$ 322,836	$ -	$ 121,757	$ 4,311,400
Land Use Rights (Intangible Assets)	47,978	2,119	-	-	50,098
Construction in Progress	8,959,794	6,770,187	-	9,980,176	5,749,805
Total Capital Assets, not being depreciated	13,118,093	7,095,142	-	10,101,933	10,111,303
Capital Assets being depreciated:					
Buildings	62,876,388	102,793	-	-	62,979,181
Improvements other than buildings	3,721,296	-	-	6,500	3,714,796
Machinery & Equipment	20,567,598	1,016,059	-	335,400	21,248,257
Intangible Assets	-	-	-	-	-
Infrastructure	81,093,318	8,293,853	-	-	89,387,171
Total Capital Assets, being depreciated	168,258,600	9,412,705	-	341,900	177,329,405
Less Accumulated Depreciation for:					
Buildings	24,471,087	1,203,577	(253,088)	-	25,421,576
Improvements other than buildings	2,338,772	145,555	253,088	-	2,737,415
Machinery & Equipment	13,263,714	1,085,052	-	331,736	14,017,030
Intangible Assets	-	-	-	-	-
Infrastructure	47,269,392	2,185,837	-	-	49,455,229
Total Accumulated Depreciation	87,342,965	4,620,021	-	331,736	91,631,250
Total Capital Assets being depreciated, net	80,915,635	4,792,684	-	10,164	85,698,155
Governmental Type Activities Capital Assets, net	$ 94,033,728	$ 11,887,826	$ -	$ 10,112,097	$ 95,809,458

*Construction in Process includes $4,487,612 of Public Works infrastructure projects included in the Six Year Transportation Improvement Plan, $1,426 for a Right of Way purchase not completed at yearend, and $1,260,767 in construction projects currently in progress.

Depreciation Expense was charged to functions as follows:	
General Government Services	$ 433,180
Security of Person and Property	758,294
Physical Environment	126,329
Transportation	2,199,193
Economic Environment	-
Mental and Physical Health	21,178
Culture and Recreation	74,179
	$ 3,612,353
In addition, depreciation on capital assets held by the County's internal service funds is charged to the various functions based upon their usage of the assets.	1,007,668
Total Governmental Activities Depreciation Expense	$ 4,620,021

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BUSINESS TYPE ACTIVITIES	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital Assets, not being depreciated:				
Land	$ 177,889	$ -	$ -	$ 177,889
Land Use Rights (Intangible Assets)	2,014	-	-	2,014
Construction in Progress	716,162	8,246	724,408	-
Total Capital Assets, not being depreciated	896,065	8,246	724,408	179,903
Capital Assets being depreciated:				
Buildings	1,239,352	-	-	1,239,352
Improvements other than buildings	3,330,971	694,703	-	4,025,674
Machinery & Equipment	506,120	316,585	-	822,705
Intangible Assets	-	-	-	-
Total Capital Assets, being depreciated	5,076,443	1,011,288	-	6,087,731
Less Accumulated Depreciation for:				
Buildings	931,557	49,471	-	981,028
Improvements other than buildings	986,781	170,444	-	1,157,225
Machinery & Equipment	310,531	46,989	-	357,520
Intangible Assets	-	-	-	-
Total Accumulated Depreciation	2,228,869	266,904	-	2,495,773
Total Capital Assets being depreciated, net	2,847,574	744,384	-	3,591,958
Business Type Activities Capital Assets, net	$ 3,743,639	$ 752,630	$ 724,408	$ 3,771,861

Depreciation Expense was charged to functions as follows:

Solid Waste	$ 122,329
Airport	144,575
Total	$ 266,904

NOTE 7 – PENSION PLANS

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

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description: The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and

municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the

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

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

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

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

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

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

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	**261,705**

Funding Policy

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 114,907	$ 1,512,918	$ 122,258
2011	$ 110,110	$ 1,278,820	$ 99,605
2010	$ 113,971	$ 1,126,083	$ 88,623

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

Plan Description
LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF

membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.
LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.
Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to

eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.
Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.
There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	**27,658**

Funding Policy:
Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.
The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	LEOFF Plan 1	**LEOFF Plan 2**
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for ports and universities is 8.62%.

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December 31, 2012

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

	LEOFF Plan 1	LEOFF Plan 2
2012	$ -	$ 148,238
2011	$ -	$ 138,823
2010	$ -	$ 142,793

Public Safety Employees' Retirement System (PSERS) Plan 2

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

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

PSERS membership includes:

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

A *covered employer* is one that participates in PSERS. Covered employers include the following:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Nonvested	4,020
Total	**4,203**

Funding Policy

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

Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

*The employer rate includes an employer administrative expense fee of 0.16%.

