Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Lewis County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010430

Issue Date
September 23, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 23, 2013

Board of Commissioners
Lewis County
Chehalis, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Federal Summary

Lewis County
January 1, 2012 through December 31, 2012

The results of our audit of Lewis County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

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

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
10.665	Schools and Roads Cluster - Schools and Roads - Grants to States
66.468	Capitalization Grants for Drinking Water State Revolving Funds
93.563	Child Support Enforcement

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The County qualified as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

Lewis County
January 1, 2012 through December 31, 2012

1. Lewis County's internal controls over the Title III portion of its Schools and Roads grant were inadequate to ensure purchases were for allowable purposes.

CFDA Number and Title:	10.665 Schools and Roads Grants to States
Federal Grantor Name:	U.S. Department of Agriculture, U.S. Forest Service
Federal Award/Contract Number:	P.L 112-141
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	P.L. 112-141
Questioned Cost Amount:	$47,000

Description of Condition

Money from the Schools and Roads grant is awarded to counties in which national forests are located. Grant guidelines were updated in August 2012 to stipulate that the County may use Title III funds to purchase equipment only when replacing equipment lost during the course of a search and rescue or firefighting operation and expenses related to the general enhancement of the capacity to provide search and rescue and other emergency services are not reimbursable. Specifically, the purchase of capital equipment such as emergency response equipment, expenses of equipment and supplies to be kept on hand for response to emergencies on national forests and expenses of non-disposable personal protective equipment and electronic aids such as GPS devises in anticipation of responding to emergencies are not allowable.

Due to the updated guidelines, grant staff did not have an adequate understanding of allowable uses of the grant funds and did not adequately communicate with the federal granting agency regarding allowable uses of the grant funds. In 2012 the County purchased $47,000 of search and rescue equipment using Title III funds. None of these purchases were to replace equipment lost, damaged or destroyed during a search and rescue or firefighting operation.

Cause of Condition

The County did not have an adequate internal control process in place to maintain a current understanding of the restrictions on the use of the funds.

Effect of Condition and Questioned Costs

The County made unallowable purchases with Title III funds. Therefore, we are questioning costs of $47,000 for equipment and supply purchases during fiscal year 2012.

Failure to comply with federal requirements may jeopardize the County's eligibility for future federal assistance.

Recommendation

We recommend the County:

- Communicate with the U.S. Forest Service to obtain an understanding of requirements for the allowable spending of grant funds and to determine the amount of grant funds repayment, if any.

- Provide training to employees who are responsible for the use of the funds to ensure they have adequate knowledge of federal grant requirements.

County's Response

The federal dollars paid to Federal Forest Counties have provided counties across the United States the ability to maintain basic services on Federal Forest lands. County payments were first made available in 2000 under public law 106-393. The guidelines for use of these funds were relatively non-existent and Lewis County, as well as many other counties, relied on the specific language contained in the law. The bill initially allowed counties to utilize Title III funds for several purposes.

The reauthorization of county payments in 2008 restricted the use of these funds to three specific purposes which still included reimbursement for Emergency Services, including firefighting. Again, no specific guidelines were provided to the County regarding use of these funds.

In 2012, the General Accounting Office (GAO) of the federal government completed an audit of the use of Title III funds. A recurring theme throughout the audit report was that both the U.S. Forest Service and Bureau of Land Management (BLM) had been negligent in providing guidance on the use of Title III funds for counties. Both the Forest Service and BLM stated that they felt they "lacked authority" under the law, to provide such guidance to counties. However, in August of 2012, the forest service posted general guidelines to their website which provided some guidance as to what was deemed allowable and unallowable expenditures of Title III funds. Again counties were not directly provided this information and were evidently left to search for it on their own. The only way counties would have known of these guidelines was to go to the U.S. Federal Forest website and look under "Frequently Asked Questions".

The 2012 audit report by the Washington State Auditor's Office now finds that Lewis County has been utilizing Title III funds in a manner contrary to the August 2012 guidelines posted by the Forest Service.

The County rejects the finding stating we have been misusing Title III funds for the following reasons:

A. *Specific guidelines have never been made available to counties in a direct manner. This is supported by the 2012 U.S Government Accountability Office audit.*

B. *Clarification of the guidelines was not posted to the Federal Forest website until August of 2012. In fact, the only way the county would have known this information would have been to read a "Frequently Asked Questions" section of a website. Which we would have done if we had ever been notified of changes in the guidelines.*

C. *The county has been diligent to ensure we were utilizing Title III funds in a manner consistent with the language in both the original law and the reauthorization.*

D. *Absent any specific instructions from the U.S. Forest Service, the county continued to request reimbursement only for activities to be carried out on National Forest lands managed by the Forest Service.*

Having now been made aware of the information on the U.S. Forest Service website, the county intends to change their process in regard to the use of these funds. Those steps include the following:

- *A resolution will be adopted to change the allocation of Title funding. This resolution will replace resolution 12-261.*

- *The county will not allocate any funding for Title III projects unless allowable costs are incurred and we ask to be reimbursed.*

- *15% of Secure Rural Schools funding will be dedicated to Title II projects which are recommended by the North Resource Advisory Committee (RAC) and approved by the Federal Forest Service under supervision of the United States Department of Agriculture (USDA).*

Lewis County has benefitted from the Secure Rural Schools funding and believed we were using these funds in a manner consistent with the intent of the law. In recognition of the 2012 guidelines it has been determined that the county has no programs that qualify for Title III funding and that we will not be able to allocate funding for Title III projects.

Auditor's Remarks

We appreciate the steps the County is taking to resolving the issues noted. As noted above, the County is responsible for having an adequate internal control process in place to maintain a current understanding of the restrictions on the use of federal funds. We re-affirm our finding and will review the County's corrective action during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations,* states in part:

> Section 300 Auditee responsibilities.
>
>> The auditee shall:
>>
>> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
>>
>> (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

16 U.S.C. 7142, states in part:

> (a) AUTHORIZED USES; A participating county, including any applicable agencies of the participating county, shall use county funds, in accordance with his title, only;
>
>> (1) to carry out activities under the Firewise Communities program to provide to homeowners in fire-sensitive ecosystems education on, and assistance with implementing, techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires;
>>
>> (2) to reimburse the participating county for search and rescue and other emergency services, including firefighting, that are;
>>
>>> (A) performed on Federal land after the date on which the use was approved under subsection (b)
>>>
>>> (B) paid for by the participating county; and
>>
>> (3) to develop community wildfire protection plans in coordination with the appropriate Secretary concerned.

USDA, Forest Service, Secure Rural Roads, FAQs, Authorized Uses, Section 302(a)(1), available at http://www.fs.usda.gov/main/pts/countyfunds/faqs (Aug. 31, 2012), states in part:

> What search and rescue and other emergency services, including firefighting, may be reimbursed using title III funds?
>
>> Section 302(a)(2) provides that title III funds may be used to reimburse counties for search and rescue and other emergency response activities performed on national forests and the specified BLM lands in western Oregon and paid for by the county.

Specifically, the following expenses paid for by the county may be reimbursed in proportion to the amount attributable to emergency services performed on a national forest or the specified BLM lands:

- Salary or wages of emergency response personnel deployed during an emergency response.
- Replacement of equipment, material and supplies expended, damaged or destroyed during an emergency response.
- Repair of equipment damaged during an emergency response.
- Maintenance of vehicles, equipment, and facilities during an emergency response.

USDA, Forest Service, Secure Rural Roads, FAQs, Authorized Uses, Section 302(a)(1), available at http://www.fs.usda.gov/main/pts/countyfunds/faqs (August 31, 2009), states in part:

Are title III funds authorized for the following uses?

- Capital equipment such as purchase of a fire engine, a search-and-rescue snow-mobile, or other emergency response equipment?
- Capital improvements such as construction of a fire station or emergency services dispatch center?
- Purchase of land (real estate) such as for an airport to be used primarily for fire suppression on national forest and other nearby forested lands?
- Maintenance or upgrade of an airport or other facility used primarily for emergency services?
- Expenses of training personnel to respond to emergencies on national forests?
- Expenses of equipment and supplies to be kept on hand for response to emergencies on national forests?
- Purchase of communication equipment for emergency 911 system?
- Development of an emergency 911 system including mapping of county roads, naming roads, locating structures and improvements on mapping system, developing data bases for emergency 911 system?

Title III funds become county funds after the federal government makes payments to the state which, in turn, makes payments to the county. County officials should confer with county legal counsel when making decisions about expenditure of title III county funds.

The Secure Rural Schools and Community Self-Determination Act as reauthorized in Public Law 110-343 specifically narrowed the authorized uses of title III as compared to the earlier Act in Public Law 106-393.

The Act now authorizes the use of title III only to carry out activities under the Firewise Communities program; to reimburse for emergency services such as search and rescue or firefighting paid for by the county and performed on Federal land; and, to develop community wildfire protection plans. (See Act, Section 302(a)).

- Section 302 of the Act does not explicitly authorize title III funds for the following uses: construction of facilities; purchase of real property; purchase of vehicles and other capital equipment such as fire engines or aircraft in anticipation of responding to emergencies on national forests; training of emergency services personnel; purchase of equipment and supplies in anticipation of responding to emergencies on national forests.

- Reimbursement for the purchase of replacement equipment, material and supplies expended, damaged or destroyed during an emergency response on national forests and paid for by the county may be authorized. Salary and maintenance of vehicles, equipment, and facilities in proportion to their actual use for emergency services performed on federal land may be authorized under the Act.

Schedule of Federal Audit Findings and Questioned Costs

Lewis County
January 1, 2012 through December 31, 2012

2. The County did not have adequate internal controls to ensure compliance with federal allowable cost requirements.

CFDA Number and Title:	93.563 Child Support Enforcement
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Social and Health Services Division Children's Administration
Pass-through Award/Contract Number:	2110-81382
Known Questioned Costs:	$4,146
Estimated Questionable Costs:	$16,730

Background

The Child Support Enforcement program objectives are to enforce support obligations owed by non-custodial parents, to locate absent parents, to establish paternity and to obtain child and spousal support. During 2012, the County charged $464,693 to its Child Support Enforcement grant. The grant was administered by several Offices at the County, including the Clerk's Office. The County Clerk's Office was reimbursed $106,956 in grant funds for administration of its portion of the program.

Description of Condition

Our audit identified a significant deficiency in internal controls. The County Clerk's Office did not have adequate internal controls to ensure compliance with regulations governing allowable uses of grant funds. The County Clerk's Office has a process to review costs prior to requesting reimbursement from the granting agency; however, our audit identified unallowable costs charged to the grant including jury costs, registration fees for training and travel related to training.

Cause of Condition

Although the County has a process in place to review costs prior to requesting reimbursement, the employees responsible for performing this review lack training, experience and an understanding of allowable program costs.

