

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013

### 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.

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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 2007 Bond Redemption Fund accounts loan payment from the Chehalis-Centralia Airport and the redemption of the bonds issued in 2007 for the benefit of the Chehalis-Centralia Airport. On December 31, 2013, pursuant to the transfer agreement (see Note 15), the funds for the final balloon were deposited with the Lewis County Treasurer and are recognized as a liability in the fund.

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.

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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).

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 2013 budget was adopted by the BOCC on Monday, December 03, 2012.

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### 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 annually budgeted 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, 2013, the treasurer was holding \$22,602,582 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 2013 were approximately \$7,427,363.

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.

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### 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, 2013, \$5,102 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.

### 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.

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**6. Restricted Net Position**

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	-	421,562

**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:

<u>Assets</u>	<u>Years</u>
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.

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### **10. Long-term Debt: See Long-term Debt Note No. 11.**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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. Unearned Revenues**

This account includes amounts received for assets or services but the revenue recognition criteria have not been met because the amounts have not been earned.

### **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.

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**14. Fund Balances**

	General Fund	Roads	Capital Projects	Special Revenue	Debt Service	Capital Facilities Plan	Total Funds
Fund Balances:							
Nonspendable:							
Inventory	808	-	-	624,212	-	-	625,020
Prepays	42,408	21,574	-	78,804	-	-	142,786
Total Nonspendable	43,216	21,574	-	703,016	-	-	767,806
Restricted:							
Debt Service	-	-	-	-	21,775	-	21,775
General Government & Judicial	350,504	-	-	659,567	-	7,104,318	8,114,389
Public Safety	-	-	-	245,035	-	-	245,035
Transportation	-	67,895	-	-	-	-	67,895
Natural & Economic Environment	-	-	-	4,301,968	-	-	4,301,968
Social Services & Physical Health	-	-	-	805,663	-	-	805,663
Public Services	-	-	-	1,221,507	-	-	1,221,507
Total Restricted	350,504	67,895	-	7,233,740	21,775	7,104,318	14,778,232
Committed:							
General Government Services	-	-	-	34,719	-	-	34,719
Total Committed	-	-	-	34,719	-	-	34,719
Assigned:							
General Government & Judicial	-	-	-	20,758	-	-	20,758
Public Safety	-	-	-	1,123,333	-	-	1,123,333
Utilities	31,216	-	-	-	-	-	31,216
Transportation	-	11,523,343	-	-	-	-	11,523,343
Economic Environment	-	-	-	6,749	-	-	6,749
Social Services & Physical Health	-	-	-	540,566	-	-	540,566
Culture & Recreation	34	-	-	261,421	-	-	261,455
Public Services	-	-	-	76,185	-	-	76,185
Capital Projects	-	-	1,042,453	-	-	374,473	1,416,926
Total Assigned	31,250	11,523,343	1,042,453	2,029,012	-	374,473	15,000,531
Unassigned:	9,666,080	-	-	-	-	-	9,666,080
Total Fund Balances:	10,091,050	11,612,812	1,042,453	10,000,487	21,775	7,478,791	40,247,368



**NOTES TO FINANCIAL STATEMENTS**

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**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	\$ 40,247,368
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.	86,415,987
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.	1,744,423
Some receivable balances are not yet available and are not reported as revenue in the governmental funds.	4,085,022
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(24,628,089)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	25,195,566
Adjustment for Rounding	(1)
Net Position of government activities.	<u>\$ 133,060,276</u>

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**B. 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	\$ 1,062,983
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.	3,180,998
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.	1,314,541
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.	(4,621,906)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.	1,839,644
Adjustment for Rounding	1
Change in net position of governmental activities.	<u>\$ 2,776,261</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

At December 31, 2013 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**

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.

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As of December 31, 2013, the county had the following investments:

<b>Investment Type:</b>	<b>Carrying Amount</b>	<b>Market Value</b>
U.S. Gov't Securities	15,427,278	15,392,688
Municipal Bonds	18,821,525	18,903,140
Subtotal - Investments Subject to Credit Risk Classification	34,248,803	34,295,828
State Treasurer's Investment Pool	69,810,850	69,810,850
Time Deposits	266,120	266,120
Subtotal - Investments Not Subject To Credit Risk Classification	70,076,970	70,076,970
<b>Total Investments</b>	<b>104,325,773</b>	<b>104,372,798</b>

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.

