



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### Lewis County

For the period January 1, 2014 through December 31, 2014

Published August 31, 2015

Report No. 1014953





## Washington State Auditor's Office

August 31, 2015

Board of Commissioners  
Lewis County  
Chehalis, Washington

### Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

### Lewis County January 1, 2014 through December 31, 2014

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

#### Financial Statements

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

#### Internal Control Over Financial Reporting:

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

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

#### Federal Awards

#### Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster

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

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Lewis County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Lewis County  
Chehalis, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lewis County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 26, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

August 26, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**Lewis County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Lewis County  
Chehalis, Washington

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

We have audited the compliance of Lewis County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The County's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

### **Opinion on Each Major Federal Program**

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any

deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **PURPOSE OF THIS REPORT**

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



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

August 26, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Lewis County January 1, 2014 through December 31, 2014

Board of Commissioners  
Lewis County  
Chehalis, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lewis County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 14.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lewis County, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 26 and budgetary comparison information on pages 80 through 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2015 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 26, 2015

## FINANCIAL SECTION

### Lewis County January 1, 2014 through December 31, 2014

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental  
Funds – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund  
Balance of Governmental Funds to the Statement of Activities – Governmental Funds  
– 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Fiduciary Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –  
General Fund – 2014

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –  
Roads Fund – 2014

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –  
2007 Bond Redemption Fund – 2014

#### SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

## Management's Discussion and Analysis

As management of Lewis County, we offer readers of Lewis County's financial statements this narrative overview and analysis of the financial activities of Lewis County for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements, and notes to the financial statements to analyze the county's financial activities and condition.

### Financial Highlights

- The assets of Lewis County exceeded its liabilities at the close of the most recent fiscal year by \$143 million (net position). Of this amount, \$34.8 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$2 million. This change is primarily attributable to the recognition of current year infrastructure, recognition of accrued revenues, recognition of depreciation expense, exclusion of capital outlay costs and exclusion of debt proceeds and debt principal payments.
- As of the close of the current fiscal year, Lewis County's governmental funds reported combined ending fund balances of \$34.6 million, a decrease of \$5.6 million in comparison with the prior year. Approximately 71.4 percent of this total amount, \$24.7 million, is available for spending at the government's discretion; however, fund balances in special revenue, debt service and capital projects funds are dedicated to their specific purposes, which in some instances is prescribed by state law.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9.8 million, or 28.9 percent of general fund expenditures and operating transfers out.
- Lewis County's total debt decreased by \$897 thousand (5 percent) during the current fiscal year.

### Overview of the Financial Statements

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

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

The statement of net position presents information on all of Lewis County's assets and liabilities, with the difference between the two reported as net position. Over time,

increases or decreases in net assets may serve as a useful indicator of whether the financial position of Lewis County is improving or deteriorating.

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-

wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Lewis County maintains 38 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Roads Fund, and Capital Facilities Fund, all are considered to be major funds. Pursuant to GASB Statement No. 54, four governmental funds were rolled into major funds for financial reporting purposes, three into the General Fund and one into the Roads Fund. Data from the other 30 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

A major fund is defined in the following manner:

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

Lewis County adopts an annual appropriated budget for all county funds in accordance with state law, and are adopted at the fund level, except the General Fund, which is adopted at the department level. A budgetary comparison of revenues, expenditures, and changes in fund balances is provided for the General Fund, and special revenue, debt service, and capital project funds with statutorily mandated budgets. Major fund budgetary variance statements are included with the basic financial statements, while non-major fund budget variance schedules follow the combining fund statements.

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

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

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

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

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

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

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

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

## **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lewis County, assets exceeded liabilities by \$143 million at the close of the most recent fiscal year.

By far the largest portion of Lewis County's net assets (64.9 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. Lewis County uses these capital assets to provide services to citizens; consequently, these assets are not

available for future spending. Although Lewis County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Lewis County's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 65,768,713	\$ 73,183,876	\$ 4,982,068	\$ 4,755,045	\$ 70,750,781	\$ 77,938,921
Capital Assets	103,659,250	96,532,649	4,862,397	3,563,547	108,521,647	\$ 100,096,196
<b>Total Assets</b>	<b>\$ 169,427,963</b>	<b>\$ 169,716,525</b>	<b>\$ 9,844,465</b>	<b>\$ 8,318,592</b>	<b>\$ 179,272,428</b>	<b>\$ 178,035,117</b>
Payables	\$ 11,170,182	\$ 11,265,818	\$ 628,529	\$ 483,076	\$ 11,798,711	\$ 11,748,894
Long-Term	24,047,835	25,390,431	632,999	151,148	24,680,834	\$ 25,541,579
<b>Total Liabilities</b>	<b>35,218,017</b>	<b>36,656,249</b>	<b>1,261,528</b>	<b>634,224</b>	<b>36,479,545</b>	<b>37,290,473</b>
<b>Net Position</b>						
Net Investment in Capital Assets	88,254,250	80,017,649	4,424,451	3,563,547	92,678,701	83,581,196
Restricted	15,268,152	15,424,348	-	7,400	15,268,152	15,431,748
Unrestricted	30,687,544	37,618,279	4,158,486	4,113,421	34,846,030	41,731,700
<b>Total Net Position</b>	<b>\$ 134,209,946</b>	<b>\$ 133,060,276</b>	<b>\$ 8,582,937</b>	<b>\$ 7,684,368</b>	<b>\$ 142,792,883</b>	<b>\$ 140,744,644</b>

Internal Balances removed from Total Primary Government Column

An additional portion of Lewis County's net assets (10.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$34.8 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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

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

## Lewis County's Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 16,418,614	\$ 17,861,539	\$ 7,526,352	\$ 6,856,835	\$ 23,944,966	\$ 24,718,374
Operating Grants and Contributions	10,990,264	11,738,426	162,853	383,894	11,153,117	12,122,320
Capital Grants and Contributions	3,374,872	3,065,490	150,833	-	3,525,705	3,065,490
<b>General Revenues:</b>						
Property Taxes	22,572,409	22,697,211	-	-	22,572,409	22,697,211
Private Harvest Taxes	2,805,887	-	-	-	2,805,887	-
Sales Tax	10,013,834	9,053,925	-	-	10,013,834	9,053,925
Excise Tax	1,093,299	3,697,996	-	-	1,093,299	3,697,996
Investment Earnings	550,538	608,543	(7,179)	18	543,359	608,561
Miscellaneous	-	-	1,592	9,736	1,592	9,736
Gain on Sale of Capital Assets	3,380,640	1,830,858	-	-	3,380,640	1,830,858
Fixed Asset Loss Recovery-Insurance Proceeds	-	461,576	-	-	-	461,576
<b>Total Revenues</b>	<b>\$ 71,200,357</b>	<b>\$ 71,015,564</b>	<b>\$ 7,834,451</b>	<b>\$ 7,250,483</b>	<b>\$ 79,034,808</b>	<b>\$ 78,266,047</b>
<b>Program Expenses Including Indirect Expenses:</b>						
General Government Services	\$ 15,286,877	\$ 15,005,460	\$ -	\$ -	\$ 15,286,877	\$ 15,005,460
Security of Persons & Property	20,418,142	20,087,873	-	-	20,418,142	20,087,873
Physical Environment	137,747	307,636	-	-	137,747	307,636
Transportation	19,630,553	20,321,264	-	-	19,630,553	20,321,264
Economic Environment	3,741,205	3,945,176	-	-	3,741,205	3,945,176
Mental & Physical Health	6,295,769	5,812,932	-	-	6,295,769	5,812,932
Culture & Recreation	2,151,990	1,822,503	-	-	2,151,990	1,822,503
Interest on Long-Term Debt	653,248	696,859	-	-	653,248	696,859
Solid Waste	-	-	7,602,860	7,460,604	7,602,860	7,460,604
Airport	-	-	452,038	400,490	452,038	400,490
Water Sewer	-	-	291,879	96,005	291,879	96,005
<b>Total Expenses</b>	<b>\$ 68,315,531</b>	<b>\$ 67,999,703</b>	<b>\$ 8,346,777</b>	<b>\$ 7,957,099</b>	<b>\$ 76,662,308</b>	<b>\$ 75,956,802</b>
Capital Contributions (Dispositions)	-	-	1,142,425	-	1,142,425	-
Transfers	(272,600)	(239,600)	268,470	239,600	(4,130)	-
<b>Change in Net Position</b>	<b>2,612,226</b>	<b>2,776,261</b>	<b>898,569</b>	<b>(467,016)</b>	<b>3,510,795</b>	<b>2,309,245</b>
<b>Net Position - Beginning of Year</b>	<b>133,060,276</b>	<b>130,284,021</b>	<b>7,684,368</b>	<b>8,151,384</b>	<b>140,744,644</b>	<b>138,435,405</b>
Prior Period Adjustment	(1,462,556)	(6)	-	-	(1,462,556)	(6)
<b>Net Position - End of Year</b>	<b>\$ 134,209,946</b>	<b>\$ 133,060,276</b>	<b>\$ 8,582,937</b>	<b>\$ 7,684,368</b>	<b>\$ 142,792,883</b>	<b>\$ 140,744,644</b>

The government's net assets increased by \$2.0 million during the current fiscal year. Most of this change is attributable to the recognition of current year infrastructure, accrued revenues, and depreciation expense, along with the exclusion of capital outlay costs, and debt principal payments.

**Governmental activities.** Governmental activities increased Lewis County's net position by \$1.1 million, thereby accounting for the majority of the increase in the net position of Lewis County. Key revenue elements of this change are as follows:

- Property taxes decreased by \$125 thousand (0.5 percent) over the prior year. Most of the increase is related to increase in assessed values and new construction, as well collection of delinquent taxes, rather than increases in underlying taxes, which are limited by current Washington state law.
- Sales tax increased by \$960 thousand (10.6 percent), which relates to a slight recovery in economic conditions, the change to the destination based sales tax collection and reclassification of revenue accounts due to changes in the BARS manual update by the State Auditor's Office.
- Operating grants, intergovernmental revenues, and contributions for governmental activities decreased by \$748 thousand (6.4 percent), which relates to decrease in grants and intergovernmental revenue the county received in 2014 primarily in the Community Development fund.
- Gain on sale of capital assets increased by \$1.5 million (84.6 percent), which relates primarily to forest board yield (timber sales); this is considered the sale of county assets.

### Expenses and Program Revenues—Governmental Activities

			Net (Expense)
	Expenses	Program Revenue	Revenue
General Government Services	\$ 15,286,877	\$ 11,178,055	\$ (4,108,822)
Security of Persons & Property	20,418,142	5,981,407	(14,436,735)
Physical Environment	137,747	50,094	(87,653)
Transportation	19,630,553	6,843,562	(12,786,991)
Economic Environment	3,741,205	1,441,331	(2,299,874)
Mental & Physical Health	6,295,769	4,281,531	(2,014,238)
Culture & Recreation	2,151,990	1,007,770	(1,144,220)
Interest on Long-Term Debt	653,248	-	(653,248)
<b>TOTAL</b>	<b>\$ 68,315,531</b>	<b>\$ 30,783,750</b>	<b>\$ (37,531,781)</b>

### Revenues by Source—Governmental Activities

	Revenue	
	Dollars	Percentage
Charges for Services	\$ 16,418,614	23.05%
Operating Grants and Contributions	10,990,264	15.44%
Capital Grants and Contributions	3,374,872	4.74%
Property Taxes	22,572,409	31.70%
Other Taxes	13,913,020	19.54%
Investment Earnings	550,538	0.77%
Gain on Sales of Capital Assets	3,380,640	4.75%
<b>Total</b>	<b>\$ 71,200,357</b>	<b>100%</b>

For the most part, the slight increases in expenses and revenues were the results of the outcomes of the current marginal up-tick in economic conditions. Although, overall

conditions have required the county to make cuts in various programs in most functions of the government, which has also been impacted by a decline in revenues in the prior few years.

**Business-type activities.** Business-type activities increased Lewis County’s net assets by \$899 thousand, accounting for 11.7 percent of the increase in the government’s business-type net assets. Key elements of this increase are as follows:

- A significant increase in net assets was due to a Superior Court order approving the transfer of title of the Vader Water System from the City of Vader to Lewis County. This transfer established a new proprietary enterprise fund within the County. The value of the transfer was determined by fair market value at the time of donation.
- Charges for services for business-type activities increased by 9.8 percent. The Solid Waste Disposal District No. 1 accounts for a significant portion of this revenue source, which resulted from tipping fees. Revenues also increased as a result of a slight increase in demand. Together, these factors account for the \$670 thousand increase in charges for services for the Solid Waste Disposal District No. 1.
- Expenses related to the Solid Waste activity also increased slightly by \$142 thousand (1.9 percent) over the prior year.

**Expenses and Program Revenues—Business-type Activities**

	Expenses	Program Revenue	Net (Expense) / Revenue
Solid Waste Utility	\$ 7,602,860	\$ 7,328,756	\$ (274,104)
Airports	452,038	253,910	(198,128)
Water-Sewer Utilities	291,879	257,372	(34,507)
<b>TOTAL</b>	<b>\$ 8,346,777</b>	<b>\$ 7,840,038</b>	<b>\$ (506,739)</b>

**Revenues by Source—Business-type Activities**

	Revenue	Percent
Charges for Services	\$ 7,526,352	96.06%
Operating Grants and Contributions	162,853	2.08%
Capital Grants and Contributions	150,833	1.93%
Investment Earnings	(7,179)	-0.09%
Miscellaneous	1,592	0.02%
<b>TOTAL</b>	<b>\$ 7,834,451</b>	<b>100%</b>

## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Lewis County's governmental funds, reported combined ending fund balances of \$34.6 million, a decrease of \$5.6 million in comparison with the prior year. Approximately 71.4 percent of this total amount (\$24.7 million) constitutes assigned and unassigned fund balance, which is available for spending at the government's discretion; however, fund balances in special revenue, debt service and capital projects funds are dedicated to their specific purposes, which in some instances is prescribed by state law.