Effect of Condition and Questioned Costs

Failure to comply with federal requirements may jeopardize the County's eligibility for future federal assistance. By not effectively verifying the allowability of grant charges, the County was reimbursed for expenditures that were unallowable. We identified questioned costs of $4,146 and estimated questionable costs of $16,730.

Recommendation

We recommend the County

- Establish and follow internal controls that ensure grant funds are used for allowable costs under federal grant requirements.

- Provide training to employees who are responsible for the use of the funds to ensure they have adequate knowledge of federal grant requirements.

County's Response

The County agrees with the finding. At no time during the process were Lewis County funds at risk of misappropriation or misuse. The finding is referring to reimbursements billed to the Child Support Enforcement Program, which were unallowable costs. The employee responsible for preparing and maintaining this documentation is now aware of the program requirements and will ensure it is properly completed each month going forward.

Auditor's Remarks

We appreciate the County's commitment to resolving the issues noted. We will review the status during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations,* states in part:

> Section 300 Auditee responsibilities.
>
> > The auditee shall:
> >
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> >
> > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), *Attachment A – General Principles for Determining Allowable Costs*, states in part:

> C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

b. Be allocable to Federal awards under the provisions of this Circular.

c. Be authorized or not prohibited under State or local laws or regulations.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Lewis County
January 1, 2012 through December 31, 2012

Board of Commissioners
Lewis County
Chehalis, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lewis County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 27, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

August 27, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Lewis County
January 1, 2012 through December 31, 2012

Board of Commissioners
Lewis County
Chehalis, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Lewis County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2. Our opinion on each major federal program is not modified with respect to these matters.

County's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2 that we consider to be significant deficiencies.

County's Response to Findings

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

August 27, 2013

Independent Auditor's Report on Financial Statements

Lewis County
January 1, 2012 through December 31, 2012

Board of Commissioners
Lewis County
Chehalis, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lewis County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lewis County, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 32 and budgetary comparison information on pages 87 through 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

August 27, 2013

Financial Section

Lewis County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Management's Discussion and Analysis

As management of Lewis County, we offer readers of Lewis County's financial statements this narrative overview and analysis of the financial activities of Lewis County for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements, and notes to the financial statements to analyze the county's financial activities and condition.

Financial Highlights

- The assets of Lewis County exceeded its liabilities at the close of the most recent fiscal year by $138 million (*net position*). Of this amount, $34.3 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by $3.4 million. This change is primarily attributable to the recognition of current year infrastructure, recognition of accrued revenues, recognition of depreciation expense, exclusion of capital outlay costs and exclusion of debt proceeds and debt principal payments.
- As of the close of the current fiscal year, Lewis County's governmental funds reported combined ending fund balances of $39.1 million, a decrease of $178 thousand in comparison with the prior year. Approximately 89.0 percent of this total amount, $34.9 million, is *available for spending* at the government's discretion (*unreserved/undesignated fund balance*); however, fund balances in special revenue, debt service and capital projects funds are dedicated to their specific purposes, which in some instances is prescribed by state law.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $10.4 million, or 31.3 percent of general fund expenditures and operating transfers out.
- Lewis County's total debt decreased by $1.3 million (6 percent) during the current fiscal year.

Overview of the Financial Statements

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

Government-Wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Lewis County's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of Lewis County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Lewis County include general government, public safety, physical environment, economic environment/development, county road system, mental and physical health, and culture and recreation. The business-type activities of Lewis County include a solid waste utility, a solid waste disposal district, a water sewer activity and two airports.

The government-wide financial statements include not only Lewis County itself (known as the *primary government*), but also the Solid Waste Disposal District No. 1 of Lewis County. The Solid Waste Disposal District is a quasi-municipal corporation with an independent taxing authority and district for which Lewis County is financially accountable. Financial information for this *blended component unit* is reported as a major fund within the business-type activities and included within financial information presented for the primary government itself.

The government-wide financial statements can be found directly following this section, *Management's Discussion and* Analysis within this report.

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

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

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

Lewis County maintains 41 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Roads Fund, and Capital Facilities Fund, all are considered to be major funds. Pursuant to GASB Statement No. 54, data from five governmental funds was rolled into major funds for financial reporting purposes, four into the General Fund and one into the Roads Fund. Data from the other 33 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

A major fund is defined in the following manner:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds); and
b. Total assets, liabilities, revenues, or expenditures/expenses of the individual government fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined; or,
c. Any other governmental or enterprise fund the government's officials believe is particularly important to financial statement users.

Lewis County adopts an annual appropriated budget for all county funds including its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found in the *required supplementary information* following the notes to the financial statements in this report.

Proprietary funds. Lewis County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Lewis County uses enterprise funds to account for its Solid Waste, Solid Waste Disposal District, Water Sewer Utility, Packwood Airport and South County Airport operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among Lewis County's various functions. Lewis County uses internal service funds to account for its fleet of vehicles, insurance programs, county facilities and management information systems. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste Disposal District and the Solid Waste Utility, which are considered to be a major funds of Lewis County. Additionally, the following are non-major enterprise funds of the county: Water Sewer Utility, South County Airport, and Packwood Airport. Conversely, six internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

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

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

Lewis County has one type of fiduciary fund: Agency Funds (clearing accounts for assets held by Lewis County in its role as custodian until the funds are distributed to government agencies, private parties, or organizations to which they belong).

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information,* which can be found following the notes to the financial statements in this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lewis County, assets exceeded liabilities by $138 million at the close of the most recent fiscal year.

By far the largest portion of Lewis County's net assets (57.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. Lewis County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Lewis County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Lewis County's Net Position

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	$ 68,811,353	$ 68,722,929	$ 5,180,463	$ 5,438,599	$ 73,991,816	$ 74,161,528
Capital Assets	95,809,458	93,133,175	3,771,862	3,743,639	99,581,320	$ 96,876,814
Total Assets	$ 164,620,811	$ 161,856,104	$ 8,952,325	$ 9,182,238	$ 173,573,136	$ 171,038,342
Payables	$ 8,093,289	$ 8,430,569	$ 640,824	$ 431,162	$ 8,734,113	$ 8,861,731
Long-Term	26,243,501	27,004,975	160,117	154,367	26,403,618	$ 27,159,342
Total Liabilities	34,336,790	35,435,544	800,941	585,529	35,137,731	36,021,073
Net Position						
Invested in Capital, net of debt	75,523,172	74,493,172	3,771,862	3,743,639	79,295,034	78,236,811
Restricted	24,866,670	17,969,776	11,196	18,256	24,877,866	17,988,032
Unrestricted	29,894,179	33,957,612	4,368,326	4,834,814	34,262,505	38,792,426
Total Net Position	$ 130,284,021	$ 126,420,560	$ 8,151,384	$ 8,596,709	$ 138,435,405	$ 135,017,269

Internal Balances removed from Total Primary Government Column

An additional portion of Lewis County's net assets (18.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($34.3 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Lewis County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

There was a decrease of $7 thousand in restricted net assets reported in connection with Lewis County's business-type activities. This resulted from a reduction of special assessments in the Water Sewer fund.

Lewis County's Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	$ 12,561,935	$ 13,115,865	$ 6,794,885	$ 6,812,172	$ 19,356,820	$ 19,928,037
Operating Grants and Contributions	14,432,918	11,162,728	429,209	238,756	14,862,127	11,401,484
Capital Grants and Contributions	4,193,787	2,944,583	-	-	4,193,787	2,944,583
General Revenues:						
Property Taxes	22,504,186	21,919,800	-	-	22,504,186	21,919,800
Private Harvest Taxes	2,068,906	1,877,452	-	-	2,068,906	1,877,452
Sales Tax	7,876,746	7,448,879	-	-	7,876,746	7,448,879
Excise Tax	1,325,592	5,277,028	-	-	1,325,592	5,277,028
Penalty and Interest Delinquent Tax	1,206,400	1,085,488	-	-	1,206,400	1,085,488
Investment Earnings	794,926	951,805	(3,782)	(198)	791,144	951,607
Miscellaneous	161,286	302,334	373	63,894	161,659	366,228
Gain on Sale of Capital Assets	1,531,836	4,092,619	-	-	1,531,836	4,092,619
Total Revenues	$ 68,658,518	$ 70,178,581	$ 7,220,685	$ 7,114,624	$ 75,879,203	$ 77,293,205
Program Expenses Including Indirect Expenses:						
General Government Services	$ 15,313,346	$ 15,117,579	$ -	$ -	$ 15,313,346	$ 15,117,579
Security of Persons & Property	20,650,566	20,829,028	-	-	20,650,566	20,829,028
Physical Environment	1,477,201	1,524,618	-	-	1,477,201	1,524,618
Transportation	17,824,798	19,766,669	-	-	17,824,798	19,766,669
Economic Environment	3,622,562	3,632,447	-	-	3,622,562	3,632,447
Mental & Physical Health	4,350,910	4,452,939	-	-	4,350,910	4,452,939
Culture & Recreation	1,555,000	1,389,094	-	-	1,555,000	1,389,094
Interest on Long-Term Debt	810,368	955,212	-	-	810,368	955,212
Solid Waste	-	-	7,270,949	7,444,448	7,270,949	7,444,448
Airport	-	-	538,393	298,676	538,393	298,676
Water Sewer	-	-	104,268	62,922	104,268	62,922
Total Expenses	$ 65,604,751	$ 67,667,586	$ 7,913,610	$ 7,806,046	$ 73,518,361	$ 75,473,632
Capital Contributions (Dispositions)	156,743	2,868	-	-	156,743	2,868
Transfers	(247,600)	(462,600)	247,600	462,600	-	-
Rounding Adjustment	(2)	-	-	-	(2)	-
Change in Net Position	2,962,908	2,051,263	(445,325)	(228,822)	2,517,583	1,822,441
Net Position - Beginning of Year	126,420,560	124,369,297	8,596,709	8,825,531	135,017,269	133,194,828
Prior Period Adjustment	900,553	-	-	-	900,553	
Net Position - End of Year	130,284,021	126,420,560	8,151,384	8,596,709	137,534,852	135,017,269

The government's net assets increased by $3.4 million during the current fiscal year. Most of this change is attributable to the recognition of current year infrastructure, accrued revenues, and depreciation expense, along with the exclusion of capital outlay costs, and debt principal payments.

Governmental activities. Governmental activities increased Lewis County's net position by $3.9 million, thereby accounting for the majority of the decrease in the net position of Lewis County. Key revenue elements of this change are as follows:

- Property taxes increased by $584 thousand (2.7 percent) over the prior year. Most of the increase is related to increase in assessed values and new construction, as well collection of delinquent taxes, rather than increases in underlying taxes, which are limited by current Washington state law.
- Sales tax increased by $427 thousand (5.7 percent), which relates to a slight recovery in economic conditions and the change to the destination based sales tax collection.
- Operating grants, intergovernmental revenues, and contributions for governmental activities increased by $3.3 million (29.3 percent), which relates to decrease in grants and intergovernmental revenue the county received in 2012 primarily in the Roads fund.
- Gain on sale of capital assets decreased by $2.6 million (62.6 percent), which relates primarily to forest board yield (timber sales); this is considered the sale of county assets.