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 inflow 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.

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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 2013 was \$2.1867 per \$1,000 on an assessed valuation of \$5,130,700,462 or a total road tax of \$11,220,142.

The diverted county road levy for 2013 was \$0.2482 per \$1,000 on an assessed valuation of \$5,130,700,462 for a total diverted road levy of \$1,273,414.

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 2013.

The county's total regular levy for 2013 was \$1.5948 per \$1,000 on an assessed valuation of \$7,183,983,361 for a total regular tax of \$11,456,988. The components of the regular levy are:

	<b>Levy</b>	<b>Tax</b>
General Fund	1.549806055	11,133,711
Veterans' Relief	0.020000000	143,679
Social Services	0.025000000	179,598
Totals	1.594806055	11,456,988

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## NOTE 6 – CAPITAL ASSETS

## Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

GOVERNMENTAL TYPE ACTIVITIES	Beginning Balance			Ending Balance
	01/01/2013	Increases	Decreases	
Capital Assets, not being depreciated:				
Land	\$ 4,311,400	\$ 524,397	\$ 100	\$ 4,835,697
Land Use Rights (Intangible Assets)	50,098	43,858	-	93,956
Construction in Progress	5,749,805	5,986,989	9,131,033	2,605,761
Total Capital Assets, not being depreciated	10,111,303	6,555,244	9,131,133	7,535,414
Capital Assets being depreciated:				
Buildings	62,979,181	-	209,523	62,769,658
Improvements other than buildings	3,714,796	-	-	3,714,796
Machinery & Equipment	21,248,257	2,818,936	1,812,977	22,254,216
Intangible Assets	-	-	-	-
Infrastructure	89,387,171	5,720,612	-	95,107,783
Total Capital Assets, being depreciated	177,329,405	8,539,548	2,022,500	183,846,453
Less Accumulated Depreciation for:				
Buildings	25,421,576	1,194,810	162,702	26,453,684
Improvements other than buildings	2,737,415	132,769	-	2,870,184
Machinery & Equipment	14,017,030	1,098,939	1,330,384	13,785,585
Intangible Assets	-	-	-	-
Infrastructure	49,455,229	2,284,536	-	51,739,765
Total Accumulated Depreciation	91,631,250	4,711,054	1,493,086	94,849,218
Total Capital Assets being depreciated, net	85,698,155	3,828,494	529,414	88,997,235
Governmental Type Activities Capital Assets, net	\$ 95,809,458	\$ 10,383,738	\$ 9,660,547	\$ 96,532,649

\*Construction in Process includes \$1,263,482 of Public Works infrastructure projects included in the Six Year Transportation Improvement Plan, \$2,195 for a Right of Way purchase not completed at yearend, and \$1,340,084 in construction projects currently in progress.

Depreciation Expense was charged to functions as follows:

General Government	\$ 429,615
Public Safety	704,440
Utilities	123,637
Transportation	2,318,405
Natural and Economic Environment	4,156
Social Services	22,342
Culture and Recreation	111,834
	<u>\$ 3,714,429</u>

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.

\$ 996,625

Total Governmental Activities Depreciation Expense \$ 4,711,054

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BUSINESS TYPE ACTIVITIES	Beginning		Ending	
	Balance		Balance	
	01/01/2013	Increases	Decreases	12/31/2013
Capital Assets, not being depreciated:				
Land	\$ 177,889	\$ -	\$ -	\$ 177,889
Land Use Rights (Intangible Assets)	2,014	-	-	2,014
Construction in Progress	-	-	-	-
Total Capital Assets, not being depreciated	179,903	-	-	179,903
Capital Assets being depreciated:				
Buildings	1,239,352	6,529	-	1,245,881
Improvements other than buildings	4,025,674	62,215	-	4,087,889
Machinery & Equipment	822,705	868	-	823,573
Intangible Assets	-	-	-	-
Total Capital Assets, being depreciated	6,087,731	69,612	-	6,157,343
Less Accumulated Depreciation for:				
Buildings	981,028	46,360	-	1,027,388
Improvements other than buildings	1,157,225	172,320	-	1,329,545
Machinery & Equipment	357,520	59,246	-	416,766
Intangible Assets	-	-	-	-
Total Accumulated Depreciation	2,495,773	277,926	-	2,773,699
Total Capital Assets being depreciated, net	3,591,958	(208,314)	-	3,383,644
Business Type Activities Capital Assets, net	\$ 3,771,861	\$ (208,314)	\$ -	\$ 3,563,547

Depreciation Expense was charged to functions as follows:

Solid Waste	\$ 133,351
Airport	144,575
Total	\$ 277,926

## 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](http://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

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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.