The general fund is the chief operating fund of Lewis County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9.8 million, while total fund balance reached \$10.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31.3 percent of total general fund expenditures, while total fund balance represents 32.7 percent of that same amount.

The fund balance of Lewis County's general fund increased by \$170 thousand during the current fiscal year. There was a \$725 thousand increase in revenues, which were greater than expenditures by \$1.2 million, due in part to historically lower expenditures with only a slight annual increase of \$727 thousand. Coupled with a net negative other financing sources and uses of \$1.0 million. Additionally, the following other key factors continue to draw on the general fund's resources:

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

The debt service funds have a total fund balance of \$37 thousand, which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$15 thousand. There was a decrease in interest expenditures during the current period (\$137 thousand), which was due to the scheduled debt service payments during the period. Debt service payments are funded when due by transfers in from the General, Stadium, and Capital Facilities Plan funds. Real estate excise taxes represent the primary revenue source for the Capital Facilities Plan fund.

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

Unrestricted net position of the Solid Waste Disposal District No. 1 and the Solid Waste Utility at year end were \$2.5 million, and 2.7 million, respectively. Those for the non-major enterprise funds amounted to \$2.3 million. The change in net position for the Solid Waste Disposal District No. 1 and the Solid Waste Utility were a \$156 thousand decrease and \$31 thousand increase, respectively. During the year, net position for all enterprise funds increased by \$899 thousand. Other factors concerning the finances of these funds have already been addressed in the discussion of Lewis County's' business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were increases of \$475 thousand in departments, and an increase of \$393 thousand in other financing uses which were transfers out to other funds which fell short and required additional general fund dollars (\$82 thousand net increase in departmental and other financing uses appropriations) and can be briefly summarized as follows:

- \$262 thousand in increases in general government activities
- \$130 thousand in increases allocated to the various law and justice departments
- \$36 thousand in economic environment
- \$39 thousand in increases in mental and physical health
- \$8 thousand in increases in culture and recreation
- \$393 thousand in increases in operating transfers out to other funds

Of this change, \$31 thousand was funded out of miscellaneous increases in various revenue sources. As an additional offset to the budget changes, there was an \$82 thousand decrease in budgeted estimated ending fund balances. During the year actual revenues were less than original budgetary estimates, expenditures less than budgetary estimates, and the net effect after other financing uses lead to the increase of \$162 thousand of actual fund balance.

### **Capital Asset and Debt Administration**

**Capital Assets.** Lewis County's capital assets for its governmental and business-type activities as of December 31, 2014, amounts to \$108.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, county roads, and bridges. The total increase in Lewis County's investment in capital assets for the current fiscal year was 8.42 percent (a \$7.1 million increase for governmental activities and \$1.3 million increase for business-type activities).

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

- Increase in county land due to the purchase and donations of road right-of-way.

- Increase in Construction in Progress is due to completed infrastructure.
- Decrease in county buildings mainly due to annual depreciation.
- Increase in infrastructure primarily due to major improvements and rehabilitation projects of county roads.

**Lewis County's Capital Assets**  
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 4,997,608	\$ 4,835,697	\$ 209,568	\$ 177,889	\$ 5,207,176	\$ 5,013,586
Land Use Rights (Intangible Assets)	94,807	93,956	4,614	2,014	99,421	95,970
Construction in Progress	7,541,550	2,605,761	45,501	-	7,587,051	2,605,761
Buildings	35,222,716	36,315,974	268,206	218,493	35,490,922	36,534,467
Improvements other than buildings	620,469	844,612	3,986,946	2,758,344	4,607,415	3,602,956
Machinery & Equipment	9,301,511	8,468,631	347,562	406,807	9,649,073	8,875,438
Infrastructure	45,880,589	43,368,018	-	-	45,880,589	43,368,018
<b>Total</b>	<b>\$103,659,250</b>	<b>\$ 96,532,649</b>	<b>\$4,862,397</b>	<b>\$3,563,547</b>	<b>\$108,521,647</b>	<b>\$100,096,196</b>

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

**Long-term debt.** At the end of the current fiscal year, Lewis County had total bonded - debt outstanding of \$17.9 million. Of this amount, \$467 thousand comprises debt other than General Obligation bonds backed by the full faith and credit of the government.

**Lewis County's Outstanding Debt**  
General Obligation Bonds

	Balance			Balance
	12/31/2013	Issues	Retirement	12/31/2014
General Obligation Bonds	18,744,070	-	1,307,985	17,436,085
<b>TOTAL</b>	<b>\$ 18,744,070</b>	<b>\$ -</b>	<b>\$ 1,307,985</b>	<b>\$ 17,436,085</b>

Lewis County's total debt decreased by \$1.4 million (7.3 percent) during the current fiscal year. The decrease was related to scheduled debt service during the year.

Lewis County maintains an "Aaa" insured (underlying A3) rating from Moody's for the county's outstanding general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 2.5 percent of its total assessed valuation. To reach the 2.5 percent maximum it would require a vote of the people for any debt issued over the 1.5 percent limit that does not require a vote. The current debt limitation for Lewis County is \$157 and \$88 million for the 2.5 percent and 1.5 percent maximums, respectively. Both are significantly in excess of Lewis County's outstanding general obligation debt.

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

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Lewis County is currently 9.7 percent, a slight decrease from the rate of 9.9 percent a year ago. This is higher than the current state's average unemployment rate of 6.3 percent compared to 6.6 percent a year ago and the national average rate of 6.2 percent.
- Inflationary trends in the region are comparable to national indices.

All of these factors were considered in preparing Lewis County's budget for the 2015 fiscal year.

During the fiscal year, 2014, unassigned fund balance in the general fund decreased to approximately \$9.8 million. For 2015, Lewis County has appropriated \$3.1 million of this amount for spending in the 2015 fiscal year budget for general operations. However, if needed, the use of available fund balance will avoid the need to raise taxes or charges during the 2015 fiscal year. It is uncertain if additional cuts in county departments may be required in the future.

### **Requests for Information**

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

**Statement of Net Position**

December 31, 2014

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Assets</b>			
Cash & Cash Equivalents	\$ 11,149,857	\$ 1,965,424	\$ 13,115,281
Investments	42,011,436	2,340,973	44,352,409
Receivables	6,056,570	374,595	6,431,165
Internal Balances	27,864	160,490	188,354
Due from Other Governmental Units	3,607,740	127,465	3,735,205
Inventories	1,701,812	-	1,701,812
Prepayments	813,365	11,363	824,728
Other Charges	400,069	-	400,069
Special Assessments-Current	-	1,758	1,758
Capital Assets Not Being Depreciated:			
Land & Land Use Rights	5,092,415	214,182	5,306,597
Construction in Progress	7,541,550	45,501	7,587,051
Capital Assets Being Depreciated:			
Buildings & Structures	35,222,716	268,206	35,490,922
Improvements Other than Buildings	620,469	3,986,946	4,607,415
Machinery & Equipment	9,301,511	347,562	9,649,073
Infrastructure	45,880,589	-	45,880,589
<b>Total Assets</b>	<b>\$ 169,427,963</b>	<b>\$ 9,844,465</b>	<b>\$ 179,272,428</b>
<b>Liabilities</b>			
Accounts Payable & Other Current Liabilities	\$ 4,850,486	\$ 367,668	\$ 5,218,154
Internal Balances	35,517	156,731	192,248
Due to Other Governmental Units	224,559	3,877	228,436
Accrued Interest Payable	49,586	-	49,586
Accrued Employee Benefits	2,628,707	85,735	2,714,442
Unearned Revenue	547,031	8,297	555,328
Custodial Accounts	2,834,296	6,221	2,840,517
Due Within One Year	1,371,990	29,196	1,401,186
General Obligation Debt	16,039,794	-	16,039,794
Other Credits	458,017	-	458,017
Compensated Absences	4,462,592	155,457	4,618,049
Net OPEB Obligation	1,715,442	-	1,715,442
Other Liabilities	-	448,346	448,346
<b>Total Liabilities</b>	<b>35,218,017</b>	<b>1,261,528</b>	<b>36,479,545</b>
<b>Net Position</b>			
Net Investment in Capital Assets	88,254,250	4,395,255	92,649,505
Restricted: Special Revenue/Debt Service	15,118,152	-	15,118,152
Unrestricted (Deficit)	30,837,544	4,187,682	35,025,226
<b>Total Net Position</b>	<b>\$ 134,209,946</b>	<b>\$ 8,582,937</b>	<b>\$ 142,792,883</b>

See Accompanying Notes to Financial Statements

**Statement of Activities**  
For Year Ended December 31, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
General Government & Judicial Service	\$ 15,286,877	\$ 8,361,592	\$ 2,806,394	\$ 10,069	\$ (4,108,822)	-	\$ (4,108,822)
Public Safety	20,418,142	4,454,104	823,623	703,680	(14,436,735)	-	(14,436,735)
Utilities	137,747	1,788	35,630	12,676	(87,653)	-	(87,653)
Transportation	19,630,553	290,056	3,905,059	2,648,447	(12,786,991)	-	(12,786,991)
Natural & Economic Environment	3,741,205	853,355	587,976	-	(2,299,874)	-	(2,299,874)
Social Services & Physical Health	6,295,769	1,538,960	2,742,571	-	(2,014,238)	-	(2,014,238)
Culture & Recreation	2,151,990	918,759	89,011	-	(1,144,220)	-	(1,144,220)
Interest on Long-Term Debt	653,248	-	-	-	(653,248)	-	(653,248)
Total Government Activities	68,315,531	16,418,614	10,990,264	3,374,872	(37,531,781)	-	(37,531,781)
Business-type activities:							
Solid Waste	7,602,860	7,165,903	162,853	-	-	(274,104)	(274,104)
Airports	452,038	103,077	-	150,833	-	(198,128)	(198,128)
Water Sewer	291,879	257,372	-	-	-	(34,507)	(34,507)
Total business-type activities	8,346,777	7,526,352	162,853	150,833	-	(506,739)	(506,739)
Total primary government	\$ 76,662,308	\$ 23,944,966	\$ 11,153,117	\$ 3,525,705	\$ (37,531,781)	\$ (506,739)	\$ (38,038,520)
General Revenues:							
Property Taxes					\$ 22,572,409	\$ -	\$ 22,572,409
Private Harvest Taxes					2,805,887	-	2,805,887
Sales Tax					10,013,834	-	10,013,834
Excise Tax					1,093,299	-	1,093,299
Investment Earnings					550,538	(7,179)	543,359
Miscellaneous					-	1,592	1,592
Gain <Loss> on Sale & Donation of Capital Assets					3,380,640	-	3,380,640
Contributions					-	1,142,425	1,142,425
Transfers					(272,600)	268,470	(4,130)
Total General Revenues and Transfers					40,144,007	1,405,308	41,549,315
Change in Net Position					2,612,226	898,569	3,510,795
Net Position - Beginning					133,060,276	7,684,368	140,744,644
Prior Period Adjustment					(1,462,556)	-	(1,462,556)
Net Position - Ending					\$ 134,209,946	\$ 8,582,937	\$ 142,792,883

See Accompanying Notes to Financial Statements

**Balance Sheet**  
**Governmental Funds**  
*December 31, 2014*

	General	Roads	2007 Bond Redemption
<b>Assets</b>			
Cash & Cash Equivalents	\$ 4,181,737	\$ 2,794,866	\$ 777
Investments	8,561,200	3,578,951	-
Receivables, Net	850,165	736,984	3,952
Due from Other Funds	107,344	19,429	-
Interfund Loan Receivable	185,920	-	-
Due from Other Governmental Units	956,051	1,604,641	-
Inventories	2,962	-	-
Prepayments	38,861	34,564	-
Notes/Contracts Receivable	-	-	-
Debt Service Investment	-	-	1,565,000
<b>Total Assets</b>	<b>\$ 14,884,240</b>	<b>\$ 8,769,435</b>	<b>\$ 1,569,729</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts/Vouchers Payable	\$ 493,858	\$ 967,326	\$ -
Retainage Payable	297,712	-	-
Due to Other Funds	51,108	559,318	-
Interfund Loans payable	-	-	-
Due to Other Governmental Units	14,602	25,245	-
Accrued Employee Benefits	1,511,660	504,943	-
Unearned Revenue	1,046,167	718,266	-
Custodial Accounts	1,207,773	3,802	1,569,729
<b>Total Liabilities</b>	<b>4,622,880</b>	<b>2,778,900</b>	<b>1,569,729</b>
<b>Fund Balances</b>			
Fund Balances:			
Nonspendable	41,823	34,564	-
Restricted: Special Revenue	346,630	83,663	-
Restricted: Debt Service	-	-	-
Committed	-	-	-
Assigned	39,539	5,872,308	-
Unassigned	9,833,368	-	-
<b>Total Fund Balances</b>	<b>10,261,360</b>	<b>5,990,535</b>	<b>-</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 14,884,240</b>	<b>\$ 8,769,435</b>	<b>\$ 1,569,729</b>