Expenses and Program Revenues—Governmental Activities

	Expenses	Program Revenue	Net (Expense) Revenue
General Government Services	$ 15,313,346	$ 9,444,228	$ (5,869,118)
Security of Persons & Property	20,650,566	5,275,080	(15,375,486)
Physical Environment	1,477,201	1,390,835	(86,366)
Transportation	17,824,798	8,589,928	(9,234,870)
Economic Environment	3,622,562	2,034,917	(1,587,645)
Mental & Physical Health	4,350,910	3,572,001	(778,909)
Culture & Recreation	1,555,000	881,651	(673,349)
Interest on Long-Term Debt	810,368	-	(810,368)
TOTAL	$ 65,604,751	$ 31,188,640	$ (34,416,111)

Revenues by Source—Governmental Activities

	Revenue:	
	Dollars	Percentage
Charges for Services	$ 12,561,935	18.25%
Operating Grants and Contributions	14,432,918	20.97%
Capital Grants and Contributions	4,193,787	6.09%
Property Taxes	22,504,186	32.70%
Other Taxes	12,477,644	18.13%
Investment Earnings	794,926	1.16%
Miscellaneous	161,286	0.23%
Capital Contributions (Dispositions)	156,743	0.23%
Gain on Sales of Capital Assets	1,531,836	2.23%
Total	$ 68,815,261	100%

For the most part, the slight increases in expenses and revenues were the results of the outcomes of the current marginal up-tick in economic conditions. Although, overall conditions have required the county to make cuts in various programs in most functions of the government, which has also been impacted by a decline in revenues in the prior few years.

Business-type activities. Business-type activities decreased Lewis County's net assets by $445 thousand, accounting for 5.2 percent of the decrease in the government's business-type net assets. Key elements of this decrease are as follows:

- Charges for services for business-type activities decreased by 0.3 percent. The Solid Waste Disposal District No. 1 accounts for a significant portion of this revenue source, which resulted from tipping fees. Revenues also decreased as a result of a slight decrease in demand. Together, these factors account for the $17 thousand decrease in charges for services for the Solid Waste Disposal District No. 1.
- Expenses related to the Solid Waste activity also decreased slightly by $174 thousand (1.5 percent) over the prior year.

Expenses and Program Revenues—Business-type Activities

	Expenses	Program Revenue	Net (Expense) / Revenue
Solid Waste Utility	$ 7,270,949	$ 6,861,802	$ (409,147)
Airports	538,393	267,874	(270,519)
Water-Sewer Utilities	104,268	94,418	(9,850)
TOTAL	$ 7,913,610	$ 7,224,094	$ (689,516)

Revenues by Source—Business-type Activities

	Revenue	Percent
Charges for Services	$ 6,794,885	94.103%
Operating Grants and Contributions	429,209	5.944%
Investment Earnings	(3,782)	-0.052%
Miscellaneous	373	0.005%
TOTAL	$ 7,220,685	100.00%

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Lewis County's governmental funds reported combined ending fund balances of $39.2 million, a decrease of $178 thousand in comparison with the prior year. Approximately 89.0 percent of this total amount ($34.9 million) constitutes *unreserved/undesignated fund balance*, which is available for spending at the government's discretion; however, fund balances in special revenue, debt service and capital projects funds are dedicated to their specific purposes, which in some instances is prescribed by state law. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to fund a rainy day contingency within the General fund ($1.5 million).

The general fund is the chief operating fund of Lewis County. At the end of the current fiscal year, unassigned fund balance of the general fund was $10.4 million, while total fund balance reached $10.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 34.6 percent of total general fund expenditures, while total fund balance represents 36.0 percent of that same amount.

The fund balance of Lewis County's general fund decreased by $1.1 million during the current fiscal year. There was a $965 thousand decrease in revenues, which were greater than expenditures by $1.5 million, due in part to historically lower expenditures with only a slight annual increase of $397 thousand. Coupled with a net negative other financing sources and uses of $2.5 million, revenues were not adequate to cover all expenses with a $1.0 million deficit. Additionally, the following other key factors continue to draw on the general fund's resources:

- Limitation on increases in property taxes
- Constant demand for levels of services in law and justice programs
- Significant decreases due to the current economic conditions which have adversely impacted revenues from: charges for services, operating grants, sales tax and investment earnings

The debt service funds have a total fund balance of $21 thousand, which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was minimal ($9.8 thousand). There was a decrease in interest expenditures during the current period ($124 thousand), which was due to the scheduled debt service payments during the period. Debt service payments are funded when due by transfers in from the General, Stadium, and Capital Facilities Plan funds. Real estate excise taxes represent the primary revenue source for the Capital Facilities Plan fund.

Proprietary funds. Lewis County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Solid Waste Disposal District No. 1 and the Solid Waste Utility at year end were $3 million, and 2.6 million, respectively. Those for the non-major enterprise funds amounted to $2.5 million. The decrease in net position for the Solid Waste Disposal District No. 1 and the Solid Waste Utility $379 thousand and $119 thousand, respectively. During the year, net position for all enterprise funds decreased by $445 thousand. Other factors concerning the finances of these funds have already been addressed in the discussion of Lewis County's' business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were increases of $379 thousand in departments, and an increase of $1.4 million in other financing uses which were transfers out to other funds which fell short and required additional general fund dollars (1.0 million net increase in departmental and other financing uses appropriations) and can be briefly summarized as follows:

- $190 thousand in increases in general government activities
- $96 thousand in increases allocated to the various law and justice departments
- $36 thousand in increases allocated utilities & environment
- $48 thousand in increases in mental and physical health
- $8 thousand in increases in culture and recreation
- $1.4 million in increases in operating transfers out to other funds

Of this change, $258 thousand was funded out of miscellaneous increases in various revenue sources. As an additional offset to the budget changes, there was a $1.0 million decrease in budgeted estimated ending fund balances. During the year actual revenues were less than original budgetary estimates, expenditures less than budgetary estimates, and the net effect after other financing uses lead to the decrease of $1.0 million of actual fund balance.

Capital Asset and Debt Administration

Capital Assets. Lewis County's capital assets for its governmental and business-type activities as of December 31, 2012, amounts to $99.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, county roads, and bridges. The total decrease in Lewis County's investment in capital assets for the current fiscal year was 2.79 percent (a $2.7 million decrease for governmental activities and $28 thousand decrease for business-type activities).

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

- Increase in county land due to the purchase and donations of road right-of-way.
- Decrease in Construction in Progress is due to three large capital projects where feasibility costs have been expensed given the projects lack funding in the foreseeable future due to dismal economic times.
- Decrease in county buildings mainly due to annual depreciation.
- Increase in infrastructure primarily due to construction of two new bridges.

Lewis County's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 4,311,400	$ 4,110,321	$ 177,889	$ 177,889	$ 4,489,289	$ 4,288,210
Land Use Rights (Intangible Assets)	50,098	47,978	2,014	2,014	52,112	49,992
Construction in Progress	5,749,805	8,959,794	-	716,162	5,749,805	9,675,956
Buildings	37,557,605	38,405,301	258,324	307,795	37,815,929	38,713,096
Improvements other than buildings	977,381	1,382,524	2,868,449	2,344,190	3,845,830	3,726,714
Machinery & Equipment	7,231,227	7,303,884	465,185	195,589	7,696,412	7,499,473
Intangible Assets	-	-	-	-	-	-
Infrastructure	39,931,942	33,823,926	-	-	39,931,942	33,823,926
Total	$ 95,809,458	$ 94,033,728	$ 3,771,861	$ 3,743,639	$ 99,581,319	$ 97,777,367

Additional information on Lewis County's capital assets can be found in Note 6 within the notes to the financial statements in this report.

Long-term debt. At the end of the current fiscal year, Lewis County had total bonded - debt outstanding of $20.1 million. Of this amount, $56 thousand comprises debt other than General Obligation bonds backed by the full faith and credit of the government and $11 thousand in special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

Lewis County's Outstanding Debt

General Obligation Bonds

		Balance 12/31/2011	New Issues		Retirement		Balance 12/31/2012
General Obligation Bonds		21,286,129	8,680,000		9,914,074		20,052,055
TOTAL	$	21,286,129	$8,680,000	$	9,914,074	$	20,052,055

Lewis County's total debt decreased by $1.3 million (5.9 percent) during the current fiscal year. The decrease was related to scheduled debt service during the year. During 2012 the County refunded the earlier 2003 LTGO bonds.
Lewis County maintains an "Aaa" insured (underlying A3) rating from Moody's for the county's outstanding general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 2.5 percent of its total assessed valuation. To reach the 2.5 percent maximum it would require a vote of the people for any debt issued over the 1.5 percent limit that does not require a vote. The current debt limitation for Lewis County is $168 and $93 million for the 2.5 percent and 1.5 percent maximums, respectively. Both are significantly in excess of Lewis County's outstanding general obligation debt.

Additional information on Lewis County's long-term debt can be found in note 11 in the notes to the financial statement within this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Lewis County is currently 11.1 percent, a slight decrease from the rate of 12.7 percent a year ago. This is higher than the current state's average unemployment rate of 7.0 percent compared to 8.1 percent a year ago and the national average rate of 8.1 percent.
- Inflationary trends in the region are comparable to national indices.

All of these factors were considered in preparing Lewis County's budget for the 2013 fiscal year.

During the fiscal year, 2012, unreserved fund balance in the general fund decreased to approximately $10.3 million. For 2013, Lewis County has appropriated $2.6 million of this amount for spending in the 2013 fiscal year budget for general operations. However, if needed, the use of available fund balance will avoid the need to raise taxes or charges during the 2013 fiscal year. It is uncertain if additional cuts in county departments may be required in the future.

Requests for Information

This financial report is designed to provide a general overview of Lewis County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lewis County Auditor's Office, Financial Services, PO Box 29, Chehalis, WA 98532.