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 2013, 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, in lieu of any retirement benefit, 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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.

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PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

PERS Plan 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, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. Members who do not choose a contribution rate default to a 5 percent rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.



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For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 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, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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.

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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.

**There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:**

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
<b>Total</b>	<b>263,347</b>

**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.

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

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, 2013, are as follows:

Members Not Participating in JBM:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%*****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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Members Participating in JBM:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* 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:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
2013 \$	118,389	\$ 1,730,707	\$ 157,020
2012 \$	114,907	\$ 1,512,918	\$ 122,258
2011 \$	110,110	\$ 1,278,820	\$ 99,605

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

**Plan Description**

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included 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 legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the

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Director of DRS. During DRS' Fiscal Year 2013, 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, in lieu of any retirement benefit, 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:

<b>Term of Service</b>	<b>Percent of Final Average Salary</b>
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 there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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 benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 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

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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.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	2,633
<b>Total</b>	<b>27,784</b>

**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

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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. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed \$54.2 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, 2013, are as follows:

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
Employer*	0.18%	5.23% **
Employee	0.00%	8.41%
State	N/A	3.36%

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.59%.

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

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
2013 \$	-	\$ 142,160
2012 \$	-	\$ 148,238
2011 \$	-	\$ 138,823

**Public Safety Employees' Retirement System (PSERS) Plan 2**

Plan Description

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:

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

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

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; 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 2013, 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, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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

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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 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Nonvested	2,167
<b>Total</b>	<b>4,337</b>

Funding Policy

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	<b>PSERS Plan 2</b>
Employer*	10.54%
Employee	6.36%

\* The employer rate includes an employer administrative expense fee of 0.18%.

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

	<b>PSERS Plan 2</b>	
2013	\$	192,990
2012	\$	160,049
2011	\$	131,611

**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



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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 2013, 24 retirees received benefits under this act. As of December 31, 2013, 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.

**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, 2013. 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 \$1,580,525 is reported as a non-current liability on the Statement of Net Position.

	<u>Year Ending 12/31/2013</u>
<b>Determination of Annual Required Contribution:</b>	
Normal Cost at Year End	\$ -
Amortization of UAAL *	802,906
Annual Required Contribution	<u>\$ 802,906</u>
<b>Determination of Net OPEB Obligation:</b>	
Annual Required Contribution	\$ 802,906
Interest on Prior Year Net OPEB Obligation	49,578
NOO Amortization **	<u>(111,477)</u>
Annual OPEB Cost	741,007
Contributions Made	<u>(399,924)</u>
Increase in Net OPEB Obligation	<u>\$ 341,083</u>
<b>Net OPEB Obligation - End of Year:</b>	
Net OPEB Obligation - Beginning of Year	\$ 1,239,442
Increase in Net OPEB Obligation	<u>341,083</u>
Net OPEB Obligation - End of Year	<u>\$ 1,580,525</u>

\* Unfunded Actuarial Accrued Liability (UAAL)

\*\* Net OPEB Obligation

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### 4. Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$8,927,020 and the actuarial value of the assets was \$0 resulting in a UAAL of \$8,927,020.

The cost of retiree health care benefits is recognized in the General Fund as claims are paid. For 2013, these costs totaled \$399,924 with a cost per retiree of \$16,664.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

### 5. Actuarial Methods and Assumptions

We have used the alternative measurement method permitted under GASB Statement No. 45. There were no active members to consider when determining the actuarial accrued liability and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are 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 position reported in the Risk Management internal service fund For LEOFF 1 at December 31, 2013 was \$6,298,709. 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 2013. 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.