See Accompanying Notes to Financial Statements

**Balance Sheet**  
**Governmental Funds**  
*December 31, 2014*

	<b>Capital Facilities Plan</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash & Cash Equivalents	\$ -	\$ 2,324,231	\$ 9,301,611
Investments	7,815,358	7,431,554	27,387,063
Receivables, Net	27,262	173,049	1,791,412
Due from Other Funds	-	21,037	147,810
Interfund Loan Receivable	-	-	185,920
Due from Other Governmental Units	89,397	957,173	3,607,262
Inventories	-	-	2,962
Prepayments	-	107,194	180,619
Notes/Contracts Receivable	-	1,052,010	1,052,010
Debt Service Investment	-	-	1,565,000
<b>Total Assets</b>	<b>\$ 7,932,017</b>	<b>\$ 12,066,248</b>	<b>\$ 45,221,669</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts/Vouchers Payable	\$ 64,315	\$ 479,513	\$ 2,005,012
Retainage Payable	-	-	297,712
Due to Other Funds	-	24,634	635,060
Interfund Loans payable	-	185,920	185,920
Due to Other Governmental Units	-	165,687	205,534
Accrued Employee Benefits	-	395,401	2,412,004
Unearned Revenue	-	254,655	2,019,088
Custodial Accounts	-	52,992	2,834,296
<b>Total Liabilities</b>	<b>64,315</b>	<b>1,558,802</b>	<b>10,594,626</b>
<b>Fund Balances</b>			
Fund Balances:			
Nonspendable	-	1,157,764	1,234,151
Restricted: Special Revenue	7,493,229	6,882,700	14,806,222
Restricted: Debt Service	-	36,723	36,723
Committed	-	30,355	30,355
Assigned	374,473	2,403,103	8,689,423
Unassigned	-	(3,199)	9,830,169
<b>Total Fund Balances</b>	<b>7,867,702</b>	<b>10,507,446</b>	<b>34,627,043</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 7,932,017</b>	<b>\$ 12,066,248</b>	<b>\$ 45,221,669</b>

See Accompanying Notes to Financial Statements

**Reconciliation of the Balance Sheet  
To the Statement of Net Position  
Governmental Funds**  
*December 31, 2014*

Fund balances - total governmental funds	\$ 34,627,043
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.	92,081,380
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.	1,472,057
Some receivable balances are not yet available and are not reported as revenue in the governmental funds.	2,324,660
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(23,356,081)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	27,060,887
Net Position of government activities.	<u><u>\$ 134,209,946</u></u>

See Accompanying Notes to Financial Statements

**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
*For The Year Ended*  
*December 31, 2014*

	<b>General</b>	<b>Roads</b>	<b>2007 Bond Redemption</b>
<b>Revenues</b>			
Taxes	\$ 19,266,708	\$ 11,490,957	\$ -
Licenses & Permits	30,052	39,835	-
Intergovernmental	4,925,121	6,543,307	-
Charges for Services	4,157,725	591,338	-
Fines & Forfeits	2,045,948	-	-
Miscellaneous	2,173,559	90,878	316,206
<b>Total Revenues</b>	<b>32,599,113</b>	<b>18,756,315</b>	<b>316,206</b>
<b>Expenditures</b>			
Current:			
General Government Services	14,008,574	-	-
Security of Persons & Property	16,172,098	-	-
Utilities	-	-	-
Transportation	-	15,390,803	-
Natural & Economic Environment	591,099	573,967	-
Mental & Physical Health	405,446	-	-
Culture & Recreation	216,535	-	-
Debt Service:			
Principal	-	-	222,285
Interest & Other Debt Service	-	308	93,921
Capital Outlays	23,957	10,349,054	-
<b>Total Expenditures</b>	<b>31,417,709</b>	<b>26,314,132</b>	<b>316,206</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>1,181,404</b>	<b>(7,557,817)</b>	<b>-</b>
<b>Other Financing Sources/(Uses)</b>			
Proceeds from Sale of Capital Assets	1,406,329	1,935,540	-
Transfers-In	135,623	-	-
Transfers-Out	(2,553,046)	-	-
<b>Total Other Financing Sources/(Uses)</b>	<b>(1,011,094)</b>	<b>1,935,540</b>	<b>-</b>
<b>Excess of Revenues &amp; Other Financing Sources/(Uses) Over (Under) Expenditures</b>	<b>170,310</b>	<b>(5,622,277)</b>	<b>-</b>
<b>Fund Balance as of January 1</b>	<b>10,091,050</b>	<b>11,612,812</b>	<b>-</b>
<b>Fund Balance as of December 31</b>	<b>\$ 10,261,360</b>	<b>\$ 5,990,535</b>	<b>\$ -</b>

See Accompanying Notes to Financial Statements

**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
*For The Year Ended*  
*December 31, 2014*

	<b>Capital Facilities Plan</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ 2,244,668	\$ 3,755,463	\$ 36,757,796
Licenses & Permits	-	944,292	1,014,179
Intergovernmental	-	3,420,253	14,888,681
Charges for Services	-	4,407,739	9,156,802
Fines & Forfeits	-	24,942	2,070,890
Miscellaneous	214,835	858,032	3,653,510
<b>Total Revenues</b>	<b>2,459,503</b>	<b>13,410,721</b>	<b>67,541,858</b>
<b>Expenditures</b>			
Current:			
General Government Services	-	809,565	14,818,139
Security of Persons & Property	7,047	3,998,977	20,178,122
Utilities	-	1,691	1,691
Transportation	-	-	15,390,803
Natural & Economic Environment	-	2,582,115	3,747,181
Mental & Physical Health	-	5,901,581	6,307,027
Culture & Recreation	-	1,874,508	2,091,043
Debt Service:			
Principal	-	1,110,000	1,332,285
Interest & Other Debt Service	-	565,426	659,655
Capital Outlays	219,422	359,473	10,951,906
<b>Total Expenditures</b>	<b>226,469</b>	<b>17,203,336</b>	<b>75,477,852</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>2,233,034</b>	<b>(3,792,615)</b>	<b>(7,935,994)</b>
<b>Other Financing Sources/(Uses)</b>			
Proceeds from Sale of Capital Assets	-	42,270	3,384,139
Transfers-In	-	3,309,699	3,445,322
Transfers-Out	(1,844,123)	(116,623)	(4,513,792)
<b>Total Other Financing Sources/(Uses)</b>	<b>(1,844,123)</b>	<b>3,235,346</b>	<b>2,315,669</b>
<b>Excess of Revenues &amp; Other Financing Sources/(Uses) Over (Under) Expenditures</b>	<b>388,911</b>	<b>(557,269)</b>	<b>(5,620,325)</b>
<b>Fund Balance as of January 1</b>	<b>7,478,791</b>	<b>11,064,715</b>	<b>40,247,368</b>
<b>Fund Balance as of December 31</b>	<b>\$ 7,867,702</b>	<b>\$ 10,507,446</b>	<b>\$ 34,627,043</b>

See Accompanying Notes to Financial Statements

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

*For the Year Ended December 31, 2014*

Net changes in fund balances - total governmental funds	\$ (5,620,325)
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.	9,090,591
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations) is to increase/decrease net position.	724,349
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.	1,338,692
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.	(4,780,965)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.	1,859,884
Change in net position of governmental activities.	<u><u>\$ 2,612,226</u></u>

See Accompanying Notes to Financial Statements

**Statement of Net Position**  
**Proprietary Funds**  
*December 31, 2014*

	<b>Business-type Activity-Enterprise Funds</b>		
	<b>Solid Waste Utility</b>	<b>Solid Waste Disposal District</b>	<b>Vader Water System Utility</b>
<b>Assets</b>			
Current Assets:			
Cash & Cash Equivalents	\$ 640,109	\$ 1,122,526	\$ 15,461
Investments	804,327	1,407,617	19,050
Receivables, Net	-	331,751	42,644
Due from Other Funds	160,124	-	104
Due from Other Governmental Units	77,066	-	-
Inventories	-	-	-
Prepayments	4,407	123	-
Special Assessments Current	-	-	-
Noncurrent Assets:			
Land	112,682	-	34,279
Buildings & Structures, Net	153,362	-	92,974
Other Improvements, Net	674,460	-	1,401,709
Machinery & Equipment, Net	347,562	-	-
Construction in Progress	-	-	-
<b>Total Assets</b>	<b>\$ 2,974,099</b>	<b>\$ 2,862,017</b>	<b>\$ 1,606,221</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts/Vouchers Payable	\$ 39,539	\$ 274,405	\$ 3,854
Claims & Judgments Payable	-	-	-
Due to Other Funds	19,530	128,398	8,538
Due to Other Governmental Units	-	-	3,877
Accrued Employee Benefits	75,505	-	5,131
Unearned Revenue	-	297	-
Custodial Accounts	-	3,907	-
Due Within One Year	-	-	29,196
Noncurrent Liabilities:			
Compensated Absences	141,583	-	-
Other Liabilities	-	-	448,346
<b>Total Liabilities</b>	<b>276,157</b>	<b>407,007</b>	<b>498,942</b>
<b>Net Position</b>			
Net Investment in Capital Assets	1,288,066	-	1,061,820
Restricted for Risk Management/County Insurance	-	-	-
Unrestricted	1,409,876	2,455,010	45,459
<b>Total Net Position</b>	<b>\$ 2,697,942</b>	<b>\$ 2,455,010</b>	<b>\$ 1,107,279</b>

See Accompanying Notes to Financial Statements

**Statement of Net Position**  
**Proprietary Funds**  
*December 31, 2014*

	Business-type		Governmental Activities - Internal Service Funds
	Other Enterprise Funds	Totals	
<b>Assets</b>			
Current Assets:			
Cash & Cash Equivalents	\$ 187,328	\$ 1,965,424	\$ 1,848,246
Investments	109,979	2,340,973	13,059,373
Receivables, Net	200	374,595	883,051
Due from Other Funds	262	160,490	541,804
Due from Other Governmental Units	50,399	127,465	478
Inventories	-	-	1,698,850
Prepayments	6,833	11,363	632,746
Special Assessments Current	1,758	1,758	-
Noncurrent Assets:			
Land	67,221	214,182	635,311
Buildings & Structures, Net	21,870	268,206	1,540,330
Other Improvements, Net	1,910,777	3,986,946	175,078
Machinery & Equipment, Net	-	347,562	7,796,170
Construction in Progress	45,501	45,501	1,430,981
<b>Total Assets</b>	<b>\$ 2,402,128</b>	<b>\$ 9,844,465</b>	<b>\$ 30,242,418</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts/Vouchers Payable	\$ 49,870	\$ 367,668	\$ 687,956
Claims & Judgments Payable	-	-	1,859,806
Due to Other Funds	265	156,731	56,770
Due to Other Governmental Units	-	3,877	19,025
Accrued Employee Benefits	5,099	85,735	216,703
Unearned Revenue	8,000	8,297	-
Custodial Accounts	2,314	6,221	-
Due Within One Year	-	29,196	-
Noncurrent Liabilities:			
Compensated Absences	13,874	155,457	341,271
Other Liabilities	-	448,346	-
<b>Total Liabilities</b>	<b>79,422</b>	<b>1,261,528</b>	<b>3,181,531</b>
<b>Net Position</b>			
Net Investment in Capital Assets	2,045,369	4,395,255	11,577,870
Restricted for Risk Management/County Insurance	-	-	425,207
Unrestricted	277,337	4,187,682	15,057,810
<b>Total Net Position</b>	<b>\$ 2,322,706</b>	<b>\$ 8,582,937</b>	<b>\$ 27,060,887</b>

See Accompanying Notes to Financial Statements

**Statement of Revenues, Expenditures, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For The Year Ended**  
**December 31, 2014**

	Solid Waste Utility	Solid Waste Disposal Dist	Vader Water System Utility
<b>Operating Revenues</b>			
Charges for Services	\$ 1,925,535	\$ 5,164,232	\$ 235,495
Equipment Rental	-	-	-
Insurance Premiums and Recoveries	-	-	-
Other Operating Revenue	-	76,136	27
<b>Total Operating Revenues</b>	<b>1,925,535</b>	<b>5,240,368</b>	<b>235,522</b>
<b>Operating Expenses</b>			
Personnel Services	1,183,970	-	124,415
Repairs and Maintenance	100,334	246	9,951
Other Supplies and Expenses	471,596	955,258	50,086
Contractual Services	217,951	4,297,468	22,987
Depreciation, Amortization, & Depletion	131,037	145,000	51,654
Risk Transfer payments	-	-	-
Insurance Claims and Expenses	-	-	-
Other Operating Expenses	100,000	-	-
<b>Total Operating Expenses</b>	<b>2,204,888</b>	<b>5,397,972</b>	<b>259,093</b>
<b>Operating Income (Loss)</b>	<b>(279,353)</b>	<b>(157,604)</b>	<b>(23,571)</b>
<b>Non-Operating Revenues (Expenses)</b>			
Interest and Investment Revenue (Expense)	-	-	(7,445)
Miscellaneous Revenue	180	1,312	-
Gain (Loss) on Disposal of Capital Assets	-	-	-
Capital Asset Loss Insurance Recovery	-	-	-
<b>Total Non-Operating Revenues (Expenses)</b>	<b>180</b>	<b>1,312</b>	<b>(7,445)</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>(279,173)</b>	<b>(156,292)</b>	<b>(31,016)</b>
Capital Contributions	-	-	1,142,425
Grants	162,853	-	-
Transfer In (Out)	147,600	-	(4,130)
<b>Change in Net Position</b>	<b>31,280</b>	<b>(156,292)</b>	<b>1,107,279</b>
<b>Net Position-Beginning</b>	<b>2,666,662</b>	<b>2,611,302</b>	<b>-</b>
<b>Net Position-Ending</b>	<b>\$ 2,697,942</b>	<b>\$ 2,455,010</b>	<b>\$ 1,107,279</b>

See Accompanying Notes to Financial Statements

**Statement of Revenues, Expenditures, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For The Year Ended**  
**December 31, 2014**