Statement of Net Position

December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash & Cash Equivalents	$ 13,990,112	$ 4,153,187	$ 18,143,299
Investments	39,164,244	-	39,164,244
Receivables	7,234,070	530,400	7,764,470
Internal Balances	114,278	176,599	290,877
Due from Other Governmental Units	6,358,727	298,729	6,657,456
Inventories	842,631	-	842,631
Prepayments	638,480	11,150	649,630
Deferred Charges	468,811	-	468,811
Special Assessments-Deferred	-	10,398	10,398
Capital Assets Not Being Depreciated:			
Land	4,361,498	179,903	4,541,401
Construction in Progress	5,749,805	-	5,749,805
Capital Assets Being Depreciated:			
Buildings & Structures	37,557,605	258,324	37,815,929
Improvements Other than Buildings	977,381	2,868,450	3,845,831
Machinery & Equipment	7,231,227	465,185	7,696,412
Infrastructure	39,931,942	-	39,931,942
Total Assets	$ 164,620,811	$ 8,952,325	$ 173,573,136

See Accompanying Notes to Financial Statements

Liabilities			
Accounts Payable & Other Current Liabilities	4,315,203	$ 255,497	$ 4,570,700
Internal Balances	23,751	267,128	290,879
Due to Other Governmental Units	222,685	29,963	252,648
Accrued Interest Payable	56,439	-	56,439
Accrued Employee Benefits	2,453,492	78,041	2,531,533
Unearned Revenue	346,241	10,640	356,881
Custodial Accounts	675,478	(445)	675,033
Due Within One Year	1,211,868	7,381	1,219,249
General Obligation Debt	18,867,981	-	18,867,981
Deferred Credits	532,869	-	532,869
Contracts Payable	27,794	-	27,794
Compensated Absences	4,363,547	148,921	4,512,468
Net OPEB Obligation	1,239,442	-	1,239,442
Other Liabilities	-	3,815	3,815
Total Liabilities	34,336,790	800,941	35,137,731
Net Position			
Invested in Capital Assets, Net of Related Debt	75,523,172	3,771,862	79,295,034
Restricted: Special Revenue/Debt Service	24,866,670	11,196	24,877,866
Unrestricted (Deficit)	29,894,179	4,368,326	34,262,505
Total Net Position	$ 130,284,021	$ 8,151,384	$ 138,435,405

See Accompanying Notes to Financial Statements

Statement of Activities

For Year Ended December 31, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Primary Government:							
General Government Services	$ 15,313,346	$ 6,850,029	$ 2,594,199	$ -	$ (5,869,118)	-	$ (5,869,118)
Security of Persons & Property	20,650,566	3,251,925	2,023,155	-	(15,375,486)	-	(15,375,486)
Physical Environment	1,477,201	188,754	114,599	1,087,482	(86,366)	-	(86,366)
Transportation	17,824,798	149,534	5,334,089	3,106,305	(9,234,870)	-	(9,234,870)
Economic Environment	3,622,562	647,281	1,387,636	-	(1,587,645)	-	(1,587,645)
Mental & Physical Health	4,350,910	652,769	2,919,232	-	(778,909)	-	(778,909)
Culture & Recreation	1,555,000	821,643	60,008	-	(673,349)	-	(673,349)
Interest on Long-Term Debt	810,368	-	-	-	(810,368)	-	(810,368)
Total Government Activities	65,604,751	12,561,935	14,432,918	4,193,787	(34,416,111)	-	(34,416,111)
Business-type activities:							
Solid Waste	7,270,949	6,646,556	215,246	-	-	(409,147)	(409,147)
Airport	538,393	71,868	196,006	-	-	(270,519)	(270,519)
Water Sewer	104,268	76,461	17,957	-	-	(9,850)	(9,850)
Total business-type activities	7,913,610	6,794,885	429,209	-	-	(689,516)	(689,516)
Total primary government	$ 73,518,361	$ 19,356,820	$ 14,862,127	$ 4,193,787	(34,416,111)	(689,516)	(35,105,627)
General Revenues:							
Property Taxes					22,504,186	-	22,504,186
Private Harvest Taxes					2,068,906	-	2,068,906
Sales Tax					7,876,746	-	7,876,746
Excise Tax					1,325,592	-	1,325,592
Penalty and Interest Delinquent Tax					1,206,400	-	1,206,400
Investment Earnings					794,926	(3,782)	791,144
Miscellaneous					161,286	373	161,659
Gain <Loss> on Sale of Capital Assets					1,531,836	-	1,531,836
Capital Contributions (Dispositions)					156,743	-	156,743
Transfers					(247,600)	247,600	-
Adjustment for Rounding					(2)		(2)
Total General Revenues, Contributions and Transfers					37,379,019	244,191	37,623,210
Change in Net Position					2,962,908	(445,325)	2,517,583
Net Position - Beginning					126,420,560	8,596,709	135,017,269
Prior Period Adjustment					900,553		900,553
Net Position - Ending					$130,284,021	$8,151,384	$138,435,405

See Accompanying Notes to Financial Statements

Balance Sheet
Governmental Funds
December 31, 2012

	General	Roads	Capital Facilities Plan
Assets and Outflows of Resources			
Cash & Cash Equivalents	$ 4,088,152	$ 4,740,384	$ -
Investments	7,758,782	4,969,865	6,268,772
Receivables, Net	962,721	940,603	34,567
Due from Other Funds	340,343	6,581	131,154
Interfund Loan Receivable	434,868	-	-
Due from Other Governmental Units	964,827	3,680,754	84,532
Inventories	870	-	-
Prepayments	55,284	18,921	-
Notes/Contracts Receivable	-	-	-
Total Assets	$ 14,605,847	$ 14,357,108	$ 6,519,025
Liabilities and Fund Balance			
Liabilities:			
Accounts/Vouchers Payable	$ 337,103	$ 623,813	$ -
Retainage Payable	171,891	-	-
Due to Other Funds	256,472	618,153	-
Interfund Loans payable	-	-	-
Due to Other Governmental Units	57,481	272	-
Accrued Employee Benefits	1,330,660	504,221	-
Unearned Revenue	217,536	-	-
Custodial Accounts	627,012	3,544	-
Deferred Revenue	822,829	876,932	-
Total Liabilities	3,820,984	2,626,935	-
Fund Balances			
Fund Balances:			
Nonspendable	56,154	18,921	-
Restricted	319,760	10,884,700	6,369,006
Restricted: Debt Service	-	-	-
Committed			
Assigned	30,134	826,552	150,019
Unassigned	10,378,815	-	-
Total Fund Balances	10,784,863	11,730,173	6,519,025
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 14,605,847	$ 14,357,108	$ 6,519,025

See Accompanying Notes to Financial Statements

Balance Sheet
Governmental Funds
December 31, 2012

	Other Governmental Funds	Total Governmental Funds
Assets and Outflows of Resources		
Cash & Cash Equivalents	$ 2,434,509	$ 11,263,045
Investments	7,122,247	26,119,666
Receivables, Net	198,390	2,136,281
Due from Other Funds	83,616	561,694
Interfund Loan Receivable	-	434,868
Due from Other Governmental Units	1,624,456	6,354,569
Inventories	-	870
Prepayments	80,645	154,850
Notes/Contracts Receivable	528,649	528,649
Total Assets	$ 12,072,512	$ 47,554,492
Liabilities and Fund Balance		
Liabilities:		
Accounts/Vouchers Payable	$ 683,024	$ 1,643,940
Retainage Payable	-	171,891
Due to Other Funds	39,829	914,454
Interfund Loans payable	332,771	332,771
Due to Other Governmental Units	156,392	214,145
Accrued Employee Benefits	434,074	2,268,955
Unearned Revenue	128,595	346,131
Custodial Accounts	44,922	675,478
Deferred Revenue	102,581	1,802,342
Total Liabilities	1,922,188	8,370,107
Fund Balances		
Fund Balances:		
Nonspendable	80,645	155,720
Restricted	6,828,503	24,401,969
Restricted: Debt Service	21,361	21,361
Committed	63,157	63,157
Assigned	3,156,658	4,163,363
Unassigned	-	10,378,815
Total Fund Balances	10,150,324	39,184,385
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 12,072,512	$ 47,554,492

See Accompanying Notes to Financial Statements

Reconciliation of the Balance Sheet
To the Statement of Net Position
Governmental Funds

December 31, 2012

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

See Accompanying Notes to Financial Statements

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For The Year Ended
December 31, 2012

	General	Roads	Capital Facilities Plan
Revenues			
Taxes	$ 19,013,699	$ 11,025,192	$ 1,557,393
Licenses & Permits	33,290	29,602	-
Intergovernmental	6,582,648	8,439,869	-
Charges for Services	2,440,907	234,166	-
Fines & Forfeits	1,612,821	-	-
Miscellaneous	1,759,121	45,966	227,667
Total Revenues	31,442,486	19,774,795	1,785,060
Expenditures			
Current:			
General Government Services	13,607,345	40	13,758
Security of Persons & Property	15,227,688	-	13,500
Utilities & Environment	530,840	855,154	-
Transportation	6,530	14,233,546	-
Economic Environment	51,500	-	-
Mental & Physical Health	343,735	-	-
Culture & Recreation	199,553	-	436
Debt Service:			
Principal	-	-	-
Interest & Other Debt Service	-	834	-
Capital Outlays	14,287	5,695,432	128,017
Total Expenditures	29,981,478	20,785,006	155,711
Excess of Revenues Over (Under) Expenditures	1,461,008	(1,010,211)	1,629,349
Other Financing Sources/(Uses)			
Bond Issuance Costs	-	-	-
Issuance of Refunding Bonds	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Bond Issue Premium (Discount)	-	-	-
Insurance Recoveries: Non-Capital	-	143	-
Proceeds from Sale of Capital Assets	638,115	877,227	-
Transfers-In	59,000	-	12,445
Transfers-Out	(3,192,428)	-	(1,249,769)
Total Other Financing Sources/(Uses)	(2,495,313)	877,370	(1,237,324)
Excess of Revenues & Other Financing Sources/(Uses) Over (Under) Expenditures	(1,034,305)	(132,841)	392,025
Fund Balance as of January 1 (General Fund Restated)	11,819,168	11,863,014	6,127,000
Fund Balance as of December 31	$ 10,784,863	$ 11,730,173	$ 6,519,025

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For The Year Ended
December 31, 2012

	Other Governmental Funds	Total Governmental Funds
Revenues		
Taxes	$ 3,303,174	$ 34,899,458
Licenses & Permits	763,100	825,992
Intergovernmental	6,823,233	21,845,750
Charges for Services	2,101,412	4,776,485
Fines & Forfeits	23,762	1,636,583
Miscellaneous	1,144,288	3,177,042
Total Revenues	14,158,969	67,161,310
Expenditures		
Current:		
General Government Services	772,604	14,393,747
Security of Persons & Property	4,449,227	19,690,415
Utilities & Environment	1,531	1,387,525
Transportation	-	14,240,076
Economic Environment	3,568,741	3,620,241
Mental & Physical Health	3,971,076	4,314,811
Culture & Recreation	1,246,438	1,446,427
Debt Service:		
Principal	1,184,074	1,184,074
Interest & Other Debt Service	812,377	813,211
Capital Outlays	1,327,256	7,164,992
Total Expenditures	17,333,324	68,255,519
Excess of Revenues Over (Under) Expenditures	(3,174,355)	(1,094,209)
Other Financing Sources/(Uses)		
Bond Issuance Costs	(169,173)	(169,173)
Issuance of Refunding Bonds	8,680,000	8,680,000
Payment to Refunded Bond Escrow Agent	(8,926,383)	(8,926,383)
Bond Issue Premium (Discount)	418,771	418,771
Insurance Recoveries: Non-Capital	-	143
Proceeds from Sale of Capital Assets	20,069	1,535,411
Transfers-In	3,823,152	3,894,597
Transfers-Out	(75,000)	(4,517,197)
Total Other Financing Sources/(Uses)	3,771,436	916,169
Excess of Revenues & Other Financing Sources/(Uses) Over (Under) Expenditures	597,081	(178,040)
Fund Balance as of January 1 (General Fund Restated)	9,553,243	39,362,425
Fund Balance as of December 31	$ 10,150,324	$ 39,184,385