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

	PSERS Plan 2
2012	$160,049
2011	$131,611
2010	$118,138

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS (HEALTH CARE)

The County provides other post-employment benefits (OPEB) in addition to the pension benefits described in Note 7.

A. LEOFF Plan 1

Lifetime full medical coverage is provided to uniformed law enforcement officers as members of the Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1) retirement system. A liability for the accumulated unfunded actuarially required contribution (ARC) is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred.

1. Plan Description

In accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26), the county provides certain lifetime health care benefits for retired full-time, fully compensated, law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. Substantially all of the county's law enforcement officers who established membership in the LEOFF 1 retirement system may become eligible for those benefits when they reach normal retirement age. The Lewis County Sheriff's Department, in conjunction with the Lewis County Disability Board, reimburses retired LEOFF 1 law enforcement officers for reasonable medical charges as described in the LEOFF act. In 2012, 24 retirees received benefits under this act. As of December 31, 2012, there were no active LEOFF 1 officers.

2. Funding Policy

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years as of January 1, 2012. 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 $1,239,421 is reported as a non-current liability on the Statement of Net Position.

	Year Ending 12/31/2012
Determination of Annual Required Contribution:	
Normal Cost at Year End	$ -
Amortization of UAAL *	586,392
Annual Required Contribution	$ 586,392
Determination of Net OPEB Obligation:	
Annual Required Contribution	$ 586,392
Interest on Prior Year Net OPEB Obligation	58,175
NOO Amortization **	(120,374)
Annual OPEB Cost	524,193
Contributions Made	(577,516)
Increase in Net OPEB Obligation	$ (53,323)
Net OPEB Obligation - End of Year:	
Net OPEB Obligation - Beginning of Year	$ 1,292,765
Increase in Net OPEB Obligation	(53,323)
Net OPEB Obligation - End of Year	$ 1,239,442

* Unfunded Actuarial Accrued Liability (UAAL)
** Net OPEB Obligation

4. Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $6,297,589 and the actuarial value of the assets was $0 resulting in a UAAL of $6,297,589. .

The cost of retiree health care benefits is recognized in the General Fund as claims are paid. For 2012, these costs totaled $577,516 with a cost per retiree of $24,064.

Actuarial valuations involve 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 multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

5. Actuarial Methods and Assumptions

We have used the alternative measurement method permitted under GASB Statement No. 45. There were no active members to consider when determining the actuarial accrued liability and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (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 AAL and NOO are being 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.

During 1993 the county began setting aside funds for future post-retirement health care benefit payments for the county's LEOFF 1 retired officers. Net available in the Risk Management internal service fund at December 31, 2012 for LEOFF 1 other post-employment benefits was $6,369,732. However, the current strategy does not constitute an advance-funded approach.

B. Other County Retirees

Lewis County makes available to eligible retirees employer provided subsidies for post-employment medical insurance benefits provided through Washington Counties Insurance Fund, or Washington Teamsters Welfare Trust.

Actual participation is extremely low due likely to the economic costs of the retiree premiums. As a consequence, out of the entire population of eligible retirees there were only three retirees under the age of 65 participating at the end of 2012. Due to the immaterial nature, a liability for the accumulated unfunded actuarially required contribution has not been reported in the entity-wide and proprietary statements of net position.

NOTE 9 - DEFERRED COMPENSATION PLAN

The county offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. Two plans are available, one with State of Washington Department of Retirement Systems Deferred Compensation Program and a second with Nationwide Retirement Solutions. The plans, available to all eligible employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Plan assets for both the State of Washington Deferred Compensation Program and Nationwide Retirement Solutions plans reside in trust held for exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since Lewis County is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer reported as an Agency Fund.

NOTE 10 - RISK MANAGEMENT

Lewis County is one of twenty-seven member counties of the Washington Counties Risk Pool ("Pool"). Other members include: Adams, Benton, Chelan and Clallam, Clark, Columbia, Cowlitz and Douglas, Franklin, Garfield, Grays Harbor and Island, Jefferson, Kittitas and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Kitsap, Klickitat and Whitman Counties are former Pool members, having terminated their memberships September 30th of 2010, 2002 and 2003 respectively.

