



Office of the Washington State Auditor
Pat McCarthy

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

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

Published September 29, 2017

Report No. 1019925





Office of the Washington State Auditor
Pat McCarthy

September 29, 2017

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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Lewis County January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

The following programs were selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.665	Schools and Roads – Grants to States
20.106	Airport Improvement Program

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2016-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2016-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Lewis County January 1, 2016 through December 31, 2016

2016-001 The County lacks adequate internal controls over its calculation for determining major funds to be presented in its financial statements.

Background

The County is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in internal controls over financial reporting that resulted in errors in the County's financial statements.

Government Auditing Standards requires the auditor to communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The focus of governmental and proprietary fund financial statements is on major funds. Under generally accepted accounting principles (GAAP), major funds are presented individually and non-major funds are reported in aggregate. Accounting standards provide a quantitative threshold for identifying which funds must be reported as major.

Our audit noted the County prepared a calculation to determine its major funds; however, the formula in the calculation was incorrect, and the County did not report the Packwood Airport Fund as major.

We consider this deficiency to be a material weakness.

Cause of Condition

The County's review processes during financial statement preparation was not sufficient to detect material errors.

Effect of Condition

The County omitted a major fund from the presentation of proprietary funds financial statements. This error has been corrected.

Recommendation

We recommend the County improve internal controls over financial statement review processes to ensure major funds are reported accurately and any errors in major fund calculations are identified and corrected promptly.

County's Response

The County acknowledges the State Auditor's finding and has corrected the Major Funds and Aggregate Non-major Funds for the proprietary fund financial statements. The runway rehabilitation construction in progress at the Packwood Airport increased the assets for this fund resulting in a major fund status.

The Packwood Airport was presented in the Aggregate Non-manor Funds on the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position for Proprietary Funds. The designation as a Major Fund did not change the overall Net Position amount reported, only the classification of the fund on the two statements.

Procedures to enhance the review process have been established for future reporting.

Auditor's Remarks

We appreciate the County's response and recognize that the County is committed to ongoing quality improvement and working to improve its internal controls.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting

Budgeting, Accounting and Reporting Systems Manual – Accounting, Accounting Principles and General Procedures, Internal Control, Section 3.1.3

Government Auditing Standards, December 2011 Revision, paragraph 4.23

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265

Governmental Accounting Standards Board, Statement, No. 34, paragraph 75-76

Audit and Accounting Guides (AICPA), State and Local Governments, Chapter 16 Audit Reporting, paragraph 53

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

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

2016-002 The County did not have adequate internal controls to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements.

CFDA Number and Title:	20.106 - Airport Improvement Program
Federal Grantor Name:	Department of Transportation Federal Aviation Administration (FAA)
Federal Award/Contract Number:	DOT-FA15NM-0046, DOT-FA15NM-0078, DOT-FA16NM-0007
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2016, the County spent \$1,791,336 of federal funds in its Airport Improvement Program. The objective of this program is to assist sponsors, owners or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.

The Davis-Bacon Act (Act) requires that all laborers and mechanics employed by contractors or subcontractors and working on construction contracts financed with more than \$2,000 of federal funds be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor. The Act includes a requirement for the contractor or subcontractor to submit to the County weekly, for each week in which contract work is performed, a copy of its payroll and a statement of compliance (weekly certified payroll). The weekly certified payroll must be submitted within seven days after the regular payment date of the payroll period. The County did not have a process in place to ensure contractors and subcontractors working on federal grant-funded projects filed weekly certified payrolls within the required time period.

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

Cause of Condition

The County hired an engineering firm to oversee the program. The County did not have controls in place to ensure the engineering firm was complying with grant requirements, which included obtaining weekly certified payrolls within seven days of the payroll period.

Effect of Condition and Questioned Costs

During the audit period, weekly certified payrolls were not received promptly as federal regulations require. Our audit found 29 of the 35 weekly certified payrolls for 2016 were submitted to the contracted engineering firm between two weeks and four months after the payroll period, and 20 of these weekly certified payrolls were not submitted until 2017. Without adequate internal controls in place to ensure weekly certified payrolls are received promptly, the County cannot ensure workers were paid prevailing wages before paying the contractor.