See Accompanying Notes to Financial Statements

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds To the Statement of Activities Governmental Funds

For the Year Ended December 31, 2012

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

See Accompanying Notes to Financial Statements

See Accompanying Notes to Financial Statements

Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-type Activity-Enterprise Funds		
	Solid Waste Utility	Solid Waste Disposal District	Other Enterprise Funds
Assets			
Cash & Cash Equivalents	$ 512,250	$ 1,415,465	$ 108,206
Investments	533,320	1,471,289	112,657
Receivables, Net	57	529,935	408
Due from Other Funds	172,509	-	4,090
Due from Other Governmental Units	141,015	-	157,714
Inventories	-	-	-
Prepayments	4,222	147	6,781
Special Assessments	-	-	10,398
Land	112,682	-	67,221
Buildings & Structures, Net	233,518	-	24,806
Other Improvements, Net	671,458	-	2,196,992
Machinery & Equipment, Net	465,185	-	-
Total Assets	$ 2,846,216	$ 3,416,836	$ 2,689,273
Liabilities			
Accounts/Vouchers Payable	$ 72,275	$ 179,360	$ 3,862
Claims & Judgments Payable	-	-	-
Due to Other Funds	10,886	150,054	4,091
Interfund Loans Payable	-	-	102,097
Due to Other Governmental Units	-	26,062	3,901
Accrued Employee Benefits	68,727	-	9,314
Unearned Revenue	57	583	10,000
Custodial Accounts	-	(76)	(369)
Due Within One Year	-	-	7,381
Compensated Absences	133,048	-	15,873
Other Liabilities	-	-	3,815
Total Liabilities	284,993	355,983	159,965
Net Position			
Invested in Capital Assets	1,482,843	-	2,289,019
Restricted for Risk Management/County Insurance	-	-	-
Restricted for Special Assessments	-	-	11,196
Unrestricted	1,078,380	3,060,853	229,093
Total Net Position	$ 2,561,223	$ 3,060,853	$ 2,529,308

See Accompanying Notes to Financial Statements

Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-type Totals	Governmental Activities - Internal Service Funds
Assets		
Cash & Cash Equivalents	$ 2,035,921	$ 2,727,160
Investments	2,117,266	13,044,485
Receivables, Net	530,400	119,523
Due from Other Funds	176,599	350,768
Due from Other Governmental Units	298,729	4,158
Inventories	-	841,761
Prepayments	11,150	483,630
Special Assessments	10,398	-
Land	179,903	635,411
Buildings & Structures, Net	258,324	1,719,357
Other Improvements, Net	2,868,450	202,261
Machinery & Equipment, Net	465,185	6,303,009
Total Assets	$ 8,952,325	$ 26,431,523
Liabilities		
Accounts/Vouchers Payable	$ 255,497	$ 139,566
Claims & Judgments Payable	-	2,359,806
Due to Other Funds	165,031	9,578
Interfund Loans Payable	102,097	-
Due to Other Governmental Units	29,963	8,540
Accrued Employee Benefits	78,041	184,537
Unearned Revenue	10,640	110
Custodial Accounts	(445)	-
Due Within One Year	7,381	-
Compensated Absences	148,921	373,464
Other Liabilities	3,815	-
Total Liabilities	800,941	3,075,601
Net Position		
Invested in Capital Assets	3,771,862	8,860,038
Restricted for Risk Management/County Insurance	-	417,718
Restricted for Special Assessments	11,196	-
Unrestricted	4,368,326	14,078,166
Total Net Position	$ 8,151,384	$ 23,355,922

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For The Year Ended
December 31, 2012

	Solid Waste Utility	Solid Waste Disposal Dist	Other Enterprise Funds
Operating Revenues			
Charges for Services	$ 1,784,790	$ 4,778,137	$ 130,655
Equipment Rental	-	-	-
Insurance Premiums and Recoveries	-	-	-
Other Operating Revenue	-	83,629	17,674
Total Operating Revenues	1,784,790	4,861,766	148,329
Operating Expenses			
Personnel Services	1,147,953	-	144,319
Repairs and Maintenance	41,989	104	150,466
Other Supplies and Expenses	462,934	949,025	203,301
Contractural Services	143,156	4,113,459	-
Depreciation, Amortization, & Depletion	122,329	190,000	144,575
Risk Transfer payments	-	-	-
Insurance Claims and Expenses	-	-	-
Other Operating Expenses	100,000	-	-
Total Operating Expenses	2,018,361	5,252,588	642,661
Operating Income (Loss)	(233,571)	(390,822)	(494,332)
Non-Operating Revenues (Expenses)			
Interest and Investment Revenue	-	-	(3,782)
Miscellaneous Revenue	373	-	-
Gain (Loss) on Disposal of Capital Assets	-	-	-
Capital Asset Loss Insurance Recovery	-	-	-
Total Non-Operating Revenues (Expenses)	373	-	(3,782)
Income (Loss) Before Contributions and Transfers	(233,198)	(390,822)	(498,114)
Capital Contributions		-	-
Grants	204,175	11,071	213,963
Transfer In (Out)	147,600	-	100,000
Change in Net Assets	118,577	(379,751)	(184,151)
Net Position-Beginning (Restated)	2,442,646	3,440,604	2,713,459
Net Position-Ending	$ 2,561,223	$ 3,060,853	$ 2,529,308

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For The Year Ended
December 31, 2012

	Enterprise-type Totals	Governmental Activities - Internal Service Funds
Operating Revenues		
Charges for Services	$ 6,693,582	$ 4,957,478
Equipment Rental	-	3,249,069
Insurance Premiums and Recoveries	-	1,984,602
Other Operating Revenue	101,303	27,630
Total Operating Revenues	6,794,885	10,218,779
Operating Expenses		
Personnel Services	1,292,272	3,188,805
Repairs and Maintenance	192,559	358,662
Other Supplies and Expenses	1,615,260	4,902,509
Contractural Services	4,256,615	-
Depreciation, Amortization, & Depletion	456,904	1,007,667
Risk Transfer payments	-	450,603
Insurance Claims and Expenses	-	844,510
Other Operating Expenses	100,000	-
Total Operating Expenses	7,913,610	10,752,756
Operating Income (Loss)	(1,118,725)	(533,977)
Non-Operating Revenues (Expenses)		
Interest and Investment Revenue	(3,782)	118,528
Miscellaneous Revenue	373	91,855
Gain (Loss) on Disposal of Capital Assets	-	32,462
Capital Asset Loss Insurance Recovery	-	4,044
Total Non-Operating Revenues (Expenses)	(3,409)	246,889
Income (Loss) Before Contributions and Transfers	(1,122,134)	(287,088)
Capital Contributions	-	154,639
Grants	429,209	5
Transfer In (Out)	247,600	375,000
Change in Net Assets	(445,325)	242,556
Net Position-Beginning (Restated)	8,596,709	23,113,366
Net Position-Ending	$ 8,151,384	$ 23,355,922

See Accompanying Notes to Financial Statements

Statement of Cash Flows
Proprietary Funds
For The Year Ended December 31, 2012

	Solid Waste Utility	Solid Waste Disposal Dist	Other Enterprise Funds
Cash Flows from Operating Activities:			
Cash Received from Charges for Services	$ 2,093,764	$ 4,785,485	$ 138,779
Cash Received from Premiums/Recoveries	-	-	-
Cash Received from Rent Proceeds	-	-	16,567
Cash Received from Equipment Rental	-	-	-
Cash Received from Miscellaneous Activities	430	83,629	(163)
Payments for Wages & Benefits	(1,141,310)	-	(131,530)
Payments for Inventory & Supplies	-	-	-
Payments to Suppliers for Goods & Services	(732,776)	(5,270,287)	(261,135)
Payments for Risk Transfer	-	-	-
Payments for Claimants & Beneficiaries	-	-	-
Net Cash Provided (Used) by Operating Activities	220,108	(401,173)	(237,482)
Cash Flows from Non-Capital Financing Activities:			
Operating Grants Received	116,743	11,071	14,479
Transfer-In	147,600	-	100,000
Cash Provided (Used) by Financing Activities	264,343	11,071	114,479
Cash Flows from Capital and Related Financing Activities:			
Net Proceeds (loss) from Capital Improvement Assessments	-	-	(2,669)
Proceeds from Sale of Capital Assets	-	-	-
Acquisition/Construction of Capital Assets	(338,732)	-	(8,247)
Capital Grants Received	-	-	58,362
Insurance Proceeds	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(338,732)	-	47,446
Cash Flows from Investing Activities:			
Receipt of Interest	-	-	(75)
Sale of Investment Securities	441,596	1,606,965	145,503
Purchase of Investment Securities	(533,320)	(1,471,289)	(112,657)
Cash Provided by Investing Activities	(91,724)	135,676	32,771
Net Increase (Decrease) in Cash and Cash Equivalents	53,995	(254,426)	(42,786)
Cash and Cash Equivalents at Beginning of Year	458,255	1,669,891	150,992
Cash and Cash Equivalents at End of Year	$ 512,250	$ 1,415,465	$ 108,206

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

	Solid Waste Utility	Solid Waste Disposal Dist	Other Enterprise Funds
Net Operating Income (Loss)	$ (233,571)	$ (390,822)	$ (494,332)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operations:			
Depreciation Expense	122,329	-	144,575
Expense of Non-Capitalized Construction in Progress	-	-	51,852
Miscellaneous Non-Operating Income	373	-	-
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables	308,974	6,785	7,854
(Increase) Decrease in Inventories	-	-	-
(Increase) Decrease in Prepaids	128	(147)	-
Increase (Decrease) in Payables	21,875	(16,989)	52,569
Total Adjustments	453,679	(10,351)	256,850
Net Cash Provided (Used) by Operating Activities	$ 220,108	$ (401,173)	$ (237,482)
Noncash Investing, Capital, and Financing Activities:			
Contributions of Capital Assets from Government	$ -	$ -	$ -
Gain (Loss) on Disposal of Capital Assets	-	-	-