NOTES TO FINANCIAL STATEMENTS
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Contingent Liability: The Pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits resulting from any of the Pool's fiscal years are financed by proportional reassessments (aka retroactive assessments) amongst the deficient year's membership. The Pool's reassessments receivable balance at December 31, 2012 was ZERO ($0) as no contingent liabilities were known to exist at that time.
Joint Self-Insurance Liability Program: The Pool has provided its member counties occurrence-based, jointly self-insured and/or jointly purchased liability coverage since October 1, 1988 for 3rd-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, including public officials' errors and omissions. Total coverage limits have grown over time, from the $1 million limit during the Pool's initial two months to $5 million, then to $10 million and onto $15 million before reaching the $20 million limit existing the past eight years. (Note: Additional limits of $5 million were offered the past several years for acquisition as a member-by-member option.)

Except for the Pool's self-insured retention (the greater of the member's deductible or $100,000), the initial coverage of at least $10 million has been fully reinsured since October 1994 by superior-rated commercial carriers. Members annually select a deductible amount of $10,000, $25,000, $50,000, $100,000, $250,000 or $500,000 for each occurrence. The remaining insurance (up to $15 million) is acquired as "following form" excess insurance, also from superior-rated commercial carriers. There are no aggregate limits to the payments made for any one member county or all member counties combined.

The Pool's claims database increased during Py2012 with the addition of 634 new claims (and lawsuits) raising the 3rd-party liability claims to-date total submitted by member counties to 18,616. Estimates of total incurred losses (payments made plus reserved estimates for *open* claims) increased $5.4 million during the year to $242.8 million. The Py2012 amount represents just 34% of the corresponding $16.0M increase in Py2011, 30% of the $17.8M in Py2010, and only 26% of the $20.8M annual average during Py2007 – Py2009.

Washington Counties Property Program ("WCPP"): Since the Pool began offering the jointly-purchased, fully-insured property insurance coverage to its membership as an individual county option in October 2005, participation has grown by more than 50% and the total value of covered properties has nearly doubled. Twenty six member counties with covered properties totaling nearly $2.67 billion participated in this program during Py2012.
Coverage is for structures, vehicles, mobile equipment, EDP equipment, etc., and composite limits include $500 million for normal (All Other Perils) exposures and $200 million for catastrophe (Flood / Earthquake) exposures. Occurrence deductibles, which the participating counties select annually and which the counties are solely responsible for paying, range between $5,000 and $50,000 for the AOP coverage.

Superior-rated commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. There were 7 claims filed during Py2012 by participating counties with incurred loss estimates totaling $0.35 million. During the WCPP's first seven years as a WCRP optional insuring program, there have been 85 property claims filed with incurred-to-date losses totaling slightly more than $11 million. With to-date premiums for this coverage totaling nearly $16.5 million, the program's cumulative loss ratio is 0.667.
Other Insurances: Several member counties also use the Pool's producer (broker) for other insurance placements. Public officials bonds, crime (& fidelity), special events/concessionaires, Underground Storage Tanks and other environmental hazards insurance coverages are examples.

Background: The Pool was formed August 18, 1988 when several Washington counties approved an Interlocal (Cooperative) Agreement under Chapter 39.34 RCW to provide its member counties with "joint" programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide

administrative services, claims handling and risk management. Washington's pools operate under Washington's "pooling" laws, more specifically Chapters 48.62 RCW and 200.100 WAC. They are overseen by the State Risk Manager and subject to fiscal audits performed annually by the State Auditor.

The Pool's mission is: To provide comprehensive and economical risk coverage; to reduce the frequency and severity of losses; and to decrease costs incurred in the managing and litigation of claims. The Pool's core values include: being committed to learn, understand and respond to the member counties' insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool's board of directors and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

The enabling Interlocal Agreement was amended once (in 2000) to add a Membership Compact, a commitment to strengthen the Pool by helping its member counties implement and/or enhance local risk management efforts to reduce losses and support the best management of the Pool and its resources. The intent of the Compact was to obligate member counties to support these goals through three major elements; membership involvement, risk control practices, and a targeted risk management program.

A new member may be asked to pay modest admittance fees to cover that member's share of the Pool's organizational expenses and costs to analyze its loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for its proportional shares of any unresolved, unreported, and in-process claims for the periods that former member was a signatory to the Interlocal Agreement.

Governance / Oversight: The Pool is governed by a board of directors consisting of one director (and at least one alternate director) appointed by each member county. The Pool's board of directors, made up of both elected and appointed county officials, meets three times each year, with the summer meeting being the Pool's Annual Meeting. The board of directors is responsible for determining the 3rd-party liability coverage to be offered (approving the insuring document or coverage form), the reinsurance program(s) to acquire and the excess insurance(s) to be jointly purchased or offered for optional purchase by the member counties, for approval of the Pool's annual operating budget(s) and work program(s), and for approval of the member deposit assessment formulas applicable to the ensuing policy year.