Recommendations

We recommend the County establish and follow internal controls to ensure compliance with federal prevailing wage requirements.

County's Response

Lewis County Community Development Department (Department) appreciates the efforts of the State Auditor's Office in auditing the projects that are funded by the federal government. The Department does agree that there were deficiencies in the monitoring of the certified payroll reports. The firm retained to be the project manager did not perform their obligation to ensure that weekly certified payrolls were being obtained. This was in part due to the performance of another party, the construction contractor (contractor). The contractor was routinely late in transmittal of their certified payrolls along with pay estimates. Also worth noting is that the County and the contractor have not settled the matter of substantial completion and the assessment of liquidated damages. The initial completion date for the work was determined to be October 8, 2016. Due to significant inclement weather, the Department granted the contractor a generous extension. Notwithstanding, the contractor was unable to substantially complete its contractual obligations after 19 extra work days were added.

The Department believes this should be a management representation letter. The fact that the Department did not monitor 100 percent of the certified payroll reports should not constitute a finding. There were zero questioned cost amounts. As of today no contractors or subcontractors have made any claims for incorrect prevailing wages. The Department has implemented procedures to ensure compliance with the Davis-Bacon Act for any future federal construction grants.

Auditor's Remarks

We appreciate the County's consideration of this matter and the context provided in their response. Our audit found the County did not have adequate internal controls in place to ensure weekly certified payrolls are received promptly to support that workers were paid prevailing wages prior to paying the contractor. Federal grant regulations and audit standards as referenced below require this material weakness to be included in our report.

We recognize the County is dedicated to compliance with federal grant regulations and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, section 516 Audit findings, establishes reporting requirements for audit findings.

Title 29 *U.S. Code of Federal Regulations (CFR)*, Section 5.5 – *Contract provisions and related matters*, establishes requirements for contract provisions for prevailing wages.

Title 29, *U.S. Code of Federal Regulations (CFR)*, Section 3.3 – *Weekly statement with respect to payment of wages*, and Section 3.4 – *Submission of weekly statements and the preservation an inspection of weekly payroll records*, establishes requirements for submission of weekly certified payroll reports.

**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, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 20, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be a material weakness.

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*.

COUNTY'S RESPONSE TO FINDINGS

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

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 20, 2017

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

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

Board of Commissioners
Lewis County
Chehalis, Washington

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

We have audited the compliance of Lewis County, Lewis County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2016. The County's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs and Finding 2016-002.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2016-002 to be a material weakness.

County's Response to Findings

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

Purpose of this Report

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



Pat McCarthy
State Auditor
Olympia, WA

September 20, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lewis County January 1, 2016 through December 31, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lewis County, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Roads and Distressed Counties funds, 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 22 through 34, pension plan information on pages 101 through 105 and information on postemployment benefits other than pensions on page 106 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2017 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 20, 2017

FINANCIAL SECTION

Lewis County January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of Governmental Balance Sheets to the Statement of Net Position – 2016

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

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities –
Governmental Funds – 2016

Budget to Actual Comparison Statement by Department – General Fund – 2016

Budget to Actual Comparison Statement – General Fund – 2016

Budget to Actual Comparison Statement – Special Revenue: Roads – 2016

Budget to Actual Comparison Statement – Special Revenue: Distressed Counties – 2016

Statement of Net Position – Proprietary Funds – 2016

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

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,
PSERS, LEOFF 1 and LEOFF 2 – 2016

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

Schedule of Funding Progress – Retiree Medical Benefits – LEOFF 1 – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Federal Expenditures – 2016

Notes to the Schedule of Federal Expenditures – 2016

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, 2016. 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