## NOTES TO FINANCIAL STATEMENTS

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### 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 a member of the Washington Counties Risk Pool ("Pool"). Other Washington counties that are Pool 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 voluntarily terminated their memberships beginning October 1st of 2010, 2002 and 2003 respectively.

Background: The Pool was formed August 18, 1988 after an Interlocal (Cooperative) Agreement under Chapter 39.34 RCW was approved by several Washington counties. The agreement and cooperative created a mechanism to provide member counties with "joint" programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling, and risk management. Washington's pools operate under the state's "pooling" laws and regulations, more specifically, RCW 48.62 RCW and WAC 200.100. They must be first approved and then are overseen by the State Risk Manager, and they are subject to annual fiscal audits performed and issued by the State Auditor's Office.

Noteworthy is the definition of "insurer" within RCW 48.01.050 for application of the Washington Insurance Code, which reflects the following:

Two or more local government entities, under any provision of law, that join together and organize to form an organization for the purpose of jointly self-insuring or self-funding are not an "insurer" under this code.

Thus, under Washington law the Pool is not an insurance company, and therefore, not subject to the rules governing insurance policy interpretation.

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. Its 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.

A Membership Compact was added as an addendum to the Interlocal Agreement in 2000. It constitutes a commitment to strengthen the Pool by helping member counties implement and/or enhance their local risk

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management efforts to reduce losses and support the best management of the Pool and its resources. It obligates member counties to support these goals through three major elements – membership involvement, risk control practices, and a targeted risk management program(s).

New members may be asked to pay modest fees to cover any costs to analyze the member's loss data and risk profile, but they are normally only required to contribute their proportional shares on their entry year's insuring assessments. Members contract initially under the Interlocal Agreement to remain in the Pool for at least five years. Following the initial term, a county may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files its required advance written notice; otherwise, the Interlocal Agreement and memberships automatically renew for another year. Even after termination, former members remain responsible for reassessments by the Pool for the members' proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

Joint Self-Insurance Liability Program ("JSILP"): The Pool, which recently celebrated its Silver Anniversary, has been providing its membership with occurrence-based, jointly purchased and/or jointly self-insured 3rd-party liability coverage since October 1, 1988 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by an occurrence during the policy period and occurring anywhere in the world. Total coverage limits have grown from the \$1 million limit that existed during the Pool's initial two insuring months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million occurrence limit that has existed since October 1, 2003. (Note: Additional occurrence limits of \$5 million have been available for many years for member counties to choose as an individual county-by-county option.) There are no aggregate limits to the payments the WCRP makes for any one member county or all member counties combined.

The initial \$10 million in coverage is jointly self-insured. The remaining JSILP coverage, up to \$15 million, is acquired as "following form" excess insurance from higher rated commercial carriers. Member counties annually select a deductible amount applicable to each occurrence from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000.

Reinsurance is acquired from higher rated carriers as well to protect the Pool directly and its member counties indirectly from larger-valued losses. The reinsuring program is written with a self-insured retention ("SIR") equal to the greater of the applicable member's deductible or \$100,000. The reinsuring agreements also include first and second layer corridor elements – to \$1 million and from \$1 to \$2 million – with cumulative (WCRP) retentions of \$2.95 and \$0.65 million and annual aggregate limits of \$40 and \$20 million respectively.

616 third-party liability claims (and lawsuits) were reported to the Pool by its member counties during Py2013, and added to the Pool's administrative database. This represented a 3% reduction in year-over-year filings and a continuation of recent years' decline in annual filings. The new filings raised the to-date total (Oct 1988 – Sep 2013) to 19,232. Total incurred losses (payments made plus reserve estimates for open claims) increased \$8.1 million during Py2013 to \$250.9 million. The annual amount is 50% more than the corresponding Py2012 amount of \$5.4M, but it represents just 51% of the Py2011 increase of \$16.0M, 46% of the \$17.8M in Py2010, and only 39% of the \$20.8M annual average for Py2007 through Py2009. Only 327 claims remained classified as 'open' at year-end. With 307 additional claims projected by the actuary from all years as incurred but not yet reported ("IBNR"), the Pool's estimated ultimate claims totaled 19,539 as of September 30, 2013.