Regular oversight of the Pool's operations is furnished by an 11-person executive committee. The committeepersons are elected by the Pool's board of directors from its membership to staggered, 3-year terms. The committee meets several times throughout the year to approve all Pool disbursements and examine the Pool's financial health; to approve any case settlement exceeding the member's deductible by at least $50,000, and to review all claims with incurred loss estimates exceeding $100,000; to evaluate the Executive Director and the Pool's operations and program deliverables; and to participate in the board's standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization's policies and coverage documents.

Staffing and Support Teams: The Pool's 6-person claims staff with more than ninety years of combined claims-handling experience handles or oversees the handling of the several hundred liability cases filed upon the Pool's member counties each year. This includes establishing reserves for covered events and estimating undiscounted

future cash payments for losses and their related claims adjustment expenses. Other Pool staffers provide various member services, e.g conducting risk assessments and compliance audits, coordinating numerous trainings, researching other coverages and marketing. Some address and support the organization's administrative needs.
Also, professionals from some of the most respected organizations worldwide are called upon regularly to address specific needs of the Pool. For example, independent actuarial services are furnished by PricewaterhouseCoopers, LLP; independent claims auditing is performed by Startegic Claims Direction with special claims audits frequently performed by the Pool's commercial reinsurers / insurers; insurance producer (broker) and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; and coverage counsel is provided by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend Pool cases, as well as the examinations by and services from the State Risk Manager and the State Auditor.

Financial Summary: The following constitute the most significant highlights from the Pool's most recently completed Policy (Fiscal) Year (October 2011 through September 2012):

- *Net Operating Income* realized was $1.8 million, a 132% year-over-year increase and nearly triple the annual average from the past ten years, 2002-11.
- *Total Assets* grew $1.0 million (2%) to $42.1 million. Current assets increased $1.2 million (3%) while non-current assets decreased $0.2 million (16%).
- Total *Claims Reserves* for the Pool's direct reserving exposures decreased 2% to $14.7 million. This total includes: $4.3 million for losses in the coverage layer retained by the Pool, down 23%; $9.4 million for the aggregated stop losses in the retained layers associated with the "corridor" program for automobile and general liabilities, up 10%; and $1.0 million for unallocated loss adjustment expenses, up 17% from one year ago. *NOTE: The corridor program referenced is now six years old yet still not fully matured. Further, its occurrence coverage maximum was increased to $1.0 million beginning with Py2010, up from the $0.5 million level that existed during the program's first three years, while the program's occurrence minimum remains the greater of the applicable member's deductible or $100,000.*
- *Net Position* (formerly referred to as *Net Assets* and also known as *Members' Equity*) increased $1.8 million to nearly $12.9 million as of September 30, 2012. Of that total, $4.8 million is classified as *Restricted Net Position* — $0.8 million to satisfy the State's solvency provisions (WAC 200.100.03001) plus $4.0 million for the Pool's Underwriting Policy requirements – and another $1.0 million is held as *Capital Assets* (net of debt). The remaining $7.1 million held as *Non-Restricted Net Position*, up from $4.4 million one year before, is available for use as directed by the Pool's Board of Directors.

Risk Management Fund: - The County established its own Risk Management fund in 1991, which is used to pay deductibles on general liability claims and unemployment claims. The county has elected to become self-insured for unemployment claims. Based on Washington Counties Risk Pool and county management estimates, the county's estimated liability for probable losses at December 31, 2012, which includes estimates for Incurred But Not Reported claims (IBNR) were as follows:

		2011		2012
General Liability Claims	$	2,000,000	$	2,000,000
Unemployment Claims		224,823		184,823
Total	**$**	**2,224,823**	**$**	**2,184,823**

NOTES TO FINANCIAL STATEMENTS
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In addition, the following shows changes in the balances of claims liabilities during the past year:

	Year Ended: 12/31/2011	Year Ended: 12/31/2012
Unpaid Claims, Beginning of Fiscal Year	$ 2,224,823	$ 2,224,823
Incurred Claims	573,633	431,649
Changes In Estimates	-	(40,000)
Claim Payments	(573,633)	(431,649)
Unpaid Claims, End of Fiscal Year	**$ 2,224,823**	**$ 2,184,823**

As of December 31, 2012, cash and investments were $3,177 and $8,440,080, respectively, this included $6,332,091 investments for LEOFF 1 post retirement benefits.