- Total assets and deferred outflows of resources exceeded the County's liabilities and deferred inflows of resources by \$131.4 million (net position). Of this amount, \$14.5 million was reported as unrestricted net position, amounts which may be used to meet the County's ongoing obligations to citizens and creditors.
- In 2016, the County's net position increased by \$9.4 million. The main components of the change in net position are increased operating and capital grants, as well as the fluctuation of deferred inflows and outflows related to new pension reporting requirements that were implemented in 2015. Net position in the County's governmental activities increased by \$7.1 million, while business-type activities increased by \$2.2 million.
- Total fund balance in the governmental funds was \$38.5 million at year-end 2016, compared to \$33.1 million at year-end 2015, an increase of 16.6 percent. In the governmental funds, revenues exceeded expenditures by \$3.9 million, attributing to the \$5.5 million increase in fund balance.
- Lewis County's long term debt decreased by \$1.5 million (8.9 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 asset, liabilities, deferred outflows and inflows. The difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as *net position*. Over time, increases or decreases in net position 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 position 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, transportation, 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 37 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 County's five major funds. The General Fund, Roads Fund, Distressed Counties, 2007 Bond Redemption, 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 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 plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (either total governmental or total enterprise), and
- b. The same element that met the above ten percent intention is at least five percent of the corresponding element total for all governmental and enterprise funds combined.
- 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 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, Vader Water System Utility, 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, radio services, 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 Utility, the Solid Waste Disposal District, the Vader Water System Utility, and the Packwood Airport 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 and South County Airport. Conversely, seven 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).

A combined summary Statement of Net Position for all of the fiduciary funds can be found following the proprietary fund financial statements of 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 immediately following the basic 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 position may serve over time as a useful indicator of a government's financial position. By far the largest portion of Lewis County's net position (76.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); 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 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. In the case of Lewis County, assets exceeded liabilities by \$116.2 million at the close of the most recent fiscal year.

The condensed financial information that follows is derived from the Government-Wide Statement of Net Position and presents a comparison of year-end 2016 to year-end 2015.

Statement of Net Position

December 31, 2016

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 66,740,465	\$ 60,023,695	\$ 6,138,894	\$ 4,977,954	\$ 72,879,359	\$ 65,001,649
Capital Assets	105,216,861	106,472,847	7,972,307	6,148,871	113,189,168	112,621,718
Pension Assets	843,242	1,365,272	-	-	843,242	1,365,272
Total Assets	\$ 172,800,568	\$ 167,861,814	\$ 14,111,201	\$ 11,126,825	\$ 186,911,770	\$ 178,988,638
Deferred Outflows	\$ 4,968,664	\$ 2,450,814	\$ 168,544	\$ 73,637	\$ 5,137,208	\$ 2,524,451
Payables	\$ 7,657,338	\$ 10,054,390	\$ 1,452,743	\$ 610,930	\$ 9,110,081	\$ 10,665,320
Long-Term	48,905,719	44,658,399	1,884,505	1,802,550	50,790,224	46,460,949
Total Liabilities	\$ 56,563,057	\$ 54,712,789	\$ 3,337,248	\$ 2,413,480	\$ 59,900,305	\$ 57,126,269
Deferred Inflows	\$ 752,169	\$ 3,720,458	\$ 39,055	\$ 139,778	\$ 791,224	\$ 3,860,236
Net Position:						
Net Investment in Capital Asset	\$ 92,186,435	\$ 92,177,847	\$ 7,229,586	\$ 5,365,026	\$ 99,416,021	\$ 97,542,873
Restricted	16,833,229	12,552,097	-	-	16,833,229	12,552,097
Reserved for Other Purposes	843,242	1,365,272	-	-	843,242	1,365,272
Unrestricted	10,591,100	5,784,165	3,673,856	3,282,178	14,264,956	9,066,343
Total Net Position	\$ 120,454,006	\$ 111,879,381	\$ 10,903,442	\$ 8,647,204	\$ 131,357,448	\$ 120,526,585

A portion of Lewis County's net position (13.5 percent) represents resources that are subject to external restrictions on how they may be used. The \$14.5 million in unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

Deferred Outflows represent amounts related to the refunding of long-term debt and pension reporting required by Governmental Accounting Standards Board Statement No. 68. Deferred Inflows represent amounts related to pension reporting requirements, as well as leases of capital equipment.