See Accompanying Notes to Financial Statements

Statement of Cash Flows
Proprietary Funds
For The Year Ended December 31, 2012

	Totals	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:		
Cash Received from Charges for Services	$ 7,018,028	$ 4,982,885
Cash Received from Premiums/Recoveries	-	1,937,051
Cash Received from Rent Proceeds	16,567	-
Cash Received from Equipment Rental	-	3,249,069
Cash Received from Miscellaneous Activities	83,896	119,485
Payments for Wages & Benefits	(1,272,840)	(3,143,589)
Payments for Inventory & Supplies	-	(2,239,141)
Payments to Suppliers for Goods & Services	(6,264,198)	(3,135,748)
Payments for Risk Transfer	-	(439,317)
Payments for Claimants & Beneficiaries	-	(925,375)
Net Cash Provided (Used) by Operating Activities	(418,547)	405,320
Cash Flows from Non-Capital Financing Activities:		
Operating Grants Received	142,293	2,903
Transfer-In	247,600	375,000
Cash Provided (Used) by Financing Activities	389,893	377,903
Cash Flows from Capital and Related Financing Activities:		
Net Proceeds (loss) from Capital Improvement Assessments	(2,669)	-
Proceeds from Sale of Capital Assets	-	157,810
Acquisition/Construction of Capital Assets	(346,979)	(656,747)
Capital Grants Received	58,362	-
Insurance Proceeds	-	4,044
Net Cash Provided (Used) by Capital and Related Financing Activities	(291,286)	(494,893)
Cash Flows from Investing Activities:		
Receipt of Interest	(75)	122,370
Sale of Investment Securities	2,194,064	12,531,693
Purchase of Investment Securities	(2,117,266)	(13,044,485)
Cash Provided by Investing Activities	76,723	(390,422)
Net Increase (Decrease) in Cash and Cash Equivalents	(243,217)	(102,092)
Cash and Cash Equivalents at Beginning of Year	2,279,138	2,829,252
Cash and Cash Equivalents at End of Year	$ 2,035,921	$ 2,727,160
Reconciliation of Operating Income (Loss) to Net Cash Provided		
Net Operating Income (Loss)	$ (1,118,725)	$ (533,977)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operations:		
Depreciation Expense	266,904	1,007,667
Expense of Non-Capitalized Construction in Progress	51,852	-
Miscellaneous Non-Operating Income	373	91,855
Change in Assets and Liabilities:		
(Increase) Decrease in Receivables	323,613	(22,144)
(Increase) Decrease in Inventories	-	(108,648)
(Increase) Decrease in Prepaids	(19)	15,197
Increase (Decrease) in Payables	57,455	(44,630)
Total Adjustments	700,178	939,297
Net Cash Provided (Used) by Operating Activities	$ (418,547)	$ 405,320
Noncash Investing, Capital, and Financing Activities:		
Contributions of Capital Assets from Government	$ -	$ 154,639
Gain (Loss) on Disposal of Capital Assets	-	32,462

See Accompanying Notes to Financial Statements

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	Agency Funds
Assets	
Cash & Cash Equivalents	$ 6,020,690
Deposit with Fiscal Agent	-
Investments	48,439,857
Total Assets	$ 54,460,547
Liabilities	
Warrants Payable	$ 2,271,769
Accounts/Vouchers Payable	4,496,472
Custodial Accounts	47,692,306
Total Liabilities	$ 54,460,547

See Accompanying Notes to Financial Statements

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

December 31, 2012

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 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
December 31, 2012

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
December 31, 2012

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

NOTES TO FINANCIAL STATEMENTS
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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

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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.

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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.

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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.

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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

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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.

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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

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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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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.

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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

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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.

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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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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.

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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

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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

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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.

NOTES TO FINANCIAL STATEMENTS

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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

NOTES TO FINANCIAL STATEMENTS
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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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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.

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual
For The Year Ended December 31, 2012

	General Fund			
	Budget		Actual	Variance with Final Budget-
	Original	Final	Amounts	Positive (Negative)
Revenues				
Taxes	$ 19,334,360	$ 19,305,896	$ 19,013,699	$ (292,197)
Licenses & Permits	27,800	25,800	33,290	7,490
Intergovernmental	6,289,608	5,959,499	6,582,648	623,149
Charges for Services	2,370,761	2,431,993	2,440,907	8,914
Fines & Forfeits	1,701,287	1,684,746	1,612,821	(71,925)
Miscellaneous	2,037,236	2,611,456	1,759,121	(852,335)
Total Revenues	31,761,052	32,019,390	31,442,486	(576,904)
Expenditures				
Current:				
General Government Services	14,112,284	14,302,776	13,607,345	695,431
Security of Persons & Property	15,822,641	15,919,073	15,227,688	691,385
Utilities & Environment	520,813	556,433	526,118	30,315
Economic Environment	101,000	101,000	51,500	49,500
Mental & Physical Health	301,154	349,264	343,735	5,529
Culture & Recreation	200,357	209,107	199,553	9,554
Capital Outlays	16,049	16,049	14,287	1,762
Total Expenditures	31,074,298	31,453,702	29,970,226	1,483,476
Excess of Rev. Over (Under) Expend.	686,754	565,688	1,472,260	906,572
Other Financing Sources/(Uses)				
Proceeds from Sale of Capital Assets	800,000	830,000	638,115	(191,885)
Transfers-In	59,000	124,992	59,000	(65,992)
Transfers-Out	(2,261,163)	(3,670,701)	(3,192,428)	478,273
Total Other Financing Sources/(Uses)	(1,402,163)	(2,715,709)	(2,495,313)	220,396
Excess of Revenues and Other Financing Sources/ (Uses) Over (Under) Expenditures	(715,409)	(2,150,021)	(1,023,053)	1,126,968
Fund Balance as of January 1	9,255,565	9,255,565	11,786,940	2,531,375
Fund Balance as of December 31	$ 8,540,156	$ 7,105,544	$ 10,763,887	$ 3,658,343

Perspective Difference Reconciliation:

Actual Fund Balance - Schedule of Revenues, Expenditures, And Changes in Fund Balance	$ 10,763,887
The Following funds were budgeted as special revenue funds but do not meet the definition of such under Gasb Statement No. 54 and; therefore, are accounted for within the General Fund:	
Flood Control Zone #125	10,278
Cowlitz River Basin Subzone #126	15,000
Sheriff's Airplane #162	(4,336)
SWW Fair Entertainment Reserve #197	34
Total Fund Balance - General Fund Balance Sheet for Governmental Funds	$ 10,784,863

The County's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental Funds.
See Accompanying Notes to Financial Statements

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual
For The Year Ended December 31, 2012

	Special Revenue: Roads			
	Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget- Positive (Negative)
Revenues				
Taxes	$ 10,202,033	$ 10,202,033	$ 11,025,192	$ 823,159
Licenses & Permits	16,250	16,250	29,602	13,352
Intergovernmental	12,146,928	12,146,928	8,439,869	(3,707,059)
Charges for Services	66,960	66,960	234,166	167,206
Fines & Forfeits	-	-	-	-
Miscellaneous	48,488	48,488	45,966	(2,522)
Total Revenues	22,480,659	22,480,659	19,774,795	(2,705,864)
Expenditures				
Current:				
General Government Services	200	200	40	160
Utilities & Environment	953,980	953,980	855,154	98,826
Transportation	15,518,120	15,518,120	14,233,546	1,284,574
Interest & Other Debt Service	1,200	1,200	834	366
Capital Outlays	10,988,001	10,988,001	5,695,432	5,292,569
Total Expenditures	27,461,501	27,461,501	20,785,006	6,676,495
Excess of Rev. Over (Under) Expend.	(4,980,842)	(4,980,842)	(1,010,211)	3,970,631
Other Financing Sources/(Uses)				
Insurance Recoveries		-	143	143
Proceeds from Sale of Capital Assets	700,000	700,000	877,227	177,227
Transfers-Out	(15,875)	(15,875)	-	15,875
Total Other Financing Sources/(Uses)	684,125	684,125	877,370	193,245
Excess of Revenues and Other Financing Sources/ (Uses) Over (Under) Expenditures	(4,296,717)	(4,296,717)	(132,841)	4,163,876
Fund Balance as of January 1	11,827,695	11,827,695	11,827,695	-
Fund Balance as of December 31	$ 7,530,978	$ 7,530,978	$ 11,694,854	$ 4,163,876

Perspective Difference Reconciliation:	
Actual Fund Balance - Schedule of Revenues, Expenditures, And Changes in Fund Balance	11,694,854
The Following fund wase budgeted as special revenue fund but does not meet the definition of such under Gasb Statement No. 54 and; therefore, is accounted for within the Roads Fund:	
Paths & Trails #128	35,319
Total Fund Balance - Roads Fund Balance Sheet	11,730,173

The County's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental Funds.

See Accompanying Notes to Financial Statements

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual
For The Year Ended December 31, 2012

	Capital Facilities Plan Fund			
	Budget		Actual	Variance with Final Budget-
	Original	Final	Amounts	Positive (Negative)
Revenues				
Taxes	$ 1,763,355	$ 1,763,355	$ 1,557,393	$ (205,962)
Miscellaneous	220,431	220,431	227,667	7,236
Total Revenues	1,983,786	1,983,786	1,785,060	(198,726)
Expenditures				
Current:				
General Government Services	206,500	206,500	13,758	192,742
Security of Persons & Property	10,000	25,000	13,500	11,500
Culture & Recreation	-	75,000	436	74,564
Capital Outlays	100,000	251,500	128,017	123,483
Total Expenditures	316,500	558,000	155,711	402,289
Excess of Rev. Over (Under) Expend.	1,667,286	1,425,786	1,629,349	203,563
Other Financing Sources/(Uses)				
Transfers-In	354,100	281,500	12,445	(269,055)
Transfers-Out	(1,337,565)	(1,453,565)	(1,249,769)	203,796
Total Other Financing Sources/(Uses)	(983,465)	(1,172,065)	(1,237,324)	(65,259)
Excess of Revenues and Other Financing Sources/ (Uses) Over (Under) Expenditures	683,821	253,721	392,025	138,304
Fund Balance as of January 1	6,127,000	6,127,000	6,127,000	-
Fund Balance as of December 31	$ 6,810,821	$ 6,380,721	$ 6,519,025	$ 138,304

The County's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental Funds.
See Accompanying Notes to Financial Statements

LEWIS COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Assistance Received Directly From a Federal Agency or Indirectly Through a State Agency