The independent actuary's projection of total reserves for claims that are expected to be the Pool's responsibility decreased slightly (-1%) from Py2012 to \$14.6 million. This amount includes \$3.4 million (-21% from Py2012) for losses within the Pool's self-insured retention, \$10.0 million (+7%) for losses subject to the "corridor" programs with the Pool's reinsurers, \$0.2 million for losses within the Py2013 quota-shared (10%) upper reinsured layer, and \$1.0 million (+3%) for estimated unallocated loss adjustment expenses. NOTE: The corridor programs involving

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the WCRP's first (and now second) layer reinsurers began seven years ago. These programs included an occurrence coverage maximum of \$0.5 million during the first three years, \$1.0 million during the next three years, and of both \$1.0 million and \$2.0 million beginning with Py2013. Occurrence coverage minimums have remained since the corridor program began the greater of the applicable member deductible or \$100,000.

Washington Counties Property Program ("WCPP"): Beginning with Py2006 (October 1, 2005), WCRP added property insurance as a county-by-county option that is jointly-purchased from a consortium of higher rated commercial carriers. Since the initial offering, both participation and the total values of covered properties have nearly doubled. Twenty six WCRP counties with covered properties totaling over \$2.7 billion participated in the optional insuring program during Py2013.

The WCPP includes All Other Peril coverage limits of \$500 million per occurrence for losses to buildings and contents, vehicles, mobile/contractors equipment, EDP and communication equipment, etc., as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. All Other Perils coverage limits apply to any occurrence, even those affecting more than one participating county, and there are no annual (AOP) aggregate limitations. Flood and Earthquake coverages each include annual aggregate limits of \$200 million. The WCPP coverage also includes sublimited items, e.g. Equipment Breakdown / Boiler & Machinery (\$100 million), Special Flood Hazard Areas (\$25 million). And there are endorsements for Green Construction Upgrades, Reproduction Coverage for Historic Structures, and Terrorism (\$20 million).

AOP occurrence deductibles, which the participating counties select annually and which the counties are solely responsible for paying, range between \$5,000 and \$50,000. Higher deductibles are applicable to losses resulting from catastrophe relevant losses.

There were 15 claims filed during Py2013 by participating counties with loss estimates totaling \$2.6 million and losses paid by fiscal year-end of \$1.5 million. During its initial eight years as a WCRP optional insuring program, there have been 103 WCPP claims filed with to-date incurred losses totaling \$15.5 million and losses paid through fiscal 2013 of \$8.9 million. Considering the fact that to-date WCPP premiums have totaled \$22.2 million, the WCPP's cumulative loss ratio is below 0.7.

Other Insurances: Several member counties also use the Pool's contracted producer (broker) to secure other (specialty) insurances. Examples include public officials bonds and crime (and fidelity), cyber risks/security, special events/concessionaires, underground storage tank and other environmental hazards insurance coverages.

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 Board, which is 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 a) determining the extent of the 3rd-party self-insured liability coverage to be offered (approving the insuring document or coverage form), b) selecting the reinsurance program(s) to acquire and the excess insurance(s) to be jointly purchased or offered for optional purchase by the member counties, c) approving the Pool's annual operating budget(s) and work program(s), and d) approving the members' deposit assessment and reassessment formulas for the policy year ensuing and for any deficient prior period(s).

Regular oversight of the Pool's operations is provided by an 11-person executive committee selected from and by the WCRP Board. Committee members are elected to staggered, 3-year terms. The Committee meets several times throughout each policy year to: a) approve all WCRP disbursements and review the Pool's financial health; b) approve case settlements exceeding the applicable member's deductible by at least \$50,000; c) review all claims with incurred loss estimates exceeding \$100,000; and d) evaluate the Pool's operations and program deliverables as well as the Executive Director's performance. Committee members are expected to participate in the Board's