Lewis County's Change in Net Position

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 14,703,592	\$ 13,995,081	\$ 8,426,319	\$ 8,014,957	\$ 23,129,911	\$ 22,010,038
Operating Grants and Contributions	19,005,143	16,984,920	-	199,277	19,005,143	17,184,197
Capital Grants and Contributions	1,565,444	527,105	2,009,922	267,366	3,575,366	794,471
General Revenues:						
Property Taxes	23,370,811	22,976,409	-	-	23,370,811	22,976,409
Private Harvest Taxes	2,887,434	2,674,885	-	-	2,887,434	2,674,885
Sales Tax	11,216,232	10,474,818	-	-	11,216,232	10,474,818
Excise Tax	1,458,233	2,014,583	-	-	1,458,233	2,014,583
Investment Earnings	585,634	488,064	(12,187)	(17,118)	573,447	470,946
Other General Revenues	2,420,190	1,066,008	(82)	967,886	2,420,108	2,033,894
Total Revenues	\$ 77,212,713	\$ 71,201,873	\$ 10,423,972	\$ 9,432,368	\$ 87,636,685	\$ 80,634,241
Program Expenses:						
General Government & Judicial Services	\$ 15,862,159	\$ 15,070,986	\$ -	\$ -	\$ 15,862,159	\$ 15,070,986
Public Safety	21,822,096	21,243,551	-	-	21,822,096	21,243,551
Utilities	139,225	1,456,634	-	-	139,225	1,456,634
Transportation	20,763,845	20,101,241	-	-	20,763,845	20,101,241
Natural & Economic Environment	2,700,128	3,638,398	-	-	2,700,128	3,638,398
Social Services & Physical Health	6,114,600	6,408,274	-	-	6,114,600	6,408,274
Culture & Recreation	1,818,454	1,755,241	-	-	1,818,454	1,755,241
Interest on Long-Term Debt	487,465	652,879	-	-	487,465	652,879
Solid Waste	-	-	7,939,089	7,985,876	7,939,089	7,985,876
Airport	-	-	288,690	302,061	288,690	302,061
Water Sewer	-	-	347,615	330,471	347,615	330,471
Total Expenses	\$ 69,707,972	\$ 70,327,204	\$ 8,575,394	\$ 8,618,408	\$ 78,283,366	\$ 78,945,612
Increase/(Decrease) in net position before transfers	7,504,741	874,669	1,848,578	813,960	9,353,319	1,688,629
Transfers	(381,945)	(270,497)	381,945	270,497	-	-
Change in Net Position	7,122,796	604,172	2,230,523	1,084,457	9,353,319	1,688,629
Net Position - Beginning	111,879,381	134,209,946	8,647,204	8,582,937	120,526,585	142,792,883
Adjustments	1,451,829	(22,934,737)	25,715	(1,020,190)	1,477,544	(23,954,927)
Restated Net Position - Beginning	113,331,210	111,275,209	8,672,919	7,562,747	122,004,129	118,837,956
Net Position - End of Year	\$ 120,454,006	\$ 111,879,381	\$ 10,903,442	\$ 8,647,204	\$ 131,357,448	\$ 120,526,585

Lewis County's net position increased by \$9.4 million during the 2016 fiscal year. This increase in net position is attributable to a 6.3 percent increase in governmental activities and 25.7 percent increase in business-type activities.

Governmental Activities

In 2016, the three largest sources of revenue for governmental activities were taxes at \$38.9 million (50.4 percent of revenues), operating grants and contributions at \$19 million (24.6 percent of revenues), and charges for services at \$14.7 million (19.0 percent of revenues). The remaining 6 percent of governmental revenues include capital grants and contributions, interest and investment earnings, and other general revenues.

Other key elements of this change are as follows:

- Property taxes increased by \$394 thousand (1.7 percent) over the prior year. Most of the increase is related to increase in assessed values and new construction, as well collection of delinquent taxes, rather than increases in underlying taxes, which are limited by current Washington state law.
- Sales tax increased by \$741 thousand (7.1 percent), which relates to an increase in the County's in economic condition and the change to the destination based sales tax collection.
- Capital grants and contributions increased by \$1.0 million (197 percent). This relates to an increase in grant awards in the Roads fund. The Roads fund received a significant grant award relating to the replacement of a County bridge.
- Operating grants and contributions increased by \$2.0 million (11.9 percent) which related to an increase in grants and intergovernmental revenue in the Roads fund.