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Expenditures ($) From Pass-Through Awards	Expenditures ($) From Direct Awards	Expenditures ($) Total	Note Ref.
U.S. Office of National Drug Control Policy Passed Through Educational Service District 105						
Northwest High Intensity Drug Trafficking Area	07.G09NW0003A	9000000001	2,913		2,913	11
Total CFDA# 07.G09NW0003A			***2,913***		***2,913***	
Northwest High Intensity Drug Trafficking Area	07.G11NW0003A	9001000053	7,958		7,958	11
Total CFDA# 07.G11NW0003A			***7,958***		***7,958***	
Total U.S. Office of National Drug Control Policy Passed Through Educational Service District 105			**10,871**		**10,871**	
U.S. Department of Agriculture Passed Through Washington State Department of Agriculture						
National School Lunch Program	10.555	N/A	20,270		20,270	4
Total CFDA# 10.555			***20,270***		***20,270***	
Total U.S. Department of Agriculture Passed Through Washington State Department of Agriculture			**20,270**		**20,270**	
U.S. Department of Agriculture Passed Through Washington State Department of Health						
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C16891	487,798		487,798	
Total CFDA# 10.557			***487,798***		***487,798***	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	C16891	300		300	
Total CFDA# 10.572			***300***		***300***	
Total U.S. Department of Agriculture Passed Through Washington State Department of Health			**488,098**		**488,098**	
U.S. Department of Agriculture Forest Service						
Schools and Roads_Grants to States	10.665	07-PA-11060300-037		40,681	40,681	9 (a)
Schools and Roads_Grants to States	10.665	P.L. 110-343		21	21	10 (a)
Schools and Roads_Grants to States	10.665	P.L. 110-343.		228	228	
Schools and Roads_Grants to States	10.665	P.L. 112-141		1,107,608	1,107,608	
Total CFDA# 10.665				***1,148,538***	***1,148,538***	
Total U.S. Department of Agriculture Forest Service				**1,148,538**	**1,148,538**	
U.S. Department of Housing & Urban Development Passed Through Washington State Department of Commerce						
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	10-64100-023	613,000		613,000	
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	11-64100-047	17,957		17,957	
Total CFDA# 14.228			***630,957***		***630,957***	
Emergency Solutions Grant Program	14.231	13-46107-016	48,413		48,413	10 (b)
Total CFDA# 14.231			***48,413***		***48,413***	
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	10-46111-616	79,492		79,492	8 & 10 (c)

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule

LEWIS COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Assistance Received Directly From a Federal Agency or Indirectly Through a State Agency

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Expenditures ($) From Pass-Through Awards	From Direct Awards	Total	Note Ref.
Continued:						
Total CFDA# 14.257			***79,492***		***79,492***	
Total U.S. Department of Housing & Urban Development Passed Through Washington State Department of Commerce			**758,862**		**758,862**	
U.S. Department of Housing & Urban Development						
Supportive Housing Program	14.235	WA0091B0T011003		29,050	29,050	10 (d)
Supportive Housing Program	14.235	WA0091B0T011104		65,336	65,336	10 (d)
Total CFDA# 14.235				***94,386***	***94,386***	
Total U.S. Department of Housing & Urban Development				**94,386**	**94,386**	
U.S. Department of Justice Passed Through Washington State Patrol						
Law Enforcement Assistance Narcotics and Dangerous Drugs Training	16.004	C120818FED	103		103	
Total CFDA# 16.004			***103***		***103***	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	C120420FED	25,030		25,030	
Total CFDA# 16.742			***25,030***		***25,030***	
Total U.S. Department of Justice Passed Through Washington State Patrol			**25,133**		**25,133**	
U.S. Department of Justice Passed Through Washington State Department of Social & Health Services						
Juvenile Accountability Block Grants	16.523	0663-98334-06	5,162		5,162	
Juvenile Accountability Block Grants	16.523	0663-98334-07	4,500		4,500	
Total CFDA# 16.523			***9,662***		***9,662***	
Drug Court Discretionary Grant Program	16.585	1163-29414	9,329		9,329	
Total CFDA# 16.585			***9,329***		***9,329***	
Total U.S. Department of Justice Passed Through Washington State Department of Social & Health Services			**18,991**		**18,991**	
U.S. Department of Justice						
Bulletproof Vest Partnership Program	16.607	2010BUBX10054258		3,160	3,160	
Bulletproof Vest Partnership Program	16.607	2011BUBX11055509		1,899	1,899	
Total CFDA# 16.607				***5,059***	***5,059***	
Total U.S. Department of Justice				**5,059**	**5,059**	
U.S. Department of Justice Passed Through Washington Association of Sheriffs & Police Chiefs						
Public Safety Partnership and Community Policing Grants	16.710	WSMI 10104	11,648		11,648	
Total CFDA# 16.710			***11,648***		***11,648***	
Total U.S. Department of Justice Passed Through Washington Association of Sheriffs & Police Chiefs			**11,648**		**11,648**	
U.S. Department of Justice Passed Through Washington State Department of Commerce						
Violence Against Women Formula Grants	16.588	F11-31103-050	15,302		15,302	10 (e)

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule

LEWIS COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Assistance Received Directly From a Federal Agency or Indirectly Through a State Agency

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Expenditures ($) From Pass-Through Awards	From Direct Awards	Total	Note Ref.
Continued:						
Total CFDA# 16.588			***15,302***		***15,302***	
Total U.S. Department of Justice Passed Through Washington State Department of Commerce			**15,302**		**15,302**	
U.S. Department of Justice Passed Through City of Centralia						
Violence Against Women Formula Grants	16.588	F11-31103-051	6,643		6,643	
Total CFDA# 16.588			***6,643***		***6,643***	
Total U.S. Department of Justice Passed Through City of Centralia			**6,643**		**6,643**	
U.S. Department of Transportation						
Airport Improvement Program	20.106	DOT-FA09NM-0053		18,897	18,897	12
Airport Improvement Program	20.106	DOT-FA10NM-0039		7,833	7,833	
Airport Improvement Program	20.106	DOT-FA11NM-0080		170,060	170,060	
Total CFDA# 20.106				***196,790***	***196,790***	
Highway Planning and Construction	20.205	DTFH70-12-E-00029		279,707	279,707	
Total CFDA# 20.205				***279,707***	***279,707***	
Total U.S. Department of Transportation				**476,497**	**476,497**	
U.S. Department of Transportation Passed Through Washington State Department of Transportation						
Highway Planning and Construction	20.205	LA-5452	172,017		172,017	
Highway Planning and Construction	20.205	LA-5681	3,915		3,915	
Highway Planning and Construction	20.205	LA-6705	16,931		16,931	6
Highway Planning and Construction	20.205	LA-6941	377,129		377,129	
Highway Planning and Construction	20.205	LA-7391	284,536		284,536	
Highway Planning and Construction	20.205	LA-7444	51,828		51,828	
Highway Planning and Construction	20.205	LA-7725	1,468,283		1,468,283	
Highway Planning and Construction	20.205	LA-7813	40		40	
Total CFDA# 20.205			***2,374,679***		***2,374,679***	
Total U.S. Department of Transportation Passed Through Washington State Department of Transportation			**2,374,679**		**2,374,679**	
U.S. Department of Transportation Passed Through Washington Association of Sheriffs & Police Chiefs						
State and Community Highway Safety	20.600	N/A	1,994		1,994	4
Total CFDA# 20.600			***1,994***		***1,994***	
Total U.S. Department of Transportation Passed Through Washington Association of Sheriffs & Police Chiefs			**1,994**		**1,994**	
U.S. Department of Transportation Passed Through Washington Traffic Safety Commission						
State and Community Highway Safety	20.600	2013ST	12,623		12,623	
State and Community Highway Safety	20.600	N/A	6,316		6,316	4
Total CFDA# 20.600			***18,939***		***18,939***	

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule

LEWIS COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Assistance Received Directly From a Federal Agency or Indirectly Through a State Agency

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Expenditures ($) From Pass-Through Awards	From Direct Awards	Total	Note Ref.
Continued:						
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	3,661		3,661	4
Total CFDA# 20.601			***3,661***		***3,661***	
Occupant Protection Incentive Grants	20.602	N/A	2,582		2,582	4
Total CFDA# 20.602			***2,582***		***2,582***	
Child Safety and Child Booster Seats Incentive Grants	20.613	N/A	758		758	4
Total CFDA# 20.613			***758***		***758***	
Total U.S. Department of Transportation Passed Through Washington Traffic Safety Commission			**25,940**		**25,940**	
U.S. Environmental Protection Agency Passed Through Washington State Department of Commerce's Public Works Board						
Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM10-952-005	474,482		474,482	3
Total CFDA# 66.468			***474,482***		***474,482***	
Total U.S. Environmental Protection Agency Passed Through Washington State Department of Commerce's Public Works Board			**474,482**		**474,482**	
U.S. Environmental Protection Agency Passed Through Washington State Department of Health						
Capitalization Grants for Drinking Water State Revolving Funds.	66.468	C16891	25,250		25,250	
Total CFDA# 66.468			***25,250***		***25,250***	
Total U.S. Environmental Protection Agency Passed Through Washington State Department of Health			**25,250**		**25,250**	
U.S. Election Assistance Commission Passed Through Washington State Office of the Secretary of State, Elections Division						
Help America Vote Act Requirements Payments	90.401	G-2846 Amend 4A	1,657		1,657	
Total CFDA# 90.401			***1,657***		***1,657***	
Total U.S. Election Assistance Commission Passed Through Washington State Office of the Secretary of State, Elections Division			**1,657**		**1,657**	
U.S. Department of Health & Human Services Passed Through Washington State Department of Health						
Public Health Emergency Preparedness	93.069	C16891	72,481		72,481	
Total CFDA# 93.069			***72,481***		***72,481***	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	C16891	1,378		1,378	
Total CFDA# 93.116			***1,378***		***1,378***	
Grants to States to Support Oral Health Workforce Activities	93.236	C16891	11,301		11,301	
Total CFDA# 93.236			***11,301***		***11,301***	
Immunization Cooperative Agreements	93.268	C16891	30,645		30,645	
Immunization Cooperative Agreements	93.268	Donated Vaccine	65,205		65,205	5
Total CFDA# 93.268			***95,850***		***95,850***	

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule

LEWIS COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Assistance Received Directly From a Federal Agency or Indirectly Through a State Agency