	<b>Other Enterprise Funds</b>	<b>Enterprise-type Totals</b>	<b>Governmental Activities - Internal Service Funds</b>
<b>Operating Revenues</b>			
Charges for Services	\$ 104,164	\$ 7,429,426	\$ 5,257,686
Equipment Rental	-	-	4,078,174
Insurance Premiums and Recoveries	-	-	1,708,063
Other Operating Revenue	20,763	96,926	7,531
<b>Total Operating Revenues</b>	<b>124,927</b>	<b>7,526,352</b>	<b>11,051,454</b>
<b>Operating Expenses</b>			
Personnel Services	87,765	1,396,150	3,403,312
Repairs and Maintenance	29,974	140,505	453,198
Other Supplies and Expenses	221,340	1,698,280	4,336,209
Contractual Services	1,170	4,539,576	204,735
Depreciation, Amortization, & Depletion	144,575	472,266	1,162,246
Risk Transfer payments	-	-	502,648
Insurance Claims and Expenses	-	-	1,262,009
Other Operating Expenses	-	100,000	-
<b>Total Operating Expenses</b>	<b>484,824</b>	<b>8,346,777</b>	<b>11,324,357</b>
<b>Operating Income (Loss)</b>	<b>(359,897)</b>	<b>(820,425)</b>	<b>(272,903)</b>
<b>Non-Operating Revenues (Expenses)</b>			
Interest and Investment Revenue (Expense)	266	(7,179)	86,321
Miscellaneous Revenue	100	1,592	2,010
Gain (Loss) on Disposal of Capital Assets	-	-	85,089
Capital Asset Loss Insurance Recovery	-	-	777,489
<b>Total Non-Operating Revenues (Expenses)</b>	<b>366</b>	<b>(5,587)</b>	<b>950,909</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>(359,531)</b>	<b>(826,012)</b>	<b>678,006</b>
Capital Contributions	-	1,142,425	387,315
Grants	150,833	313,686	-
Transfer In (Out)	125,000	268,470	800,000
<b>Change in Net Position</b>	<b>(83,698)</b>	<b>898,569</b>	<b>1,865,321</b>
<b>Net Position-Beginning</b>	<b>2,406,404</b>	<b>7,684,368</b>	<b>25,195,566</b>
<b>Net Position-Ending</b>	<b>\$ 2,322,706</b>	<b>\$ 8,582,937</b>	<b>\$ 27,060,887</b>

See Accompanying Notes to Financial Statements

**Statement of Cash Flows**  
**Proprietary Funds**  
 For The Year Ended December 31, 2014

	Solid Waste Utility	Solid Waste Disposal Dist	Vader Water System Utility
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Charges for Services	\$ 1,894,379	\$ 5,094,385	\$ 192,851
Cash Received from Premiums/Recoveries	-	-	-
Cash Received from Rent Proceeds	-	-	-
Cash Received from Equipment Rental	-	-	-
Cash Received from Miscellaneous Activities	-	76,136	27
Payments for Wages & Benefits	(1,179,598)	-	(112,881)
Payments for Inventory & Supplies	(43,923)	-	(4,781)
Payments to Suppliers for Goods & Services	(828,215)	(5,299,845)	(69,093)
Payments for Risk Transfer	-	-	-
Payments for Claimants & Beneficiaries	-	-	-
Other Non-Operating Revenues	180	1,312	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(157,177)</b>	<b>(128,012)</b>	<b>6,123</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Operating Grants/Contributions Received	155,228	-	69,776
Transfers-In	147,600	-	-
<b>Cash Provided (Used) by Financing Activities</b>	<b>302,828</b>	<b>-</b>	<b>69,776</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from Capital Improvement Assessments	-	-	-
Payments for Capital Improvement Assessments	-	-	-
Principal Paid on Capital Debt	-	-	(33,327)
Interest Paid on Capital Debt	-	-	(7,445)
Proceeds from Sale/Disposal of Capital Assets	-	-	-
Acquisition/Construction of Capital Assets	-	-	(616)
Capital Grants Received	-	-	-
Insurance Proceeds	-	-	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>-</b>	<b>-</b>	<b>(41,388)</b>
<b>Cash Flows from Investing Activities:</b>			
Receipt of Interest	-	-	-
Sale of Investment Securities	577,160	1,180,221	-
Purchase of Investment Securities	(804,327)	(1,407,617)	(19,050)
<b>Cash Provided by Investing Activities</b>	<b>(227,167)</b>	<b>(227,396)</b>	<b>(19,050)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(81,516)</b>	<b>(355,408)</b>	<b>15,461</b>
Cash and Cash Equivalents at Beginning of Year	721,625	1,477,934	-
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 640,109</b>	<b>\$ 1,122,526</b>	<b>\$ 15,461</b>

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

<b>Net Operating Income (Loss)</b>	<b>\$ (279,353)</b>	<b>\$ (157,604)</b>	<b>\$ (23,571)</b>
<b>Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operations:</b>			
Depreciation Expense	131,037	-	51,654
Other Non-Operating Revenue	-	1,312	-
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables	(31,156)	(69,847)	(42,748)
(Increase) Decrease in Inventories	-	-	-
(Increase) Decrease in Prepays	9,372	159	-
Increase (Decrease) in Payables	12,743	97,968	20,788
<b>Total Adjustments</b>	<b>121,996</b>	<b>29,592</b>	<b>29,694</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (157,357)</b>	<b>\$ (128,012)</b>	<b>\$ 6,123</b>

**Noncash Investing, Capital, and Financing Activities:**

Contributions of Capital Assets	\$ -	\$ -	\$ 1,072,649
Gain (Loss) on Disposal of Capital Assets	-	-	-

See Accompanying Notes to Financial Statements

**Statement of Cash Flows**  
**Proprietary Funds**

For The Year Ended December 31, 2014

	Other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Charges for Services	\$ 119,469	\$ 7,301,084	\$ 4,501,253
Cash Received from Premiums/Recoveries	-	-	1,720,434
Cash Received from Rent Proceeds	19,763	19,763	-
Cash Received from Equipment Rental	-	-	4,078,174
Cash Received from Miscellaneous Activities	(127)	76,036	8,336
Payments for Wages & Benefits	(92,951)	(1,385,430)	(3,421,766)
Payments for Inventory & Supplies	(755)	(49,459)	(2,567,077)
Payments to Suppliers for Goods & Services	(224,077)	(6,421,230)	(3,265,511)
Payments for Risk Transfer	-	-	(582,793)
Payments for Claimants & Beneficiaries	-	-	(1,331,410)
Other Non-Operating Revenues	100	1,592	1,205
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(178,578)</b>	<b>(457,644)</b>	<b>(859,155)</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Operating Grants/Contributions Received	140,198	365,202	-
Transfers-In	125,000	272,600	800,000
<b>Cash Provided (Used) by Financing Activities</b>	<b>265,198</b>	<b>637,802</b>	<b>800,000</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from Capital Improvement Assessments	3,845	3,845	-
Payments for Capital Improvement Assessments	(3,815)	(3,815)	-
Principal Paid on Capital Debt	-	(33,327)	-
Interest Paid on Capital Debt	-	(7,445)	-
Proceeds from Sale/Disposal of Capital Assets	-	-	95,157
Acquisition/Construction of Capital Assets	(45,501)	(46,117)	(2,311,258)
Capital Grants Received	49,015	49,015	-
Insurance Proceeds	-	-	777,489
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>3,544</b>	<b>(37,844)</b>	<b>(1,438,612)</b>
<b>Cash Flows from Investing Activities:</b>			
Receipt of Interest	266	266	82,797
Sale of Investment Securities	91,933	1,849,314	13,288,672
Purchase of Investment Securities	(109,979)	(2,340,973)	(13,059,373)
<b>Cash Provided by Investing Activities</b>	<b>(17,780)</b>	<b>(491,393)</b>	<b>312,096</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>72,384</b>	<b>(349,079)</b>	<b>(1,185,671)</b>
Cash and Cash Equivalents at Beginning of Year	114,944	2,314,503	3,033,917
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 187,328</b>	<b>\$ 1,965,424</b>	<b>\$ 1,848,246</b>

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

<b>Net Operating Income (Loss)</b>	\$ (359,897)	\$ (820,425)	\$ (272,903)
<b>Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operations:</b>			
Depreciation Expense	144,575	327,266	1,162,246
Other Non-Operating Revenue	100	1,592	2,010
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables	15,178	(128,573)	(740,002)
(Increase) Decrease in Inventories	-	-	(896,260)
(Increase) Decrease in Prepays	-	9,531	(66,828)
Increase (Decrease) in Payables	21,466	152,965	(47,418)
<b>Total Adjustments</b>	<b>181,319</b>	<b>362,781</b>	<b>(586,252)</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (178,578)</b>	<b>\$ (457,644)</b>	<b>\$ (859,155)</b>
<b>Noncash Investing, Capital, and Financing Activities:</b>			
Contributions of Capital Assets	\$ -	\$ 1,072,649	\$ 387,315
Gain (Loss) on Disposal of Capital Assets	-	-	85,089

See Accompanying Notes to Financial Statements

**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
*December 31, 2014*

	<u>Agency Funds</u>
<b>Assets</b>	
Current Assets:	
Cash & Cash Equivalents	\$ 5,434,342
Investments	43,228,299
<b>Total Assets</b>	<u>\$ 48,662,641</u>
<b>Liabilities</b>	
Current Liabilities:	
Warrants Payable	\$ 2,777,582
Accounts/Vouchers Payable	289,239
Custodial Accounts	45,595,820
<b>Total Liabilities</b>	<u>\$ 48,662,641</u>

See Accompanying Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

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

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

#### Blended Component Unit

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

#### B. Government-wide and Fund Financial Statements

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

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 for loan payment from the City of Chehalis and the redemption of the bonds issued in 2007 for the benefit of the Chehalis-Centralia Airport. On December 31, 2013, pursuant to the agreement that transferred the County's one-half equity interest in the Airport to the City, 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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

The main source of revenue for the utility is from contractual services with the Solid Waste Disposal District No. 1.

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

The Vader Water System Utility Fund is used to account for activity of the public water system serving 369 customers (commercial and residential). The 1,160 acre service area includes the City of Vader, their UGA, and surrounding county lands. The Utility is supported by water sales revenue. Effective May 1, 2015, the water system was transferred to Lewis County per Superior Court Order No. 10-2-01449-5.

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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

### 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 2014 budget was adopted by the BOCC on Monday, December 02, 2013.

### 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 fund Balance*

During the current year, the Southwest Washington Fair Fund 106, a Special Revenue Fund, incurred an ending deficit net fund balance of \$3,199. This deficit was due to invoices for annual fair expenditures presented after the cash flow analysis was completed. The deficit will be corrected during the 2015 fiscal year.

## **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, 2014, the treasurer was holding \$15,020,255 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. 14-289. Prior to resolution no. 14-289, the county commission followed 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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 2014 were approximately \$6,003,876.

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.

### **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, 2014, \$1,598 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 and banking deposit bags in the general fund, the cost is recorded as expenditure at the time individual inventory items are purchased. These items 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.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

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.

**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	-	425,207

**7. Capital Assets**

Capital assets 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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

### **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 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, long-term receivables) or must be maintained intact due to legal or contractual requirements.
- b) Restricted: Portion with externally enforceable limitations; such as those imposed by creditors, grantors, or laws of other governments.
- c) Committed: Portion with limitations imposed by formal action (Resolution) by the Board of County Commissioners.
- d) Assigned: Portion with limitations resulting from intended use as established by the Board of County Commissioners or their designee(s).
- e) Unassigned: Portion in the General Fund (Current Expense) in excess of Nonspendable, Restricted, Committed, and Assigned; deficit in Special Revenue Funds.

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

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

**14. Fund Balances**

	General Fund	Roads	Capital Projects	Special Revenue	Debt Service	Capital Facilities Plan	Total Funds
<b>Fund Balances:</b>							
<b>Nonspendable:</b>							
Inventory	2,962	-	-	1,052,010	-	-	1,054,972
Prepays	38,861	34,564	-	105,754	-	-	179,179
<b>Total Nonspendable</b>	<b>41,823</b>	<b>34,564</b>	<b>-</b>	<b>1,157,764</b>	<b>-</b>	<b>-</b>	<b>1,234,151</b>
<b>Restricted:</b>							
Debt Service	-	-	-	-	36,723	-	36,723
General Government & Judicial	346,630	-	-	436,284	-	7,343,229	8,126,143
Public Safety	-	-	-	313,710	-	-	313,710
Transportation	-	83,663	-	-	-	-	83,663
Natural & Economic Environment	-	-	-	3,567,716	-	-	3,567,716
Social Services & Physical Health	-	-	-	935,501	-	-	935,501
Public Services	-	-	-	1,629,489	-	-	1,629,489
<b>Total Restricted</b>	<b>346,630</b>	<b>83,663</b>	<b>-</b>	<b>6,882,700</b>	<b>36,723</b>	<b>7,343,229</b>	<b>14,692,945</b>
<b>Committed:</b>							
General Government Services	-	-	-	30,355	-	-	30,355
<b>Total Committed</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,355</b>	<b>-</b>	<b>-</b>	<b>30,355</b>
<b>Assigned:</b>							
General Government & Judicial	-	-	-	16,639	-	-	16,639
Public Safety	-	-	-	853,307	-	-	853,307
Utilities	39,505	-	-	-	-	-	39,505
Transportation	-	5,872,308	-	-	-	-	5,872,308
Economic Environment	-	-	-	24,516	-	-	24,516
Social Services & Physical Health	-	-	-	618,154	-	-	618,154
Culture & Recreation	34	-	-	136,219	-	-	136,253
Public Services	-	-	-	182,642	-	-	182,642
Capital Projects	-	-	571,626	-	-	524,473	1,096,099
<b>Total Assigned</b>	<b>39,539</b>	<b>5,872,308</b>	<b>571,626</b>	<b>1,831,477</b>	<b>-</b>	<b>524,473</b>	<b>8,839,423</b>
<b>Unassigned:</b>	<b>9,833,368</b>			<b>(3,199)</b>			<b>9,830,169</b>
<b>Total Fund Balances:</b>	<b>10,261,360</b>	<b>5,990,535</b>	<b>571,626</b>	<b>9,899,097</b>	<b>36,723</b>	<b>7,867,702</b>	<b>34,627,043</b>

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

**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	\$ 34,627,043
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.	92,081,380
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.	1,472,057
Some receivable balances are not yet available and are not reported as revenue in the governmental funds.	2,324,660
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(23,356,081)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	27,060,887
Adjustment for Rounding	-
Net Position of government activities.	<u>\$ 134,209,946</u>

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

**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	\$ (5,620,325)
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.	9,090,591
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations) is to increase/decrease net position.	724,349
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.	1,338,692
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.	(4,780,965)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.	1,859,884
Change in net position of governmental activities.	<u>\$ 2,612,226</u>

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

At December 31, 2014 all funds reported fund balances or fund net positions in compliance with 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

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

a portion of the Local Government Investment Pool and are reported on the balance sheet as Cash and Cash Equivalents or Investments depending on the maturity of the underlying investments. In addition, certain investments are held separately by several county funds and reported accordingly.