Overview of governmental revenues and expenditures:

Program Revenues and Expenditures - Governmental Activities					
Governmental Function	Revenue	Percent of Total	Expenditures	Percent of Total	
General Government & Judicial Services	\$ 11,270,366	31.95%	\$ 15,862,159	22.76%	
Public Safety	6,026,488	17.08%	21,822,096	31.31%	
Utilities	16,712	0.05%	139,225	0.20%	
Transportation	11,689,618	33.14%	20,763,845	29.79%	
Natural & Economic Environment	1,340,182	3.80%	2,700,128	3.87%	
Social Services & Physical Health	3,954,968	11.21%	6,114,600	8.77%	
Culture & Recreation	975,845	2.77%	1,818,454	2.61%	
Interest on Long-Term Debt	-	-	487,465	0.69%	
Total	\$ 35,274,179	100.00%	\$ 69,707,972	100.00%	

Revenues by Source - Governmental Activities		
	Revenue	Percent of Total
Charges for Services	\$ 14,703,592	19.04%
Operating Grants and Contributions	19,005,143	24.61%
Capital Grants and Contributions	1,565,444	2.03%
Taxes	38,932,709	50.43%
Investment Earnings	585,634	0.76%
Gain on Sale of Capital Assets	2,087,593	2.70%
Miscellaneous Revenues	332,598	0.43%
Total	\$ 77,212,713	100.00%

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 maintain the previous cuts in various programs in most functions of the government due to the decline in revenues in the prior few years.

Business-type Activities

In 2016, the largest source of revenue for business-type activities was charges for services at \$8.4 million, or 80.8 percent of total business-type revenues. 95.7 percent of the charges for services resulted from Solid Waste Utility activities.

Key elements of this increase are as follows:

- Charges for services for business-type activities increased by \$411 thousand (5.1 percent) over the prior year. A main component of these revenues are Solid Waste tipping fees. The revenues increased as a result of a slight increase in demand.
- Capital grant and contributions increased by \$1.7 million (652 percent) over the prior year. A significant portion of the increase (87.0 percent) relates to a \$1.5 million grant award to the Packwood Airport fund for runway improvements.
- The Solid Waste Utility and the Airport funds had a slight decrease of \$60 thousand in expenses from the prior year.

Overview of business-type revenues and expenses:

Program Revenues and Expenses - Business-Type Activities

Program	Revenue	Percent of Total	Expenses	Percent of Total
Solid Waste	\$ 8,065,495	77.28%	\$ 7,939,089	92.58%
Airports	2,011,207	19.27%	288,690	3.37%
Water-Sewer Utilities	359,539	3.45%	347,615	4.05%
Total	\$ 10,436,241	100.00%	\$ 8,575,394	100.00%

Revenues by Source - Business-Type Activities

	Revenue	Percent of Total
Charges for Services	\$ 8,426,319	80.84%
Operating Grants and Contributions	-	-
Capital Grants and Contributions	2,009,922	19.28%
Investment Earnings (Expense)	(12,187)	-0.12%
Gain (Loss) on Sale of Capital Assets	(3,311)	-0.03%
Miscellaneous Revenues	3,229	0.03%
Total	\$ 10,423,972	100.00%

Financial Analysis of the County's Major Funds

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

Governmental funds analysis. 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 \$38.5 million, an increase of \$5.5 million in comparison with the prior year. Approximately 53.0 percent of this total amount (\$20.4 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 following are highlights related to each major fund in 2016:

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 \$7.6 million, while total fund balance reached \$9.3 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 22.8 percent of total general fund expenditures, while total fund balance represents 28.0 percent of that same amount.

The total fund balance of Lewis County's general fund decreased by \$865 thousand during the current fiscal year. There was a \$1.5 million increase in revenues, which were greater than expenditures by \$1.1 million. Expenditures in the general fund increased by \$1.6 million over the prior year. Other financing sources and uses were a net negative of \$1.9 million, which includes \$2.9 million in transfers-out to other funds. Additionally, limitation on increases in property taxes and constant demand for levels of services in law and justice programs continue to draw on the general fund's resources.