County Insurance Fund: - The County has elected to become self-insured for worker's compensation and maintains the County Insurance Fund which is used to pay related claims costs. An independent claims management firm processes claims. Based on the county's claims management firm and Washington State Department of Labor & Industries data, the county's estimated reserve for probable losses at December 31, 2012 was $174,982:

	Year Ended: 12/31/2011	Year Ended: 12/31/2012
Unpaid Claims, Beginning of Fiscal Year	$ 174,982	$ 174,982
Incurred Claims (Payments by Administrator)	284,023	228,404
Claim Payments	(284,023)	(185,048)
Other - Cash Pension Adjustment	-	(28,062)
Accrued (with IBNR estimate)	-	(15,294)
Claims Liability, End of Fiscal Year	**$ 174,982**	**$ 174,982**

The county has two fully funded pension obligations held by the State of Washington Department of Labor and Industries with a cash value of $722,617 at December 31, 2012. The county has met the SIR payable under the excess coverage for the claims.

The county is required by Washington State Department of Labor and Industries to set aside, for protection to the Workers' Compensation Fund, a minimum of $100,000 in cash reserves. Additionally, the county has purchased $1 million of excess coverage insurance for workers' compensation claims. The policy has a $600,000 SIR for individual claims. As of December 31, 2012, cash and investments were $1,862,102 including $417,718 restricted for minimum cash reserves. Total net position at December 31, 2012 was $1,772,782.

Other Insurance: - The County has purchased coverage for property insurance (including computers), flood, and equipment physical damage, boiler, and liability for the Packwood and South County Airports. For the past five fiscal years, there were no settlements that exceeded insurance coverage.

NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - LONG-TERM DEBT

The County may issue general obligation and revenue bonds to finance the purchase of major capital items, the acquisition or construction of major capital facilities and other major items. The general obligation bonds have been issued for the general government and are being repaid from applicable resources. The County is also liable for notes that were entered into for various reasons stated below in the description of each note. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

A. Disclosures About Each Significant Debt Incurred

General Obligation Bonds	Outstanding 12/31/2012
$8,680,000 – Issued May 2012, to defease, pay, redeem, and retire the 2003 General Obligation bonds. Interest is paid at 2.00% to 3.00% with annual debt service payments of $475,000 to $720,000 through December 1, 2027.	$8,680,000
$4,925,000 – Issued September 2, 2009, to defease, pay, redeem, and retire the 1999 refunded bonds. Interest is paid at 2.50% to 4.25% with annual debt service payments of $395,188 to $442,000 through December 1, 2024.	$4,170,000
$3,500,000 – Issued in August 2007, for the benefit of the Chehalis-Centralia Airport and their ongoing capital construction projects. Interest is paid at 4.32% with annual debt service payments of $316,206 through June 1, 2017. The Chehalis-Centralia Airport has a note payable due to the County for these payments.	$2,442,055
$7,100,000 - Issued May 25, 2005, to defease, pay, redeem and retire the 1999 refunded bonds. Interest is paid at 3.00% to 6.50% with annual debt service payments of $506,638 to $523,943 through December 1, 2024.	$ 4,760,000
Notes Payable	
Washington State, Public Works Trust Fund Loan - Dept. of Community Development - $389,125 - Issued April 14, 1994, for the purpose of financing extension of roads and utility services as an expansion of the Chehalis Industrial Park; whereby, the county acted as the lead agency in a cooperative project with the Port of Chehalis. All principal and interest payments made by the county are reimbursed 100% by the Port of Chehalis. Interest is paid at 1.00% on annual installments of $23,083 to $31,704 through July 1, 2014.	$55,590
Washington State Revolving Fund Loan - Dept. of Ecology - $406,261 - Issued July 1, 1994, for the purpose of paying for costs associated with the Wallace Road sewer project. The loan agreement provides a maximum allowable loan of $406,261, of which the County has received $322,808. Interest is paid at 4.50% on semi-annual installments of $12,297 through July 1, 2014.	$11,197
Total Outstanding Debt	**$20,118,842**

NOTES TO FINANCIAL STATEMENTS

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B. Debt Service Requirements to Maturity

Annual debt service requirements to maturity for governmental general obligation bonds are as follows:

Year	Principal	Interest
2013	1,307,985	702,244
2014	1,332,285	658,444
2015	1,371,991	616,492
2016	1,427,122	572,102
2017	2,747,672	494,612
2018-2022	6,720,000	1,641,790
2023-2027	5,145,000	423,794
Total	$ 20,052,055	$ 5,109,478

Annual debt service requirements to maturity for other outstanding debt are as follows:

	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2013	27,795	556	7,381	422
2014	27,795	278	3,816	86
Total	$ 55,590	$ 834	$ 11,197	$ 508

C. Changes in Government-wide Long-Term Debt

The following is a summary of the County's Long-Term Debt transactions for the year ended December 31, 2012:

Activity:	Balance 12/31/2011	New Issues	Retirement	Balance 12/31/2012	Due Within One Year
Governmental:					
Compensated Absences	$ 4,219,093	$ 144,455	$ -	$ 4,363,548	$ 25,750
General Obligation Bonds	21,286,129	8,680,000	9,914,074	20,052,055	1,307,985
Notes Payable	83,384	-	27,795	55,589	27,795
TOTAL	$ 25,588,606	$ 8,824,455	$ 9,941,869	$ 24,471,192	$ 1,361,530
Business-Type:					
Compensated Absences	$ 136,111	$ 12,810	$ -	$ 148,921	$ -
Notes Payable	18,257	-	7,060	11,197	7,381
TOTAL	$ 154,368	$ 12,810	$ 7,060	$ 160,118	$ 7,381

Note: Adjustments due to Rounding.

Internal service funds predominantly serve the governmental funds. Accordingly, internal service fund long-term liabilities are included as part of the above totals for governmental activities. At year end $373,464 of internal service funds compensated absences are included in the above amounts. Additionally, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the responsible fund.

D. Assets Available for Long-Term Debt

At December 31, 2012, the county had $21,361 available in the debt service funds. The general fund and other county funds will transfer assets as required to service the general obligation bonded debt. Other debt is serviced by assets within the responsible fund.

E. Legal Debt Margin

State law sets the county's limitation on external long-term debt as follows:

Purpose of Indebtedness	Remaining Capacity	
General Government - No Vote Required	$	93,075,976
General Government - Vote Required	$	167,548,388

F. Prior Years' Debt Defeasance

In prior years, the county defeased four bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government wide financial statements. As of December 31, 2012, the amount of defeased debt outstanding but removed from the Solid Waste Disposal District amounted to $2,195,000 and the Governmental Long Term Debt amounted to $12,215,000.

G. Arbitrage

Governments may incur a liability to the federal government for arbitrage rebate if they earn more interest on the reinvested proceeds of tax-exempt debt than they incur on the underlying debt itself. The County has a review of potential arbitrage rebate conducted every five years on each outstanding bond issue. Based on the results of these periodic reviews, there is no arbitrage rebate on any of the County's outstanding debt issue.

H. Conduit Debt

To provide for the construction of an event center and sports complex that constitutes a "regional center", the county has provided credit support for the Lewis County Public Facilities District (PFD) to issue limited sales tax obligation bonds. These bonds are limited obligations of the PFD authorized by RCW 36.100.060, payable from and secured by a pledge of sales tax and use tax revenue as authorized to be imposed by RCW 82.14.390. The bonds do not constitute county debt subject to constitutional or statutory limitations, and accordingly have not been reported in the accompanying financial statements. At December 31, 2012, the Public Facilities District limited sales tax obligations bonds outstanding amounted to $5,795,000.

I. Advanced Refunding

The County issued $8.68 million of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of $8.73 million of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental

activities column of the statement of net position. This refunding was undertaken to reduce the total debt service payments over the next fifteen years by $1,564,804 and resulted in an economic gain of $1,295,761.

NOTE 12 - JUDGMENTS AND CONTINGENCIES

The 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 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.

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

NOTE 13 - RESTRICTED NET ASSETS

The government-wide statement of net assets reports $417,048 of restricted net assets by enabling legislation (County Self-Insurance).

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

Activity between funds for goods or services occurs throughout the year. The following table depicts interfund receivable and payable balances as of December 31, 2012:

Fund	Due to Other Funds	Due From Other Funds
General Fund	$ 259,883	$ 340,343
Roads Fund	618,152	6,581
Capital Facilities Fund	-	131,154
Nonmajor Governmental Funds	36,419	83,516
Internal Service Funds	9,578	350,768
Solid Waste Utility	10,886	172,509
Solid Waste Disposal District	150,053	-
Nonmajor Business Type Funds	4,090	4,090
Total	$ 1,089,061	$ 1,088,961

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B. Interfund Loans

Periodically, there is a business need to authorize loans between funds, usually for cash flow requirements for the smaller funds. The following table displays interfund loan activity during 2012:

		Interfund Loans			
Borrowing Fund	Lending Fund	Balance 12/31/2011	New Loans	Payments Made	Balance 12/31/2012
Flood Authority	General	$ 150,000	$ -	$ -	$ 150,000
Packwood Airport	General	56,243	-	-	56,243
South County Airport	General	-	45,854	-	45,854
Vader Water System Imp.	General	-	182,771	-	182,771
	TOTAL	$ 206,243	$228,625	$ -	$ 434,868