**NOTES TO FINANCIAL STATEMENTS**

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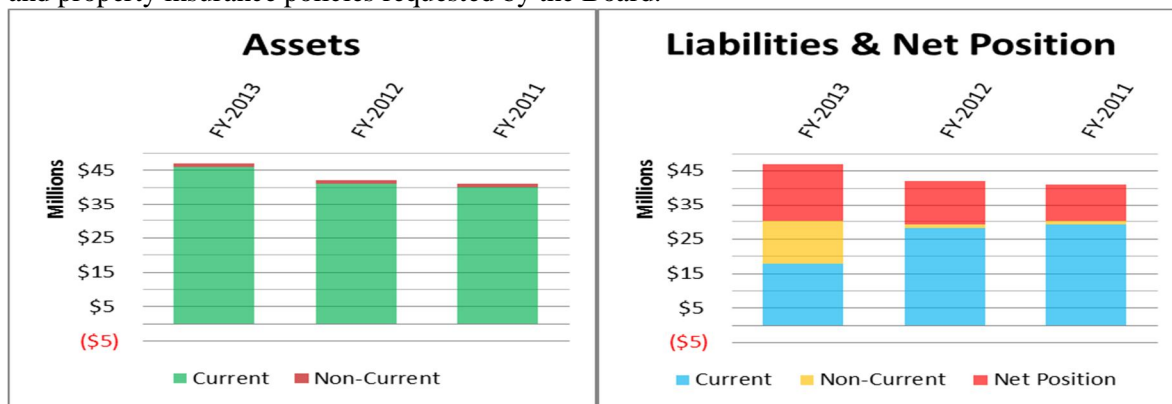
standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization’s policies and coverage documents.

Staffing and Support Teams: The Pool’s multi-person claims staff with years of combined experience handles or oversees the handling of the several hundred liability cases each year filed upon and submitted by the Pool’s member counties. This includes establishing reserves for covered events and estimating undiscounted future cash payments for losses and their related claims adjustment expenses. Other WCRP staffers provide various member services, e.g conducting member and potential member risk assessments and compliance audits, coordinating numerous Pool-sponsored trainings, researching other coverages, and marketing the Pool and its risk management services. Some address and support the organization’s administrative needs.

Professionals from some of the more respected organizations worldwide are regularly called upon to address various needs of the Pool. More specifically, independent actuarial services are furnished by PricewaterhouseCoopers, LLP. Independent claims auditing is performed by Startegic Claims Direction LLC, and special claims audits are occasionally performed by the Pool’s commercial reinsurers/insurers. Insurance producer (broker) and advanced loss control and prevention services are provided by Arthur J. Gallagher Risk Management Services, Inc.. Coverage counsel is furnished by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend the numerous Pool-covered cases, as well as the examinations by and services from both the State Risk Manager and State Auditor’s Offices.

Financial Summary: During fiscal 2013, Pool assets grew 11% (+\$4.8 million) and liabilities by 3% (+\$1.0 million). Its net (financial) position, which is commonly referred to as “net assets” and sometimes as “owners’ equity”, improved 30% (+\$3.9 million) during the Pool’s Silver Anniversary year to \$16.7 million as of September 30, 2013. Much of the net position is ‘restricted’ (\$12.5 million) to address the Board of Directors’ recently revised requirements in section D of its Underwriting Policy. NOTE: This policy revision resulted in the Pool’s own restriction increasing \$7.5 million (+187%) and the unrestricted declining \$3.8 million (-53%). The (State Risk Manager’s) solvency provisions in WAC 200.100.03001(3) required \$0.9 million for satisfaction, a year-over-year increase of \$0.1 million (+15%). Another \$0.9 million is invested in capital assets (net of debt). The remaining \$3.3 million is unrestricted.

\$3.75 million in operating income was experienced during Py2013, an increase of 111% from Py2012. Operating revenues were ‘flat’, but expenses declined nearly \$2.0 million (-15%). This reduction was in part due to even more favorable adjustments by the independent actuary, PricewaterhouseCoopers LLP (“PwC”), to the Pool’s claims-related reserves, and to the reduction (-26%) in the premiums to acquire the reinsurance, excess insurance and property insurance policies requested by the Board.



**NOTES TO FINANCIAL STATEMENTS**

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Contingent Liability: The Pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits of the Pool resulting from any fiscal year are financed by reassessments (aka retroactive assessments) placed upon the deficient year's membership in proportion with the deposit assessments initially levied and collected. The Pool's reassessments receivable balance at December 31, 2013 was ZERO (\$0) as there were no known contingent liabilities at that time.