As of December 31, 2014, the county had the following investments:

<b>Investment Type:</b>	<b>Carrying Amount</b>	<b>Market Value</b>
U.S. Gov't Securities	\$ 22,774,073	\$ 22,742,751
Municipal Bonds	13,051,888	13,071,506
Subtotal - Investments Subject to Credit Risk Classification	35,825,961	35,814,257
State Treasurer's Investment Pool	66,335,299	66,335,299
Time Deposits	539,300	539,300
Subtotal - Investments Not Subject To Credit Risk Classification	66,874,599	66,874,599
<b>Total Investments</b>	<b>\$ 102,700,560</b>	<b>\$ 102,688,856</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

**NOTES TO FINANCIAL STATEMENTS**

*December 31, 2014*

balance of taxes receivables includes related interest and penalties. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

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

The county is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general governmental services. The county road levy for 2014 was \$2.2466 per \$1,000 on an assessed valuation of \$4,936,941,984 or a total road tax of \$11,091,119.

The diverted county road levy for 2014 was \$0.2581 per \$1,000 on an assessed valuation of \$4,936,941,984 for a total diverted road levy of \$1,274,443.

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 2014.

The county's total regular levy for 2014 was \$1.6773 per \$1,000 on an assessed valuation of \$6,937,865,733 for a total regular tax of \$11,636,878. The components of the regular levy are:

	<b>Levy</b>	<b>Tax</b>
General Fund	1.632287885	11,324,594
Veterans' Relief	0.020005143	138,793
Social Services	0.025006393	173,491
<b>Totals</b>	<b>1.677299421</b>	<b>11,636,878</b>

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2014

**NOTE 6 – CAPITAL ASSETS**

**Capital Assets**

Capital asset activity for the year ended December 31, 2014 was as follows:

GOVERNMENTAL TYPE ACTIVITIES	Beginning			Ending
	Balance	Increases	Decreases	Balance
	1/1/2014			12/31/2014
Capital Assets, not being depreciated:				
Land	\$ 4,835,697	\$ 166,544	\$ 4,633	\$ 4,997,608
Land Use Rights (Intangible Assets)	93,956	851	-	94,807
Construction in Progress	2,605,761	11,616,749	6,680,960	7,541,550
Total Capital Assets, not being depreciated	7,535,414	11,784,144	6,685,593	12,633,965
Capital Assets being depreciated:				
Buildings	62,769,658	99,011	-	62,868,669
Improvements other than buildings	3,714,796	29,324	221,145	3,522,975
Machinery & Equipment	22,254,216	2,140,693	514,332	23,880,577
Infrastructure	95,107,783	5,074,314	-	100,182,097
Total Capital Assets, being depreciated	183,846,453	7,343,342	735,477	190,454,318
Less Accumulated Depreciation for:				
Buildings	26,453,684	1,192,269	-	27,645,953
Improvements other than buildings	2,870,184	250,621	218,299	2,902,506
Machinery & Equipment	13,785,585	1,307,159	513,678	14,579,066
Infrastructure	51,739,765	2,561,743	-	54,301,508
Total Accumulated Depreciation	94,849,218	5,311,792	731,977	99,429,033
Total Capital Assets being depreciated, net	88,997,235	2,031,550	3,500	91,025,285
Governmental Type Activities Capital Assets, net	\$ 96,532,649	\$ 13,815,694	\$ 6,689,093	\$ 103,659,250

\*Construction in Process includes: \$4,546,455 of Public Works infrastructure projects included in the Six Year Transportation Improvement Plan, \$1,430,981 in construction of the Area 7 Kiona Shop, \$5,983 in property purchases not completed at the end of the year, \$1,304,148 in construction/upgrades to the Vader Water System, and \$253,983 in other small construction projects currently in progress.

Depreciation Expense was charged to functions as follows:

General Government	\$ 532,160
Public Safety	727,189
Utilities	124,329
Transportation	2,615,405
Natural and Economic Environment	4,157
Social Services	31,797
Culture and Recreation	114,508
	<u>\$ 4,149,545</u>

In addition, depreciation on capital assets held by the County's internal service funds is charged to the various functions based up on their usage of the assets.

1,162,247

Total Governmental Activities Depreciation Expense \$ 5,311,792

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

BUSINESS TYPE ACTIVITIES	Beginning			Ending	
	Balance		Increases	Decreases	Balance
	1/1/2014				12/31/2014
Capital Assets, not being depreciated:					
Land	\$ 177,889	\$ 31,679	\$ -	\$ 209,568	
Land Use Rights (Intangible Assets)	2,014	2,600	-	4,614	
Construction in Progress	-	45,501	-	45,501	
Total Capital Assets, not being depreciated	179,903	79,780	-	259,683	
Capital Assets being depreciated:					
Buildings	1,245,881	98,637	-	1,344,518	
Improvements other than buildings	4,087,889	1,447,699	-	5,535,588	
Machinery & Equipment	823,573	-	-	823,573	
Intangible Assets	-	-	-	-	
Total Capital Assets, being depreciated	6,157,343	1,546,336	-	7,703,679	
Less Accumulated Depreciation for:					
Buildings	1,027,388	48,924	-	1,076,312	
Improvements other than buildings	1,329,545	219,097	-	1,548,642	
Machinery & Equipment	416,766	59,245	-	476,011	
Intangible Assets	-	-	-	-	
Total Accumulated Depreciation	2,773,699	327,266	-	3,100,965	
Total Capital Assets being depreciated, net	3,383,644	1,219,070	-	4,602,714	
Business Type Activities Capital Assets, net	\$ 3,563,547	\$ 1,298,850	\$ -	\$ 4,862,397	

Depreciation Expense was charged to functions as follows:

Solid Waste	\$ 131,037
Water Utilities	51,654
Airport	144,575
Total	\$ 327,266

**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*.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

### 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; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. 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 defined benefit plan with a defined contribution component.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to 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 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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

PERS Plan 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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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.

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

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

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.

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, 2013:**

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Not Vested	101,191
<b>Total</b>	<b>368,272</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, 2014, 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.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

\*\*\* 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.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
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 as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 121,117	\$ 1,957,010	\$ 176,291
2013	\$ 118,389	\$ 1,730,707	\$ 157,020
2012	\$ 114,907	\$ 1,512,918	\$ 122,258

**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.

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**NOTES TO FINANCIAL STATEMENTS**

*December 31, 2014*

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 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.

**NOTES TO FINANCIAL STATEMENTS**

*December 31, 2014*

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

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

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

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

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, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Not Vested	1,600
<b>Total</b>	<b>29,640</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

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

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 2014, the state contributed \$55.6 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, 2014, 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>
2014 \$	-	\$ 145,140
2013 \$	-	\$ 142,160
2012 \$	-	\$ 148,238

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

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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 2014, 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 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.

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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, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	4,513
Terminated Plan Members Not Vested	1,383
<b>Total</b>	<b>6,058</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, 2014, 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 follows:

	<b>PSERS Plan 2</b>
2014	\$ 243,767
2013	\$ 192,990
2012	\$ 160,049

**NOTE 8 OTHER POST-EMPLOYMENT BENEFITS (HEALTH CARE)**

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

**A. LEOFF Plan 1**

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

**NOTES TO FINANCIAL STATEMENTS**

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**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 2014, 23 retirees received benefits under this act. As of December 31, 2014, 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, 2014. 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 \$1,715,442 is reported as a non-current liability on the Statement of Net Position.

	<b>Year Ending 12/31/2014</b>
<b>Determination of Annual Required Contribution:</b>	
Normal Cost at Year End	\$ -
Amortization of UAAL *	<u>752,072</u>
Annual Required Contribution	<u>\$ 752,072</u>
<b>Determination of Net OPEB Obligation:</b>	
Annual Required Contribution	\$ 752,072
Interest on Prior Year Net OPEB Obligation	63,221
NOO Amortization **	<u>(142,154)</u>
Annual OPEB Cost	673,139
Contributions Made	<u>(538,222)</u>
Increase in Net OPEB Obligation	<u>\$ 134,917</u>
<b>Net OPEB Obligation - End of Year:</b>	
Net OPEB Obligation - Beginning of Year	\$ 1,580,525
Increase in Net OPEB Obligation	<u>134,917</u>
Net OPEB Obligation - End of Year	<u>\$ 1,715,442</u>
* Unfunded Actuarial Accrued Liability (UAAL)	
** Net OPEB Obligation	

## NOTES TO FINANCIAL STATEMENTS

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### 4. Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$8,361,832 and the actuarial value of the assets was \$0 resulting in a UAAL of \$8,361,832.

The cost of retiree health care benefits is recognized in the General Fund as claims are paid. For 2014, these costs totaled \$538,222 with a cost per retiree of \$23,401.

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, 2014 was \$6,109,657. 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 four retirees under the age of 65 participating at the end of 2014. Due to the immaterial nature, a liability for the accumulated unfunded actuarially required contribution has not been reported in the entity-wide and proprietary statements of net position.

### NOTE 9 - DEFERRED COMPENSATION PLAN

The county offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. Two plans are available, one with State of Washington Department of Retirement Systems Deferred

## NOTES TO FINANCIAL STATEMENTS

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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 remains one of several Washington counties that are members of the Washington Counties Risk Pool (“Pool” or “WCRP”). The others include: Adams, Benton and Chelan, Clallam, Columbia, Cowlitz and Douglas, Franklin, Garfield, Grays Harbor and Island, Jefferson, Kittitas, Mason and Okanogan, Pacific, Pend Oreille, San Juan and Skagit, Skamania, Spokane, Thurston and Walla Walla, Whatcom and Yakima Counties.

Clark, Kitsap, Klickitat and Whitman Counties were Pool members. Clark had its membership cancelled by the Pool’s Board of Directors effective April 29, 2014. The others voluntarily terminated their memberships effective October 1<sup>st</sup> of 2010, 2002 and 2003 respectively.

Background: The Pool was “Created by Counties for Counties” in August 1988 as an association of member counties independent of all other associations of which the counties are members. WCRP’s foundational agreement authorized its creation pursuant to Chapters 48.62 and 39.34, Revised Code of Washington (“RCW”), “to provide member counties programs of joint self-insurance, joint purchasing of insurance, and joint contracting for or hiring of personnel to provide risk management, claims handling, and administrative services.”

Noteworthy is the definition of “insurer” in RCW 48.01.050 as it pertains to the application of the Washington Insurance Code (Title 48). The statutory definition reads:

*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.*

WCRP is not an “insurer” and thus not an insurance company or subject to the special laws and rules that govern insurers and insurance companies. Washington’s pools operate under the state’s “pooling” laws and regulations, specifically Chapters 48.62 RCW and 200-100 Washington Administrative Code (“WAC”). Pools are risk-sharing entities that initially must be approved by then annually report to and are overseen by the State Risk Manager – they are not regulated by the Office of the Insurance Commissioner. In addition, as public entities, pools are subject to annual audits by the State Auditor’s Office.

The mission for the Pool as determined by the members’ directors and alternate directors is to:

- Provide comprehensive and economical risk coverage;
- Reduce the frequency and severity of losses;
- Decrease costs incurred in the managing and litigation of claims.

The core values adopted by the Pool’s Board of Directors 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 and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

The Pool’s Membership Compact, added in 2000 as an addendum to the Interlocal Agreement, constitutes a commitment to strengthen the Pool by helping member counties implement and/or enhance their local risk management efforts to reduce losses and support the best management of the Pool and its resources. The Compact

## NOTES TO FINANCIAL STATEMENTS

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

**Joint Self-Insurance Liability Program ("JSILP"):** The Washington Counties Risk Pool has since its beginning administered the membership's occurrence-based, jointly purchased and/or jointly self-insured liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits per occurrence have grown from the \$1 million existing during the Pool's initial two months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million limit that has existed since October 2003. (Note: Additional \$5 million limits were available as individual county-by-county options during many recent years, including the 2013-14 and 2014-15 coverage years.)

Since the 2003-04 coverage year, the initial \$10 million per occurrence, subject to the member-reimbursed deductible, has been provided as jointly self-insured coverage that is "risk shared" amongst the membership. Each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000.

The Board of Directors has decided for years now to acquire reinsurance as further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions ("SIRs") equal to the greater of the deductible for the member with the claim or \$100,000. More recent years' reinsurance programs have included "corridor deductibles" with aggregated stop losses which have the effect of increasing the Pool's SIR. For 2013-14, there were two (2) such corridors – the first raising the occurrence SIR to \$1 million, but with an aggregated stop loss of \$2.975 million (later reduced with Clark County's termination to \$2,900,625), and the second increasing the SIR further, to \$2 million, but with an aggregated stop loss of \$650,000 (also reduced with Clark County's departure to \$596,875). Other reinsurance agreements respond to the remaining \$8 million – one for the \$3 million excess of the \$2 million SIR, and another for the \$5 million excess of \$5 million.

The remaining \$10 million (or \$15 million) of JSILP occurrence coverage has been acquired as "following form" excess insurance. And while there are no aggregate limits to the payments that the Pool makes for any member county or for all member counties, the reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer).