Interfund Transfers

On an annual basis interfund transfers are used to move resources between funds for authorized purposes. The following table displays interfund transfers during 2012:

	Operating Transfers	
Fund Types	**In**	**Out**
General Fund	$ 59,000	$ 3,192,428
Capital Facilities Plan	12,445	1,249,769
Nonmajor Governmental Funds	2,142,983	75,000
Internal Service Funds	375,000	-
Debt Service Funds	1,680,169	-
Business Type	247,600	-
TOTAL	**$ 4,517,197**	**$ 4,517,197**

NOTE 15 – JOINT VENTURE

Lewis County was jointly participating with the city of Centralia and the city of Chehalis in the Chehalis-Centralia Airport. The joint venture is organized under RCW 14.08.200. On August 24, 2005 by joint resolution of the cities of Centralia and Chehalis and Lewis County, the action authorized the removal of the City of Centralia from the Chehalis-Centralia airport joint operating agreement and the two positions on the governing board held by representatives of the city of Centralia were eliminated.

Chehalis-Centralia Airport is jointly governed by an appointed six member board of which Lewis County is a member. Currently three airport board members are appointed by Lewis County and three members are appointed by the City of Chehalis. The appointment of the seventh member is alternated between the two entities. Lewis County has a one-half equity interest in the Chehalis-Centralia Airport. The Chehalis-Centralia Airport prepares its financial statements on a cash basis. The ending balance of cash and investments at as of December 31, 2012 was $1,902,210.

Debt related to the Chehalis-Centralia Airport consists of a bond issued by Lewis County in 2007 on behalf of the Chehalis-Centralia Airport in the amount of $3,500,000. The Chehalis-Centralia Airport makes the payments to Lewis County. The balance as of December 31, 2012 was $2,442,055.

Financial statements for the Chehalis-Centralia Airport can be obtained from its administrator at the Airport, PO Box 1344, Chehalis, WA 98532.

NOTE 16 - CLOSURE AND POSTCLOSURE CARE COST

On August 28, 1990, the Centralia Landfill was listed on the Washington State Hazardous Sites List pursuant to Chapter 70, 105D RCW, the Model Toxics Control Act, and WAC 173-340-330, and on August 30, 1990, the Landfill was added to the Federal National Priorities List (NPL) pursuant to 42 U.S.C. Section 9605 of the Comprehensive Environment Response, Compensation, and Liability Act (CERCLA or Superfund). As a result of these listings, it was necessary for the Landfill to be remediated pursuant to the requirements of these laws.

On May 1, 1990 an Interlocal agreement was made between the various municipalities within Lewis County forming the Centralia Landfill Closure Group (CLCG) regarding the closure of the Centralia landfill. The municipalities, by the agreement, commit to take all action reasonably necessary to comply with the Environmental Laws and to share the costs of such compliance. Lewis County's (unincorporated portion) potential liability represents 48.85% of the closure costs.

In addition to the municipalities, other PLPs (Potentially Liable Parties) and insurance carriers for the municipalities have been identified. The Washington State Department of Ecology (DOE) has evaluated information related to each PLP and found that credible evidence existed to notify two firms of their potential liability. Insurance carriers for the municipalities have been involved at various levels of the closure process, assisting in the duty to defend and to cover costs of the closure. As of December 1997, $3,430,481 had been recovered from insurance carriers.

During 1993, Lewis County concluded the process of forming a countywide Solid Waste Disposal District. Reportable financial activity of the district began in the spring of 1994, then, the district assumed the local county's share of the liability for the Centralia Landfill closure. The maximum liability to the Lewis County Solid Waste Disposal District as well as all signatory municipalities to the landfill closure interlocal agreement is capped at $13 million.

Also in 1994, the Lewis County Solid Waste Disposal District #1 forwarded the sum of $8.7 million to the city of Centralia to fulfill the assumption of the local county's share of the liability for the Centralia Landfill closure. Therefore, the potential remaining obligation to the Disposal District as well as all signing municipalities is $4.3 million with Lewis County either alone or through its Disposal District, responsible for 48.85% of that $4.3 million ($2.1 million). However, current estimates indicate that there may be no future costs to Lewis County; accordingly, no additional liabilities for closure have been recorded in the Lewis County Solid Waste Disposal District fund.

Since the closure project is currently included on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" and "Superfund"), there is potential financial assistance available through the State of Washington Department of Ecology for a percentage (historically 75%) of the closure costs. As of December 1997, the CLCG had received a total of $7,909,813 from 1991 through 1997 in grant proceeds from the Department of Ecology. Current assessments indicate that future Ecology

participation in closure activities will be in the area of 40% participation due to declining resources at the state level.