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Expenditures ($) From Pass-Through Awards	From Direct Awards	Total	Note Ref.
Continued:						
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	C16891	25,000		25,000	
Total CFDA# 93.283			***25,000***		***25,000***	
Pregnancy Assistance Fund Program	93.500	C16891	61,748		61,748	
Total CFDA# 93.500			***61,748***		***61,748***	
PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	C16891	2,351		2,351	
Total CFDA# 93.539			***2,351***		***2,351***	
Maternal and Child Health Services Block Grant to the States	93.994	C16891	89,649		89,649	
Total CFDA# 93.994			***89,649***		***89,649***	
Total U.S. Department of Health & Human Services Passed Through Washington State Department of Health			**359,758**		**359,758**	
U.S. Department of Health & Human Services Passed Through Grays Harobr County Public Health and Social Services						
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	N/A	9,500		9,500	4 & 13 (a)
Total CFDA# 93.283			***9,500***		***9,500***	
PPHF 2012: Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Preventinon and Public Health Funds	93.531	N/A	91,009		91,009	4
Total CFDA# 93.531			***91,009***		***91,009***	
Total U.S. Department of Health & Human Services Passed Through Grays Harobr County Public Health and Social Services			**100,509**		**100,509**	
U.S. Department of Health & Human Services Passed Through Washington State Department of Social & Health Services						
Child Support Enforcement	93.563	0763-15018	18,418		18,418	9 (b)
Child Support Enforcement	93.563	2110-81382	446,275		446,275	9 (b)
Total CFDA# 93.563			***464,693***		***464,693***	
Foster Care_Title IV-E	93.658	0969-70218-02	3,993		3,993	
Foster Care_Title IV-E	93.658	0969-70218-03	743		743	
Total CFDA# 93.658			***4,736***		***4,736***	
Medical Assistance Program.	93.778	1163-27316	50,662		50,662	10 (f)
Total CFDA# 93.778			***50,662***		***50,662***	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27316	120,389		120,389	10 (g)
Total CFDA# 93.959			***120,389***		***120,389***	
Total U.S. Department of Health & Human Services Passed Through Washington State Department of Social & Health Services			**640,480**		**640,480**	

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule

LEWIS COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Assistance Received Directly From a Federal Agency or Indirectly Through a State Agency

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Expenditures ($) From Pass-Through Awards	From Direct Awards	Total	Note Ref.
Continued:						
U.S. Department of Health & Human Services Passed Through Washington State Health Care Authority						
Medical Assistance Program	93.778	1166-35255	80,960		80,960	7 & 9 (c)
Total CFDA# 93.778			***80,960***		***80,960***	
Total U.S. Department of Health & Human Services Passed Through Washington State Health Care Authority			**80,960**		**80,960**	
U.S. Department of Health & Human Services Passed Through West Region EMS & Trauma Care Council						
National Bioterrorism Hospital Preparedness Program	93.889	N/A	2,000		2,000	4
Total CFDA# 93.889			***2,000***		***2,000***	
Total U.S. Department of Health & Human Services Passed Through West Region EMS & Trauma Care Council			**2,000**		**2,000**	
U.S. Department of Homeland Security Passed Through Washington State Parks and Recreation Commission						
Boating Safety Financial Assistance	97.012	LE 000-024	16,104		16,104	
Boating Safety Financial Assistance	97.012	LE 911-417	13,881		13,881	
Total CFDA# 97.012			***29,985***		***29,985***	
Total U.S. Department of Homeland Security Passed Through Washington State Parks and Recreation Commission			**29,985**		**29,985**	
U.S. Department of Homeland Security Passed Through Washington State Military Department						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D09-065 (1817-DR-WA)	7,010		7,010	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D12-007 (4056-DR-WA)	237,565		237,565	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	E08-731 (1734-DR-WA)	88,786		88,786	
Total CFDA# 97.036			***333,361***		***333,361***	
Emergency Management Performance Grants	97.042	E12-093	40,396		40,396	
Emergency Management Performance Grants	97.042	E12-237	18,087		18,087	
Total CFDA# 97.042			***58,483***		***58,483***	
Homeland Security Grant Program	97.067	E11-134	20,924		20,924	
Homeland Security Grant Program	97.067	E11-275A	57,081		57,081	
Homeland Security Grant Program	97.067	E12-279	9,902		9,902	
Total CFDA# 97.067			***87,907***		***87,907***	
Total U.S. Department of Homeland Security Passed Through Washington State Military Department			**479,751**		**479,751**	
U.S. Department of Homeland Security Passed Through Thurston County Emergency Management						
Homeland Security Grant Program.	97.067	2010-SS-T0-0084	1,715		1,715	
Homeland Security Grant Program.	97.067	29A-2011-054	18,522		18,522	13 (b)
Total CFDA# 97.067			***20,237***		***20,237***	

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule

LEWIS COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Assistance Received Directly From a Federal Agency or Indirectly Through a State Agency

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Expenditures ($)			Note Ref.
			From Pass-Through Awards	From Direct Awards	Total	
Continued:						
Total U.S. Department of Homeland Security Passed Through Thurston County Emergency Management			**20,237**		**20,237**	
TOTAL FEDERAL ASSISTANCE			**5,973,500**	**1,724,480**	**7,697,980**	

The Accompanying Notes To The Schedule Of Expenditures Of Federal Awards Are An Integral Part Of This Schedule

LEWIS COUNTY, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the county's financial statements. The county uses accrual basis of accounting for all funds except governmental funds, which use the modified accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - FEDERAL LOANS

The county was approved by the Environmental Protection Agency and the Washington State Department of Commerce's Public Works Board to receive a loan totaling $721,822 to improve its drinking water system. In 2012, Amendment A removed the loan fee and reduced the loan amount to $714,675. The amount listed for this loan includes the proceeds used during the year.

NOTE 4 - NOT AVAILABLE (N/A)

The county was unable to obtain another identification number.

NOTE 5 - NONCASH AWARDS – VACCINATIONS

The amount of vaccine reported on the schedule is the value of vaccine received and distributed by the county during the year and priced as prescribed by the Washington Department of Health.

NOTE 6 - SUPPLEMENTAL GRANT AWARDS

In 2009, preliminary engineering costs for the Winlock Vader Road project exceeded the amount allowed on the grant award for LA-6705. Construction costs for LA-6705 ended in 2010. During the Washington State Department of Transportation final grant review performed in August 2012, unused grant funding for construction costs was moved to allow the additional preliminary engineering costs to be grant reimbursable. Reimbursement of costs was in the amount of $16,931.

The expenditures incurred in 2009 that did not become reimbursable until 2012 have been included in the expenditure totals reported on the 2012 Schedule of Expenditures of Federal Awards.

NOTE 7 - MEDICAL ASSISTANCE PROGRAM

A portion of the reimbursement for contract #1166-35255 is based on expenditures occurring during the third and fourth quarters of 2011. Due to the length of time needed to prepare the billing information, the amount of expenditures associated with the third and fourth quarters of 2011 were not determined in time to be included in the 2011 Financial Statements.

NOTE 8 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

NOTE 9 - INDIRECT COST RATE

(a) The amount expended for "Schools and Roads Grants to States (CFDA 10.665) includes $1,538 from Contract Number 07-PA11060300-037 claimed as an indirect cost recovery using an indirect cost rate of 19.51% as approved for 2012 by the Board of County Commissioners on December 19, 2011 through Resolution #11-430.

(b) The amount expended for "Child Support Enforcement" (CFDA 93.563) includes $1,959 from Contract Number 0763-15018 and $46,165 from Contract Number 2110-81382 claimed as an indirect cost recovery using an indirect cost rate of 19.51% as approved for 2012 by the Board of County Commissioners on December 19, 2011 through Resolution #11-430.

(c) The amount expended for "Medical Assistance Program" (CFDA 93.778) includes $13,339 from Contract Number 1166-35255 claimed as an indirect cost recovery. Billings for the 3rd and 4th quarters of 2011 used the rate of 16.83% in effect for 2011 as approved by the Board of County Commissioners on March 7, 2011 through Resolution #11-071. Indirect costs claimed using the 2011 rate were $6,285. Billings for 1st and 2nd quarters of 2012 used the rate of 19.51% in effect for 2012 as approved by the Board of County Commissioners on December 19, 2011 through Resolution #11-430. Indirect costs claimed using the 2012 rate were $7,054.

NOTE 10 - AMOUNTS AWARDED TO SUBRECIPIENTS

(a) Included in the total amount expended for "Schools and Roads" (CFDA number 10.665) is $134,898 for P.L. 110-343, which was passed through to subrecipents that administered their own projects. This amount includes both current and prior year Title III funds.

(b) Included in the total amount expended for "Emergency Solutions" (CFDA number 14.231) is $46,832 from Contract Number 13-46107-016 that was passed through to subrecipents that administered their own projects.

(c) Included in the total amount expended for "ARRA - Homelessness Prevention and Rapid Re-Housing Program" (CFDA number 14.257) is $79,492 from Contract Number 10-46111-616 that was passed through to subrecipents that administered their own projects.

(d) Included in the total amount expended for "Supportive Housing Program" (CFDA number 14.235) is $28,203 from Contract Number WA0091B0T011003 and $63,641 from Contract Number WA0091B0T011104 that was passed through to subrecipents that administered their own projects.

(e) Included in the total amount expended for "Violence Against Women Formula Grants" (CFDA number 16.588) is $4,981 from Contract Number F11-31103-050 that was passed through to subrecipents that administered their own projects.

(f) Included in the total amount expended for "Medical Assistance Program" (CFDA number 93.778) is $50,662 from Contract Number 1163-27316 that was passed through to subrecipents that administered their own projects.

(g) Included in the total amount expended for "Prevention/Treatment of Substance Abuse " (CFDA number 93.959) is $97,921 from Contract Number 1163-27316 that was passed through to subrecipents that administered their own projects.

NOTE 11 - CFDA NUMBER

The Office of National Drug Control Policy does not use CFDA numbers. The CFDA number provided on the Schedule of Expenditures of Federal Awards was determined per guidance provided in the Budgeting, Accounting, and Reporting System Manual using the Federal Agency's Grant Award Numbers G09NW0003A and G11NW0003A.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

NOTE 12 - OVER REPORTED 2010 EXPENDITURES

Expenditures of $5,962, which were incurred in 2012 under CFDA number 20.106 "Airport Improvement Program" Contract Number DOT-FA09NM-0053, were reimbursed by revenue received in 2010. In 2010, expenditures were mistakenly billed and reimbursed twice. The excess revenue received was applied to expenditures incurred after the billing. Due to this billing error, expenditures were over reported by $8,108 on the 2010 Schedule of Expenditures of Federal Awards under CFDA number 20.106 "Airport Improvement Program" Contract Number DOT-FA09NM-0053.

NOTE 13 - UNDER REPORTED 2011 EXPENDITURES

The following grants incurred expenditures in 2011 that were not included on the 2011 Schedule of Expenditures of Federal Awards. The 2011 expenditures are not included in the expenditure totals reported on the 2012 Schedule of Expenditures of Federal Awards.

(a) Under CFDA 93.283 "Centers for Disease Control and Prevention, Investigations and Technical Assistance," expenditures of $1,500 were incurred in 2011, but identification of the costs for billing was delayed until 2012.

(b) Under CFDA 97.067 "Homeland Security Grant Program" contract 29A-2011-054, expenditures of $592.28 were incurred in 2011, but identification of the costs for billing was delayed until 2012.

ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
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