584 third-party liability claims (and lawsuits) were reported by member counties to the Pool during the 2013-14 coverage year, a 5.5% reduction in year-over-year filings and a continuation of the decline in filings experienced the past several years. The new filings raised the to-date (October 1988 – September 2014) total to 19,820. Yet only 359 remained classified as 'open' at year-end. Projections from the required independent actuary retained by the Pool's Board of Directors suggest another 283 cases from all years as being *incurred but not yet reported* ("IBNR") and raise the Pool's estimated ultimate case count (as of September 30, 2014) to 20,103. Total incurred losses (payments made plus estimates for *open* claims) increased \$14.6 million during the year to \$264.6 million. And while that represents a significant increase from recent years' corresponding amounts, it is less than the several earlier years' amounts of \$16.0M (2010-11), \$17.8M (2009-10), and the \$20.8M (average for 2006-07 through 2008-09).

## NOTES TO FINANCIAL STATEMENTS

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Claims reserves for the JSILP coverage are determined annually, and the actuary's estimates of net reserves as of September 30, 2014 totaled \$14.68 million, a modest year-over-year increase of \$0.06 million (0.4%), and included \$2.69 million for losses in the basic SIR, \$10.84 million for the increased SIRs from the "corridor" programs, \$0.13 million for losses in the quota-shared (10%) upper reinsured layer retained by the Pool during 2012-13, and \$1.02 million for unallocated loss adjustment expenses (ULAE). NOTE: Estimates for gross reserves declined \$1.10 million (3.3%) to \$32.67 million, with \$17.99 million ceded to the commercial insurers.

Washington Counties Property Program ("WCPP"): The Board of Directors agreed to add property insurance, beginning with the 2005-06 coverage year, as a county-by-county option. This optional coverage is jointly-purchased from a consortium of higher rated commercial carriers. Both participation and the total values of covered properties have nearly doubled since the WCPP was added. Twenty six counties participated in the WCPP during 2013-14 with covered properties totaling in excess of \$2.7 billion.

Losses are covered under the WCPP to the participating counties' buildings and contents, vehicles, mobile/contractors equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes 'All Other Perils ("AOP")' coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Coverage also includes sublimited items, e.g. Equipment Breakdown / Boiler & Machinery (\$100 million), Special Flood Hazard Areas (\$25 million), and endorsements for LEED (Green Construction) Upgrades, optional Reproduction Coverage for historic structures, and Terrorism (\$20 million).

AOP occurrence deductibles, which each participating county confirms each year and is solely responsible for paying, range between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

Cyber Risk and Other Coverages: Beginning this coverage year (2014-15), the Board agreed to add jointly-purchased cyber risk and security coverage from a higher-rated commercial insurer.

Other Insurances: Several member counties use the producer (broker) retained by the Board on behalf of the Pool to secure other (specialty) coverages. Examples include public officials bonds and insurance coverages for crime (and fidelity), special events/concessionaires, UST and other environmental hazards, as well as airport, ferry, and railroad operations.

Governance / Oversight: The Pool is governed by a board of directors that consists of one director (and at least one alternate director) representing each member county and appointed by the county's legislative authority. The Board of Directors, which includes both elected and appointed officials, meets three times each year with the Annual Meeting of the Pool being held mid-summer. The Board a) determines the extent of risk-sharing from the 3<sup>rd</sup>-party self-insured liability coverage by approving the JSILP Coverage Form, b) selects the reinsurance(s) to acquire and the excess insurance(s) to jointly-purchase or offer for "member option" purchase, c) approves the Pool's annual operating budget(s) and work program(s), and d) approves the formulas used for computing members' deposit assessments and, when necessary, reassessments.

Ongoing oversight of the Pool is furnished by an 11-person executive committee that is elected by and from the WCRP Board for staggered, 3-year terms. The membership of the 2014-15 committee averages more than nine years with the Pool. The committee meets throughout the year and a) approves all disbursements and reviews the Pool's financial health, b) approves case settlements exceeding the applicable member's deductible by at least \$50,000, c) reviews all claims with incurred loss estimates exceeding \$100,000, and d) evaluates the Pool's operations and program deliverables, and the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board to consider and act upon.

Staffing and Support Teams: Six of the Pool's 11-person staff handle and/or manage the several hundred liability cases filed annually upon the member counties and submitted for risk-shared coverage consideration. This includes

**NOTES TO FINANCIAL STATEMENTS**

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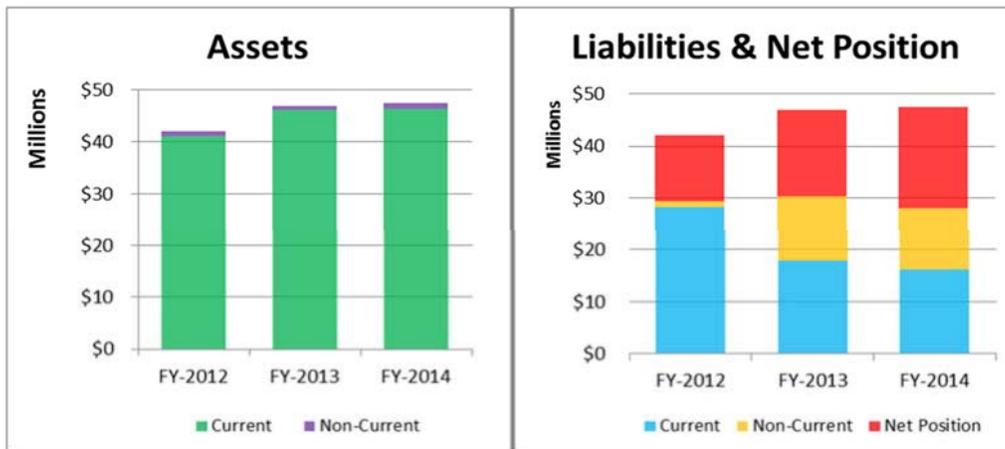
determining coverage, establishing reserves for covered events by estimating future payments for the losses and their related claims adjustment expenses. The claims staff have 115 years of combined claims handling experience.

The remaining staff support the Pool’s administrative needs and provide member services that include, but are not limited to assessing the memberships’ risks, coordinating trainings, performing compliance audits, and developing and presenting/promoting coverages.

There are also the professionals from some of the most respected organizations worldwide which are retained by the Board to address specific needs of the Pool – PricewaterhouseCoopers, LLP furnishes independent actuarial services; Strategic Claims Direction, LLC conducts independent claims auditing; Arthur J. Gallagher Risk Management Services, Inc. provides insurance producer (broker) and advanced loss control services; and J. William Ashbaugh of Hackett Beecher & Hart serves as coverage counsel. NOTE: Claims audits are occasionally performed by commercial insurers. The numerous attorneys retained and assigned to defend covered claims as well as the State Risk Manager and State Auditor’s Offices cannot be overlooked.

Financial Summary: During fiscal 2014, WCRP assets grew 1% (\$0.48 million) to \$47.41 million while its liabilities decreased 7% (\$2.17 million) to \$28.04 million. That produced a (assets to liabilities) ratio of 1.69:1. For comparison, the fiscal 2004 ratio was 0.94:1 which, except for the members’ reassessments receivables (“retroactive assessments”) that were included, would have been 0.74:1.

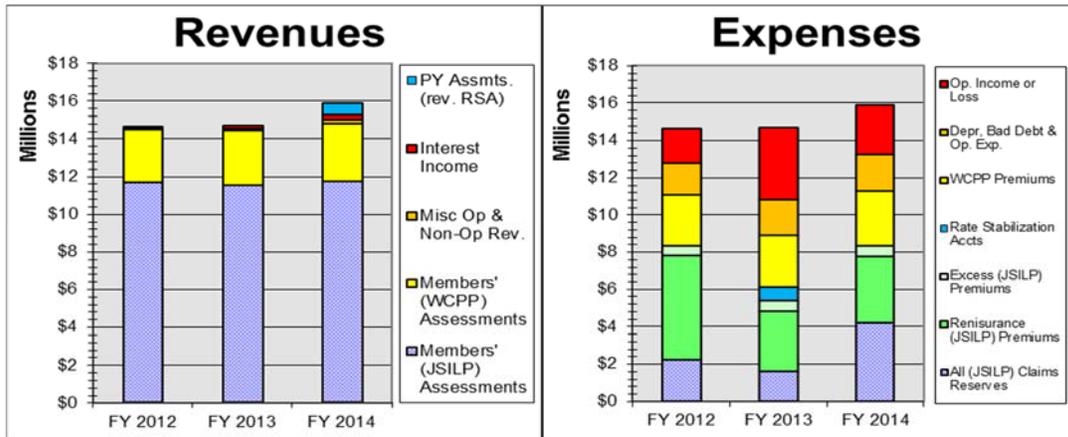
Net Position, which is frequently referred to as “Net Assets” or “Owners’ Equity”, improved 16% (\$2.65 million) to \$19.37 million as of September 30, 2014. And since 2004 ended “negative” \$0.69 million, Net Position improved by more than \$20 million over the course of the past decade. \$1.07 million of Net Position were held in Capital Assets (net of debt), leaving \$18.30 million to both satisfy the State Risk Manager’s solvency provisions (WAC 200.100.03001(3)) and substantially fulfill WCRP’s own sufficiency requirements in section D.2 of the Board of Directors’ Underwriting Policy.



Operating Income of \$2.38 million was realized in fiscal 2014. And though a 37% decrease from 2013, the 2014 amount was the third greatest in recent years and 55% more than the annual average from 2004 through 2013. Revenues grew \$1.05 million (7%) while Expenses increased \$2.42 million (22%), primarily due to the \$2.54 million in independent actuary adjustments to the Pool’s claims-related reserves and \$0.58 million in premium increases for the reinsurance and excess liability and property insurance policies acquired.

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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) of the deficient year’s membership in proportion with the initially levied and collected deposit assessments.

The Pool’s reassessments receivable balance as of December 31, 2014 was ZERO (\$0). As such, there are no known contingent liabilities at that time for disclosure by the member counties.

**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, 2014, which includes estimates for Incurred But Not Reported claims (IBNR) were as follows:

	2013	2014
General Liability Claims	\$ 1,500,000	\$ 1,500,000
Unemployment Claims	184,523	184,523
<b>Total</b>	<b>\$ 1,684,523</b>	<b>\$ 1,684,523</b>

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

	Year Ended: 12/31/2013	Year Ended: 12/31/2014
Unpaid Claims, Beginning of Fiscal Year	\$ 2,184,823	\$ 1,684,823
Incurred Claims	503,791	598,395
Changes In Estimates	(500,000)	-
Claim Payments	(503,791)	(598,395)
<b>Unpaid Claims, End of Fiscal Year</b>	<b>\$ 1,684,823</b>	<b>\$ 1,684,823</b>

As of December 31, 2014, cash and investments were \$3,177 and \$8,981,428, respectively, this included \$6,109,657 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, historical estimates, and Washington State

**NOTES TO FINANCIAL STATEMENTS**

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Department of Labor & Industries data, the county's estimated reserve for probable losses at December 31, 2014 was \$174,982:

	<b>Year Ended:</b> <b>12/31/2013</b>	<b>Year Ended:</b> <b>12/31/2014</b>
Unpaid Claims, Beginning of Fiscal Year	\$ 174,982	\$ 174,982
Incurring Claims (Payments by Administrator)	213,061	273,231
Claim Payments	(189,166)	(235,628)
Other - Cash Pension Adjustment	(10,704)	(10,227)
Accrued/Timing (with IBNR estimate)	(13,191)	(27,376)
<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 \$713,943 at December 31, 2014. The county has met the SIR payable under the excess coverage for the claims.

The county is required by Washington State Department of Labor and Industries to set aside, for protection to the Workers' Compensation Fund, a minimum of \$100,000 in cash reserves. Additionally, the county has purchased \$1 million of excess coverage insurance for workers' compensation claims. The policy has a \$600,000 SIR for individual claims. As of December 31, 2014, cash and investments were \$1,839,136 including \$425,207 restricted for minimum cash reserves. Total net position at December 31, 2014 was \$1,624,770.

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</u> <u>12/31/2014</u>
<p>\$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.</p>	\$7,720,000
<p>\$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.</p>	\$3,590,000
<p>\$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.</p>	\$2,006,785

**NOTES TO FINANCIAL STATEMENTS**

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\$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. \$4,095,000

Notes Payable

Washington State, Drinking Water State Revolving Fund - Dept. of Community Development - \$467,143 – assumed June 2014, for the purpose of financing the City of Vader Water Treatment Plant upgrade and raw water improvements; whereby, the county by court order became owner of the Vader Water System and also assumed the loan responsibility. All principal and interest payments made by the by the Vader Water System Utility are paid by water revenue. Interest is paid at 1.50% on annual installments of \$29,196 through October 1, 2033. \$467,143

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**Total Outstanding Debt** **\$17,878,928**

**B. Debt Service Requirements to Maturity**

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

Year	Principal	Interest
2015	1,371,991	616,492
2016	1,427,122	572,102
2017	2,747,672	494,612
2018	1,245,000	423,206
2019	1,295,000	377,868
2020-2024	7,240,000	1,137,911
2025-2029	2,085,000	126,600
<b>Total</b>	<b>\$ 17,411,785</b>	<b>\$ 3,748,791</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, 2014:

Activity:	Balance 12/31/2013	New Issues	Retirement	Balance 12/31/2014	Due Within One Year
<b>Governmental:</b>					
Compensated Absences	\$ 4,542,598	\$ -	\$ 80,008	\$ 4,462,590	\$ -
General Obligation Bonds	18,744,070	-	1,332,285	17,411,785	1,371,991
Notes Payable	27,794	-	27,794	-	-
<b>TOTAL</b>	<b>\$ 23,314,462</b>	<b>\$ -</b>	<b>\$ 1,440,087</b>	<b>\$ 21,874,375</b>	<b>\$ 1,371,991</b>
<b>Business-Type:</b>					
Compensated Absences	\$ 147,333	\$ 8,125	\$ -	\$ 155,458	\$ -
Notes Payable	3,816	496,339	33,012	467,143	29,196
<b>TOTAL</b>	<b>\$ 151,149</b>	<b>\$ 504,464</b>	<b>\$ 33,012</b>	<b>\$ 622,601</b>	<b>\$ 29,196</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 \$341,270 of internal service

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funds compensated absences are included in the above amounts. Additionally, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the responsible fund.