**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, 2013, which includes estimates for Incurred But Not Reported claims (IBNR) were as follows:

	2012	2013
General Liability Claims	\$ 2,000,000	\$ 1,500,000
Unemployment Claims	184,823	184,523
<b>Total</b>	<b>\$ 2,184,823</b>	<b>\$ 1,684,523</b>

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

	Year Ended: 12/31/2012	Year Ended: 12/31/2013
Unpaid Claims, Beginning of Fiscal Year	\$ 2,224,823	\$ 2,184,823
Incurred Claims	431,649	503,791
Changes In Estimates	(40,000)	(500,000)
Claim Payments	(431,649)	(503,791)
<b>Unpaid Claims, End of Fiscal Year</b>	<b>\$ 2,184,823</b>	<b>\$ 1,684,823</b>

As of December 31, 2013, cash and investments were \$3,177 and \$9,019,670, respectively, this included \$6,293,337 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, 2013 was \$174,982:

	Year Ended: 12/31/2012	Year Ended: 12/31/2013
Unpaid Claims, Beginning of Fiscal Year	\$ 174,982	\$ 174,982
Incurred Claims (Payments by Administrator)	228,404	213,061
Claim Payments	(185,048)	(189,166)
Other - Cash Pension Adjustment	(28,062)	(10,704)
Accrued/Timing (with IBNR estimate)	(15,294)	(13,191)
<b>Claims Liability, End of Fiscal Year</b>	<b>\$ 174,982</b>	<b>\$ 174,982</b>

The county has two fully funded pension obligations held by the State of Washington Department of Labor and Industries with a cash value of \$718,334 at December 31, 2013. 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

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\$1 million of excess coverage insurance for workers' compensation claims. The policy has a \$600,000 SIR for individual claims. As of December 31, 2013, cash and investments were \$1,908,390 including \$421,562 restricted for minimum cash reserves. Total net position at December 31, 2013 was \$1,697,578.

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.

**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**

<u>General Obligation Bonds</u>	<u>Outstanding 12/31/2013</u>
\$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.	\$8,205,000
\$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.	\$3,880,000
\$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.	\$2,229,070
\$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.	\$ 4,430,000
<u>Notes Payable</u>	
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.	\$27,795
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.	\$3,815
<b>Total Outstanding Debt</b>	<b><u>\$18,775,680</u></b>



**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
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	1,245,000	423,205
2019-2023	6,975,000	1,394,903
2024-2028	3,645,000	247,475
<b>Total</b>	<b>\$ 18,744,070</b>	<b>\$ 4,407,233</b>

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

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	27,795	278	3,815	86
<b>Total</b>	<b>\$ 27,795</b>	<b>\$ 278</b>	<b>\$ 3,815</b>	<b>\$ 86</b>

**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, 2013:

Activity:	Balance			Balance	Due Within
	12/31/2012	New Issues	Retirement		
<b>Governmental:</b>					
Compensated Absences	\$ 4,363,548	\$ 179,050	\$ -	\$ 4,542,598	\$ -
General Obligation Bonds	20,052,055	-	1,307,985	18,744,070	1,307,985
Notes Payable	55,589	-	27,795	27,794	27,795
<b>TOTAL</b>	<b>\$ 24,471,192</b>	<b>\$ 179,050</b>	<b>\$ 1,335,780</b>	<b>\$ 23,314,462</b>	<b>\$ 1,335,780</b>
<b>Business-Type:</b>					
Compensated Absences	\$ 148,921	\$ -	\$ 1,588	\$ 147,333	\$ -
Notes Payable	11,197	-	7,381	3,816	3,816
<b>TOTAL</b>	<b>\$ 160,118</b>	<b>\$ -</b>	<b>\$ 8,969</b>	<b>\$ 151,149</b>	<b>\$ 3,816</b>

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 \$380,839 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.

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**D. Assets Available for Long-Term Debt**

At December 31, 2013, the county had \$21,775 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	\$ 89,711,129
General Government - Vote Required	\$ 161,550,513

**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, 2013, the amount of defeased debt outstanding but removed from the Solid Waste Disposal District amounted to \$1,445,000 and the Governmental Long Term Debt amounted to \$20,215,000.