Interim action has been completed, pursuant to an initial consent decree, to provide a final cover over closed portions of the landfill. Completion of this project will reduce ultimate closure costs. The estimated total cost for the interim action was over $9.6 million, with financial assistance from the Washington State DOE. Lewis County's share is represented by 48.85% of the local cost. The sale of the bonds in 1994 partially offset those costs.

Within the landfill closure account managed by the CLCG, there have been adequate resources (factoring the $8.7 million forwarded to the CLCG by the Disposal District) to cover costs associated with remedial work undertaken thus far. A payment of $250,940 from the Solid Waste Disposal District to the CLCG was required during the year. At the end of 2012, approximately $167,755 remained in the City of Centralia Landfill Operating Trust Account, administered by the CLCG.

Significant decreases in the fund were the result of expenditures for post closure mitigation and the return of $8.7 million to Lewis County Solid Waste Disposal District #1. Increases to the landfill closure fund were the result of changes in known circumstances. The liability will continue to change as expenditures occur and as known circumstances occur due to the engineering determinations, inflation, deflation, technology or applicable laws or regulations and the completion of Remedial Investigation, Feasibility Study, and Closure Action Plan (RI/FS/CAP) negotiations with the Department of Ecology.

The CLCG, PLPs and insurance carriers have negotiated for the second consent decree with the Washington State DOE. A Remedial Investigation and Feasibility Study (RI/FS) has begun. Once completed, the results will be used to formulate the Closure Action Plan (CAP) which was completed in 2001. This plan will be approved by the DOE. It is possible that the landfill will be de-listed from CERCLA at the completion of the RI/FS because of pressure on the Environmental Protection Agency from the United States Congress, but that possibility is remote.

In April 1997, the Centralia Landfill Closure Group forwarded $8.7 million to the Lewis County Solid Waste Disposal District, as these funds were no longer needed for landfill closure costs. On May 6, 1997, this money, along with other funds set aside in the Solid Waste Disposal District fund as debt service reserves, were utilized to defease the $9,485,000 of the District’s 1994 Revenue Bonds. The District acquired and deposited U.S. Government obligations irrevocably in escrow with First Trust National Association, Seattle, Washington, in amounts sufficient to pay the principal of and interest on the 1994 bonds through the final date of maturity, November 1, 2015. The payment of the debt service on the 1994 Bonds will be made solely from the U.S. Government Obligations and no longer constitutes a lien and charge on the revenues of the District.

The total costs to Lewis County Solid Waste Disposal District in the future, and the period of time over which such costs will be incurred are reasonably predictable at this time.

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

The beginning balance for the Equipment Rental and Revolving Fund No. 501, a Proprietary Internal Service type fund, was restated to account for a mathematical error occurring in prior fiscal years. Depreciation expense was overstated for fiscal years 2008-2011. To correct the error, accumulated depreciation was decreased by $900,553 and beginning Net Position increased by the same amount.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 18 - OTHER DISCLOSURES

A. Changes to Funds

New funds established in 2012:
Fund 199: Senior Services
Fund 211: 2011 Debt Service
Fund 212: 2012 Debt Service

Existing funds dissolved in 2012:
No funds were dissolved in 2012.

B. Accounting and Reporting Changes

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54.

The following funds previously classified as Special Revenue Funds that do not qualify as such per GASB Statement No. 54 were reclassified to the General Fund and Roads Fund. These reclassifications included a restatement of the beginning fund balance for the General Fund and Roads Fund:

General Fund Beginning Fund Balance	$	11,786,940
Rolled Funds:		
Flood Control Zone #125		15,000
Cowlitz River Basin Subzone #126		15,000
Sheriff's Ariplane #162		2,194
SWWF Entertainment Reserve #198		34
General Fund Beginning Fund Balance after GASB 54 implementation	$	11,819,168
Roads Fund Beginning Fund Balance	$	11,827,695
Addition of Paths & Trails #128		35,319
Roads Fund Beginning Fund Balance After GASB 54 implementation	$	11,863,014

C. Order of Receivership – Vader Water System

Based upon an Order of the Court in October 2010, Lewis County Government was appointed as Receiver of the Vader Public Water System. Lewis County Government operates the Vader Water System as a separate entity.

D. Subsequent Events

On March 22, 2013, Area 7 Roads Maintenance Shop located in Glenoma was completely destroyed by a fire. All equipment and buildings were a total loss with a preliminary estimate of approximately $2.5 million. The County is working with the insurance carrier and is proceeding with required processes to replace the buildings and equipment. Management's goal is to have substantially all elements completed by the end of 2013.