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

At December 31, 2014, the county had \$36,723 available in the debt service funds. Additionally, pursuant to the Transfer Agreement, Debt Service Fund 2007 includes a deposit and accrued interest of \$1,569,729 from the City of Chehalis for the balloon payment on the bond issued for the benefit of the Chehalis-Centralia Airport. 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:

<u>Purpose of Indebtedness</u>	<u>Remaining Capacity</u>
General Government - No Vote Required	\$ 87,974,343
General Government - Vote Required	\$ 157,353,000

**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, 2014, the amount of defeased debt outstanding but removed from the Solid Waste Disposal District amounted to \$645,000 and the Governmental Long Term Debt amounted to \$19,470,000.

**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, 2014, the Public Facilities District limited sales tax obligations bonds outstanding amounted to \$5,545,000.

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 12 - JUDGMENTS AND CONTINGENCIES**

The county has recorded in its financial statements all material liabilities, including an estimate for situations, which are not yet resolved, but where, based on available information, management believes it is probable that the county will have to make payment. In the opinion of management, the county's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

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

**NOTE 13 - RESTRICTED NET POSITION**

The government-wide statement of net position reports \$425,207 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. Due to the measurement focus, the variance was recognized as an expense for Government-wide reporting for the due to other funds and a receivable for the due from other funds. The following table depicts interfund receivable and payable balances as of December 31, 2014:

Fund	Due to Other Funds	Due From Other Funds
General Fund	\$ 51,108	\$ 107,344
Roads Fund	559,318	19,429
Nonmajor Governmental Funds	24,632	21,038
Internal Service Funds	56,771	541,805
Solid Waste Utility	19,530	160,124
Solid Waste Disposal District	128,398	-
Vader Water System Utility	8,538	104
Nonmajor Business Type Funds	266	261
Adjustment for Rounding	(2)	1
<b>Total</b>	<b>\$ 848,559</b>	<b>\$ 850,106</b>

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

**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 2014:

		<i>Interfund Loans</i>			
Borrowing Fund	Lending Fund	Balance 12/31/2013	New Loans	Payments Made	Balance 12/31/2014
Flood Authority	General	\$ 150,000	\$ -	\$ -	\$ 150,000
Vader Water System Imp.	General	35,920	-	-	35,920
TOTAL		\$ 185,920	\$ -	\$ -	\$ 185,920

***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 and Packwood Airports, business type funds, 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 Capital Project Funds to the Equipment Rental and Revolving Fund cover the unanticipated costs of equipment destroyed and to the Debt Service Funds are to cover bond redemption payments. Transfers from the Vader Water System Utility to the Debt Service Funds are for required deposit for future debt service payments.

The following table displays interfund transfers during 2014:

<i>Transfers</i>		
Fund Types	In	Out
<b>General Fund</b>	\$ 135,623	\$ 2,553,046
<b>Capital Project Funds</b>	-	1,844,123
<b>Nonmajor Governmental Funds</b>	1,631,046	116,623
<b>Internal Service Funds</b>	800,000	-
<b>Debt Service Funds</b>	1,678,653	-
<b>Business Type</b>	272,600	4,130
<b>TOTAL</b>	<b>\$ 4,517,922</b>	<b>\$ 4,517,922</b>

**NOTE 15 - 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.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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

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

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

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

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

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

Within the landfill closure account managed by the CLCG, there have been adequate resources (factoring the \$8.7 million forwarded to the CLCG by the Disposal District) to cover costs associated with remedial work undertaken thus far. Actual revenue requirements for year 2014 were \$145,000 and were funded by available reserves and the Disposal District. At year-end 2014, the reserves amount to \$191,567. Revenue requirements for Landfill Closure activities for year 2015 are projected to be \$194,085

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 16 - OTHER DISCLOSURES

#### A. Changes to Funds

Funds created during fiscal year 2014 include:

Crime Victims/Witness Assistance Fund 137

Vader Water System Utility Fund 420

#### Existing funds dissolved effective December 31, 2014:

Gambling and Fraud Enforcement Fund 165

#### C. Prior Period Adjustments:

The Net Position for the Government-wide Statement of Activities contained a prior period adjustment due to an overstatement in the long-term receivables. The deposit recognized on December 31, 2013, by the City of Chehalis into the Debt Service Fund 211 for the 2017 balloon payment as required per the Transfer Agreement should have reduced the long-term liability due from the City of Chehalis and the annual debt service payment by the City during the 2013 Fiscal Year was overstated in the Government-wide Statement of Net Position. The net effect was a reduction to the 2014 Net Position – Beginning of \$1,462,556. This adjustment had no effect on the fund level statements as they report using the current financial resources measurement focus.

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget To Actual**  
**For The Year Ended**  
**December 31, 2014**

	General Fund			
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 18,160,160	\$ 18,160,160	\$ 19,266,708	\$ 1,106,548
Licenses & Permits	30,700	30,700	30,052	(648)
Intergovernmental	4,629,509	4,673,428	4,925,121	251,693
Charges for Services	3,791,456	3,791,456	4,145,725	354,269
Fines & Forfeits	1,939,934	1,939,934	2,045,948	106,014
Miscellaneous	2,036,470	1,961,470	2,173,559	212,089
<b>Total Revenues</b>	<b>30,588,229</b>	<b>30,557,148</b>	<b>32,587,113</b>	<b>2,029,965</b>
<b>Expenditures</b>				
General Government Services	14,671,256	14,933,660	14,008,574	925,086
Security of Persons & Property	16,583,885	16,713,757	16,172,098	541,659
Natural & Economic Environment	549,621	585,660	552,388	33,272
Mental & Physical Health	376,921	415,421	405,446	9,975
Culture & Recreation	222,930	230,734	216,535	14,199
Capital Outlays	12,040	12,040	23,957	(11,917)
<b>Total Expenditures</b>	<b>32,416,653</b>	<b>32,891,272</b>	<b>31,378,998</b>	<b>1,512,274</b>
<b>Excess of Rev. Over (Under) Expend.</b>	<b>(1,828,424)</b>	<b>(2,334,124)</b>	<b>1,208,115</b>	<b>3,542,239</b>
<b>Other Financing Sources/(Uses)</b>				
Proceeds from Sale of Capital Assets	700,000	700,000	1,406,329	706,329
Transfers-In	59,000	139,000	100,623	(38,377)
Transfers-Out	(2,537,863)	(2,930,477)	(2,553,046)	377,431
<b>Total Other Financing Sources/(Uses)</b>	<b>(1,778,863)</b>	<b>(2,091,477)</b>	<b>(1,046,094)</b>	<b>1,045,383</b>
<b>Excess of Revenues and Other Financing Sources/ (Uses) Over (Under) Expenditures</b>	<b>(3,607,287)</b>	<b>(4,425,601)</b>	<b>162,021</b>	<b>4,587,622</b>
<b>Fund Balance as of January 1</b>	<b>10,059,800</b>	<b>10,059,800</b>	<b>10,059,800</b>	<b>-</b>
<b>Fund Balance as of December 31</b>	<b>\$ 6,452,513</b>	<b>\$ 5,634,199</b>	<b>\$ 10,221,821</b>	<b>\$ 4,587,622</b>

**Perspective Difference Reconciliation:**

Actual Fund Balance - Schedule of Revenues,  
Expenditures, And Changes in Fund Balance 10,221,821

The Following funds were budgeted as special  
revenue funds but do not meet the definition of  
such under Gasb Statement No. 54 and;  
therefore, are accounted for within the General  
Fund:

Flood Control Zone #125	24,505
Cowlitz River Basin Subzone #126	15,000
SWW Fair Entertainment Reserve #197	34

**Total Fund Balance - General Fund Balance** 10,261,360  
**Sheet for Governmental Funds**

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

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget to Actual**  
*For The Year Ended*  
*December 31, 2014*

	<b>Special Revenue: Roads</b>			
	<b>Budget</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 10,925,557	\$ 10,925,557	\$ 11,490,957	\$ 565,400
Licenses & Permits	18,000	18,000	39,835	21,835
Intergovernmental	11,890,945	11,890,945	6,543,307	(5,347,638)
Charges for Services	778,928	778,928	591,338	(187,590)
Miscellaneous	30,238	30,238	90,815	60,577
<b>Total Revenues</b>	<b>23,643,668</b>	<b>23,643,668</b>	<b>18,756,252</b>	<b>(4,887,416)</b>
<b>Expenditures</b>				
Transportation	16,617,886	16,617,886	15,390,803	1,227,083
Economic Environment	546,700	546,700	573,967	(27,267)
Interest & Other Debt Service	28,073	28,073	308	27,765
Capital Outlays	9,621,201	9,621,201	10,349,054	(727,853)
<b>Total Expenditures</b>	<b>26,813,860</b>	<b>26,813,860</b>	<b>26,314,132</b>	<b>499,728</b>
<b>Excess of Rev. Over (Under) Expend.</b>	<b>(3,170,192)</b>	<b>(3,170,192)</b>	<b>(7,557,880)</b>	<b>(4,387,688)</b>
<b>Other Financing Sources/(Uses)</b>				
Proceeds from Sale of Capital Assets	1,101,500	1,101,500	1,935,540	834,040
Transfers-In	-	20,000	-	(20,000)
Transfers-Out	(15,538)	(15,538)	(15,705)	(167)
<b>Total Other Financing Sources/(Uses)</b>	<b>1,085,962</b>	<b>1,105,962</b>	<b>1,919,835</b>	<b>813,873</b>
<b>Excess of Revenues and Other Financing Sources/ (Uses) Over (Under) Expenditures</b>	<b>(2,084,230)</b>	<b>(2,064,230)</b>	<b>(5,638,045)</b>	<b>(3,573,815)</b>
<b>Fund Balance as of January 1 Restated</b>	<b>11,544,917</b>	<b>11,544,917</b>	<b>11,544,917</b>	<b>-</b>
<b>Fund Balance as of December 31</b>	<b>\$ 9,460,687</b>	<b>\$ 9,480,687</b>	<b>\$ 5,906,872</b>	<b>\$ (3,573,815)</b>

Beginning Balance was Restated to reflect Actual Fund Balance without Rolled Funds.

**Perspective Difference Reconciliation:**

Actual Fund Balance - Schedule of Revenues,  
Expenditures, And Changes in Fund Balance

5,906,872

The Following fund was budgeted as special  
revenue fund but does not meet the definition of  
such under Gasb Statement No. 54 and;  
therefore, is accounted for within the Roads  
Fund:

Paths & Trails #128

83,663

**Total Fund Balance - Roads Fund Balance  
Sheet**

5,990,535

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

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget to Actual**  
*For The Year Ended*  
*December 31, 2014*

	<b>2007 Bond Redemption</b>			<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Budget</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Miscellaneous	\$ 316,706	\$ 316,706	\$ 316,206	\$ (500)
<b>Total Revenues</b>	<b>316,706</b>	<b>316,706</b>	<b>316,206</b>	<b>(500)</b>
<b>Expenditures</b>				
Debt Service:				
Principal	\$ 222,286	\$ 222,286	\$ 222,285	\$ 1
Interest & Other Debt Service	94,421	94,421	93,921	500
<b>Total Expenditures</b>	<b>316,707</b>	<b>316,707</b>	<b>316,206</b>	<b>501</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(1)</b>	<b>(1)</b>	<b>-</b>	<b>1</b>
<b>Other Financing Sources/(Uses)</b>				
<b>Total Other Financing Sources/(Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess of Revenues &amp; Other Financing Sources/ (Uses) Over (Under) Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance as of January 1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Residual Equity Transfers-In (Out)				
<b>Fund Balance as of December 31</b>	<b>\$ (1)</b>	<b>\$ (1)</b>	<b>\$ -</b>	<b>\$ 1</b>

See Accompanying Notes to Financial Statements

**Lewis County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2014**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Note
				From Pass- Through Awards	From Direct Awards			
<b>Aging Cluster</b>								
Administration For Community Living, Department Of Health And Human Services (via Lewis-Mason-Thurston Area Agency on Aging)	Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045	14-1130-0061-05	112,945	-		112,945	
Administration For Community Living, Department Of Health And Human Services (via Lewis-Mason-Thurston Area Agency on Aging)	Nutrition Services Incentive Program	93.053	14-1130-0061-05	23,793	-		23,793	
				<b>Total Aging Cluster:</b>			<b>136,738</b>	
<b>CDBG - State-Administered CDBG Cluster</b>								
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Washington State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	13-65400-009	74,217	-		74,217	9 (a)
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Washington State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	14-65400-010	49,830	-		49,830	9 (a)
				<b>Total CDBG - State-Administered CDBG Cluster:</b>			<b>124,047</b>	
<b>Child Nutrition Cluster</b>								

The accompanying notes are an integral part of this statement.

Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Agriculture)	National School Lunch Program	10.555	N/A	22,860	-	22,860	4
<b>Drinking Water State Revolving Fund Cluster</b>				<b>22,860</b>	<b>-</b>	<b>22,860</b>	
Office Of Water, Environmental Protection Agency (via Washington State Department of Health)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	N20125	31,500	-	31,500	
Office Of Water, Environmental Protection Agency (via Washington State Department of Commerce's Public Works Board)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM10-952-005	12,676	-	12,676	3
<b>Total Drinking Water State Revolving Fund Cluster:</b>				<b>44,176</b>	<b>-</b>	<b>44,176</b>	
<b>Forest Service Schools and Roads Cluster</b>							
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	12-PA-11060300-017	-	30,442	30,442	8 (a)
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	N/A	-	58,367	58,367	4
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	07-PA-11060300-037	-	878	878	
<b>Total Forest Service Schools and Roads Cluster:</b>				<b>-</b>	<b>89,687</b>	<b>89,687</b>	
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-5452	73,131	-	73,131	6 (a)
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-7444	335,581	-	335,581	

The accompanying notes are an integral part of this statement.

Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-7813	2,676	-	2,676	6 (b)
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8380	948,615	-	948,615	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8111	55,391	-	55,391	6 (c)
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8112	37,333	-	37,333	6 (d)
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8113	13,040	-	13,040	6 (e)
<b>Total Highway Planning and Construction Cluster:</b>				<b>1,465,767</b>	<b>-</b>	<b>1,465,767</b>	
<b>Highway Safety Cluster</b>							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	14ST-10	12,281	-	12,281	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	2,197	-	2,197	4

The accompanying notes are an integral part of this statement.

National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	20.600	N/A	464	-	464	4
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	20.600	N/A	1,802	-	1,802	4
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	20.600	15ST-10	4,245	-	4,245	
<b>Total CFDA 20.600:</b>			<b>20,989</b>	<b>-</b>	<b>20,989</b>	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	20.602	N/A	1,992	-	1,992	4
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	20.613	N/A	906	-	906	4
<b>Total Highway Safety Cluster:</b>			<b>23,887</b>	<b>-</b>	<b>23,887</b>	
<b>Medicaid Cluster</b>						
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via Washington State Health Care Authority)	93.778	1166-35255	13,100	-	13,100	7
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via Washington State Health Care Authority)	93.778	1166-35255	9,592	-	9,592	7
<b>Total Medicaid Cluster:</b>			<b>22,692</b>	<b>-</b>	<b>22,692</b>	

The accompanying notes are an integral part of this statement.

<b>Other Programs</b>								
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Health)	10.557	C16891	508,151	-	508,151			
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Health)	10.557	C16891	11,898	-	11,898			
<b>Total CFDA 10.557:</b>			<b>520,049</b>	<b>-</b>	<b>520,049</b>			
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Health)	10.572	C16891	358	-	358			
Food And Nutrition Service, Department Of Agriculture (via Lewis-Mason-Thurston Area Agency on Aging)	10.576	14-1168-0090-05 (SFMNP Checks)	15,320	-	15,320			5 (a)
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via Washington State Recreation and Conservation Office)	11.438	13-1037R	14,913	-	14,913			
Office Of Community Planning And Development, Department Of Housing And Urban Development	14.267	WA0091LO7011205	-	39,261	39,261			9 (b)
Office Of Community Planning And Development, Department Of Housing And Urban Development	14.267	WA0091LO7011306	-	76,339	76,339			9 (b)
<b>Total CFDA 14.267:</b>			<b>-</b>	<b>115,600</b>	<b>115,600</b>			
Office Of Juvenile Justice And Delinquency Prevention, Department Of Justice (via Washington State Department of Social & Health Services)	16.523	1363-84188-01	5,500	-	5,500			

The accompanying notes are an integral part of this statement.

Office Of Juvenile Justice And Delinquency Prevention, Department Of Justice (via Washington State Department of Social & Health Services)	Juvenile Accountability Block Grants	16.523	1463-17257	3,050	-	3,050
<b>Total CFDA 16.523:</b>						
			F13-31103-050	8,550	-	8,550
Violence Against Women Office, Department Of Justice (via Washington State Department of Commerce)	Violence Against Women Formula Grants	16.588		5,724	-	5,724
Bureau Of Justice Assistance, Department Of Justice	State Criminal Alien Assistance Program	16.606	2014-AP-BX-0452	-	6,333	6,333
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	2013BUBX13069579	-	2,773	2,773
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	2014BUBX1472786	-	2,452	2,452
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	2012BUBX12062266	-	508	508
<b>Total CFDA 16.607:</b>						
			C1404356FED	16,142	-	16,142
National Institute Of Justice, Department Of Justice (via Washington State Patrol)	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742				
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	DOT-FA13NM-0001	-	65,772	65,772
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	DOT-FA14NM-0051	-	44,100	44,100
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	DOT-FA13NM-0011	-	33,191	33,191
<b>Total CFDA 20.106:</b>						
			N/A	3,500	-	3,500
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	National Priority Safety Programs	20.616				
<b>Total CFDA 20.106:</b>						
			N/A	3,500	-	3,500

The accompanying notes are an integral part of this statement.



Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	Donated Vaccine	43,760	-	43,760	5 (b)
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	C16891	17,852	-	17,852	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	C16891	4,949	-	4,949	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	C16891	7,988	-	7,988	
<b>Total CFDA 93.268:</b>				<b>83,066</b>	<b>-</b>	<b>83,066</b>	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Grays Harbor County Public Health and Social Services)	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	93.531	CTG HC REGION	57,818	-	57,818	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	93.539	C16891	15,711	-	15,711	

The accompanying notes are an integral part of this statement.

Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	93.539	C16891	708	-	708
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds					
	<b>Total CFDA 93.539:</b>		<b>16,419</b>	<b>-</b>	<b>16,419</b>
Administration For Children And Families, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	93.563	2110-81382	304,360	-	304,360
Child Support Enforcement					
					8 (b)
Administration For Children And Families, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	93.563	0763-15018	22,121	-	22,121
Child Support Enforcement					
					8 (b)
Administration For Children And Families, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	93.563	2110-81382	118,171	-	118,171
Child Support Enforcement					
					8 (b)
	<b>Total CFDA 93.563:</b>		<b>444,652</b>	<b>-</b>	<b>444,652</b>
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	93.733	C16891	1,839	-	1,839
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)					

The accompanying notes are an integral part of this statement.

Office Of The Secretary, Department Of Health And Human Services (via West Region EMS & Trauma Care Council)	93.889	5U90TP000559-02	-	817	817
Office Of The Secretary, Department Of Health And Human Services (via Washington State Department of Health)	93.889	C16891	-	5,000	5,000
<b>Total CFDA 93.889:</b>				<b>5,817</b>	<b>5,817</b>
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	93.959	1163-27316	-	74,171	74,171
Health Resources And Services Administration, Department Of Health And Human Services (via Washington State Department of Health)	93.994	C16891	-	23,872	23,872
Health Resources And Services Administration, Department Of Health And Human Services (via Washington State Department of Health)	93.994	C16891	-	57,359	57,359
<b>Total CFDA 93.994:</b>				<b>81,231</b>	<b>81,231</b>
Executive Office Of The President (via Educational Service District 105)	95.001	9003000077	-	30,384	30,384
Executive Office Of The President (via Educational Service District 105)	95.001	9001000053	-	4,813	4,813
<b>Total CFDA 95.001:</b>				<b>35,197</b>	<b>35,197</b>
Department Of Homeland Security (via Washington State Parks and Recreation Commission)	97.012	N/A	-	18,820	18,820
					9 (e)
					9 (f)
					4

The accompanying notes are an integral part of this statement.

Department Of Homeland Security (via Washington State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	E09-731 (1734-DR-WA)	152,505	-	152,505
Department Of Homeland Security (via Washington State Military Department)	Emergency Management Performance Grants	97.042	E14-170	34,113	-	34,113
Department Of Homeland Security (via Washington State Military Department)	Emergency Management Performance Grants	97.042	E15-075	8,300	-	8,300
<b>Total CFDA 97.042:</b>				<b>42,413</b>	<b>-</b>	<b>42,413</b>
Department Of Homeland Security (via Thurston County Emergency Management)	Homeland Security Grant Program	97.067	29A-2012-007 (E12-230)	6,634	-	6,634
Department Of Homeland Security (via Washington State Military Department)	Homeland Security Grant Program	97.067	E12-279	4,906	-	4,906
Department Of Homeland Security (via Washington State Military Department)	Homeland Security Grant Program	97.067	E14-219	25,586	-	25,586
<b>Total CFDA 97.067:</b>				<b>37,126</b>	<b>-</b>	<b>37,126</b>
<b>SNAP Cluster</b>						
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Health)	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C16891	7,412	-	7,412
<b>Total SNAP Cluster:</b>				<b>7,412</b>	<b>-</b>	<b>7,412</b>
<b>Total Federal Awards Expended:</b>				<b>3,607,645</b>	<b>360,416</b>	<b>3,968,061</b>

The accompanying notes are an integral part of this statement.

**LEWIS COUNTY, WASHINGTON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2014**

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**NOTE 1 - BASIS OF ACCOUNTING**

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

**NOTE 2 - PROGRAM COSTS**

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

**NOTE 3 - FEDERAL LOANS**

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

**NOTE 4 - NOT AVAILABLE (N/A)**

The county was unable to obtain another identification number.

**NOTE 5 - NONCASH AWARDS**

- (a) The amount of Senior Farmers Market Nutrition Program checks reported on the schedule is the value received and distributed by the county during the year and priced as prescribed by the Lewis-Thurston-Mason Area Agency on Aging. This program is funded through both federal and state funding. Due to the comingled nature of the funding, the portion, if any, of the checks funded by state funds could not be determined. As a result, the full amount of the checks have been reported as federal.
- (b) The amount of vaccine reported on the schedule is the value of vaccine received and distributed by the county during the year and priced as prescribed by the Washington Department of Health.

**NOTE 6 - SUPPLEMENTAL GRANT AWARDS**

The amount of expenditures listed for CFDA 20.205 under contracts LA-5452, LA-7813, LA-8111, LA-8112, and LA-8113 includes costs that were originally incurred in prior years but were not previously reimbursable since the costs for the projects exceeded the amounts allowed on the grant awards. Subsequent funding was awarded to allow reimbursement of additional project costs, including prior year expenditures incurred after the original funding was exhausted.

- (a) Contract LA-5452 includes \$42,278 for excess preliminary engineering costs originally incurred in 2008 & 2009. During the Washington State Department of Transportation final grant review performed in April 2015, unused grant funding was moved to allow \$42,278 of additional costs to be grant reimbursable.
- (b) Contract LA-7813 includes \$2,676 originally incurred in 2013. During the Washington State Department of Transportation final grant review performed in August 2014, unused grant funding from the State's award was moved to allow \$2,676 of additional costs to be grant reimbursable.
- (c) Contract LA-8111 includes \$883 originally incurred in 2013, which became reimbursable through a supplemental agreement executed October 2014.

**LEWIS COUNTY, WASHINGTON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2014**

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(d) Contract LA-8112 includes \$16,067 originally incurred in 2013, which became reimbursable through a supplemental agreement executed March 2015.

(e) Contract LA-8113 includes \$4,090 originally incurred in 2013, which became reimbursable through a supplemental agreement executed March 2015.

The expenditures incurred in 2013 that did not become reimbursable until 2014 have been included in the expenditure totals reported on the 2014 Schedule of Expenditures of Federal Awards.

**NOTE 7 - MEDICAL ASSISTANCE PROGRAM**

Reimbursement provided by contract #1166-35255 is determined by an in-depth billing process using data from the entire region. As a result, the billings are often delayed while the data is being compiled and reviewed. The amount reported on the 2014 Schedule of Expenditures of Federal Awards for contract #1166-35255 is based on data occurring during the first and second quarters of 2013. Due to the length of time needed to prepare the billing information, the amount of expenditures associated with the first and second quarters of 2013 were not determined in time to be included in the 2013 Financial Statements.

**NOTE 8 - INDIRECT COST RATE**

(a) The amount expended for "Schools and Roads Grants to States (CFDA 10.665) includes \$1,631 from Contract Number 12-PA11060300-017 claimed as an indirect cost recovery using an indirect cost rate of 7.87% as approved for 2014 by the Board of County Commissioners on January 6, 2014 through Resolution #14-005.

(b) The amount expended for "Child Support Enforcement" (CFDA 93.563) includes \$1,925 from Contract Number 0763-15018 and \$20,470 from Contract Number 2110-81382 claimed as an indirect cost recovery using an indirect cost rate of 7.87% as approved for 2014 by the Board of County Commissioners on January 6, 2014 through Resolution #14-005.

**NOTE 9 - AMOUNTS AWARDED TO SUBRECIPIENTS**

(a) Included in the total amount expended for "Community Development Block Grants" (CFDA number 14.228) is \$72,012 from Contract Number 13-65400-009 and \$48,002 from Contract Number 14-65400-010 that was passed through to subrecipients that administered their own projects.

(b) Included in the total amount expended for "Continuum of Care Program" (CFDA number 14.267) is \$38,397 from Contract Number WA0091L0T011205 and \$74,615 from Contract Number WA0091L0T011306 that was passed through to subrecipients that administered their own projects.

(c) Included in the total amount expended for "Violence Against Women Formula Grants" (CFDA number 16.588) is \$2,334 from Contract Number F13-31103-050 that was passed through to subrecipients that administered their own projects.

(d) Included in the total amount expended for "Substance Abuse and Mental Health Services\_Projects of Regional and National Significance" (CFDA number 93.243) is \$1,656 from Contract Number 1363-90022 that was passed through to subrecipients that administered their own projects.

**LEWIS COUNTY, WASHINGTON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2014**

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(e) Included in the total amount expended for "Prevention/Treatment of Substance Abuse" (CFDA number 93.959) is \$46,065 from Contract Number 1163-27316 that was passed through to subrecipients that administered their own projects.

(f) Included in the total amount expended for "High Intensity Drug Trafficking Areas Program" (CFDA number 95.001) is \$6,000 from Contract Number 9003000077 that was passed through to subrecipients that administered their own projects.

**NOTE 10 – UNDER-REPORTED 2013 EXPENDITURES**

An amount of \$857, which was expended in 2013 under CFDA 97.042 "Emergency Management Performance Grants" Contract Number E14-170, was erroneously omitted from the 2013 Schedule of Expenditures of Federal Awards.

The 2013 expenditures were not included in the expenditure amounts reported on the 2014 Schedule of Expenditures of Federal Awards.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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