**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, 2013, the Public Facilities District limited sales tax obligations bonds outstanding amounted to \$5,675,000.

**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.

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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 POSITION**

The government-wide statement of net position reports \$421,562 of restricted net position 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, 2013:

Fund	Due to Other Funds	Due From Other Funds
General Fund	\$ 177,898	\$ 357,025
Roads Fund	703,853	3,253
Capital Facilities Fund	1,314	-
Nonmajor Governmental Funds	58,996	23,694
Internal Service Funds	17,140	569,498
Solid Waste Utility	21,350	128,968
Solid Waste Disposal District	101,643	-
Nonmajor Business Type Funds	362	119
Adjustment for Rounding	1	-
<b>Total</b>	<b>\$ 1,082,557</b>	<b>\$ 1,082,557</b>

**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 2013:

		<i>Interfund Loans</i>			
Borrowing Fund	Lending Fund	Balance 12/31/2012	New Loans	Payments Made	Balance 12/31/2013
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	-	146,851	35,920
<b>TOTAL</b>		<b>\$ 434,868</b>	<b>\$ -</b>	<b>\$ 248,948</b>	<b>\$ 185,920</b>

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**Interfund Transfers**

On an annual basis interfund transfers are used to move resources between funds for authorized purposes. Transfers from the General Fund to other funds; such as Public Health, Social Services, Senior Services, and Community Development, are to subsidize program costs not otherwise funded by grants, taxes, or charges for services. Transfers from the General Fund to the South County Airport, a business type fund, are matching funds for FAA Grants and operational costs not funded by charges for services. Transfers from the General Fund to the Solid Waste Utility are for future capital costs. Transfers from Risk Management to the Equipment Rental and Revolving Fund cover the unanticipated costs of equipment destroyed. Transfers from the Capital Facilities Plan to the Debt Service Funds are to cover bond redemption payments.

The following table displays interfund transfers during 2013:

Fund Types	Transfers	
	In	Out
General Fund	\$ 81,107	\$ 2,702,835
Capital Facilities Plan	-	1,274,623
Nonmajor Governmental Funds	1,870,672	138,944
Internal Service Funds	418,726	188,726
Debt Service Funds	1,699,214	4,191
Business Type	239,600	-
<b>TOTAL</b>	<b>\$ 4,309,319</b>	<b>\$ 4,309,319</b>

**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.

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, 2013 was \$2,229,070.

On December 31, 2013, by joint resolution between Lewis County and the City of Chehalis, the county’s one-half equity interest in the Chehalis-Centralia Airport was transferred to the City of Chehalis. The transfer agreement required the Chehalis-Centralia Airport to deposit with the county the funds necessary to pay the June 01, 2017 balloon payment due on the previously mention bond. The funds, \$1,565,777, were transferred prior to the close of business on December 31, 2013 and are recognized as a custodial deposit in the 2007 debt service fund. The City of Chehalis is required to fund all remaining annual bond payments.

Financial statements for the Chehalis-Centralia Airport are prepared on a cash basis and can be obtained from the airport’s administrator at the Airport, PO Box 1344, Chehalis, WA 98532.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013

### NOTE 16 - CLOSURE AND POSTCLOSURE CARE COST

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

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

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

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

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

Since the closure project is currently included on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" and "Superfund"), there is potential financial assistance available through the State of Washington Department of Ecology for a percentage (historically 75%) of the closure costs. As of December 1997, the CLCG had received a total of \$7,909,813 from 1991 through 1997 in grant proceeds from the Department of Ecology. Current assessments indicate that future Ecology participation in closure activities will be in the area of 40% participation due to declining resources at the state level.

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 2013, approximately \$191,567 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 - OTHER DISCLOSURES

#### A. Changes to Funds

##### Existing funds dissolved effective December 31, 2013:

Sheriff's Airplane Fund 162.  
1992 Bond Redemption Fund 202.  
2003 Bond Redemption Fund 203.  
1999 Bond Redemption Fund 204.

#### C. Subsequent Events

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. Superior Court Order No. 10-2-01449-5 discharged Lewis County as receiver, terminated the receivership and approved and directed the transfer of title to the Water System from the City of Vader to Lewis County effective midnight April 30, 2014.