The **Roads Fund** provides road maintenance and construction services to the citizens of Lewis County. The Roads fund ended 2016 with a total fund balance of \$7.0 million, an increase of \$3.8 million over the previous year. This increase is a result of an increase in revenues and a decrease in expenditures in 2016. Revenues increased by \$3.4 million, while expenditures decreased by \$2.6 million. Much of the increase in revenue is due to increased intergovernmental grants and contributions which increased 42.0 percent over the prior year. Total assets in the Roads Fund also increased in the amount of \$3.8 million. These figures display an improvement of the Roads Fund's financial position during fiscal year 2016.

The **Capital Facilities Plan Fund** accounts for financial resources used for the acquisition or construction of major capital facilities. At the end of the current fiscal year, total fund balance in the Capital Facilities Plan Fund was \$7.7 million, an increase of \$1.4 million over the prior year. Of this amount, \$6.6 million (86.6 percent) is classified as restricted fund balance, which is subject to externally enforceable legal restrictions.

The **Distressed Counties Fund** was established in 2002 for the purpose of financing public facilities and infrastructure related to economic development using the .09% of the state sales tax the County receives. The Distressed Counties Fund ended 2016 with a total fund balance of \$4.7

million, a \$365 thousand increase over the prior year. Revenue also increased slightly, by 5.3 percent.

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. At the end of the current fiscal year, total fund balance in the 2007 Bond Redemption Fund was \$4 thousand.

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

The Solid Waste Utility Fund, Solid Waste Disposal District No. 1, the Vader Water System Utility, and the Packwood Airport are categorized as major proprietary funds for 2016.

The **Solid Waste Utility Fund** and the **Solid Waste Disposal District No. 1** provide efficient disposal and recycling services to the residents and businesses of Lewis County. The Solid Waste Utility fund ended the fiscal year with a total net position of \$1.9 million, an increase of 6.5 percent over the prior year. Revenues in the fund increased by 12.4 percent, ending 2016 with \$2.2 million in total revenues. Expenses in the fund decreased by 10.5 percent, ending 2016 with \$2.1 million in expenses. The increase in revenues along with the decrease in expenses allowed the fund to end 2016 with an increase in net position of \$112 thousand, compared to the negative change in net position in 2015.

The Solid Waste Disposal District No. 1 ended 2016 with a total net position of \$2.7 million, an increase of \$143 thousand over 2015. Revenues in the SWDD fund increased by 3.6 percent in 2016, or \$202 thousand. Expenses in the fund also increased, by the same amount as revenues, 3.6 percent.

The **Vader Water System Utility Fund** accounts for activity of the public water system serving the City of Vader and surrounding county lands. Previously in receivership, the court awarded the Vader Water System to Lewis County in 2015. The Vader Water System Utility fund is responsible for establishing, operating, and maintaining the supply, treatment, and distribution of water for the Vader-Enchanted Valley Water System. At the end of the current fiscal year, the net position of this fund was \$2.0 million, an increase of \$15 thousand over the prior year. Revenues in 2016 decreased slightly to \$280 thousand compared to \$311 thousand the prior year. Expenses slightly increased by 4.5 percent, with a total of \$343 thousand in 2016.

The **Packwood Airport Fund** accounts for activity of the airport located in Packwood, WA. The airport was awarded a \$1.5 million grant in 2016 for runway improvements from the Federal Aviation Administration and the Department of Transportation Aviation Division. This grant award contributed to the \$2.0 million increase in net position over the prior year.

During the year, net position for all enterprise funds increased by \$2.3 million over the prior year. 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

Lewis County adopts an annual budget in December of the preceding year, with adjustments made throughout the year. The significant differences between the original budget and the final amended budget can be briefly summarized as follows:

- \$774 thousand increase in total revenues
- \$728 thousand increase in total expenditures
- \$603 thousand increase in transfers-out
- \$442 thousand increase in intergovernmental revenue
- \$388 thousand increase general government expenditures

Significant differences between the final amended budget and actual amounts can be briefly summarized as follows:

- \$844 thousand increase in total revenues
- \$960 thousand decrease in total expenditures
- \$274 thousand increase in tax revenue
- \$1.0 million increase in charges for services revenue
- \$496 thousand decrease in general government expenditures
- \$507 thousand decrease in security of persons & property expenditures

During the year actual revenues were more than original budgetary estimates, expenditures were less than budgetary estimates, and the net effect after other financing sources/uses lead to the decrease of \$855 thousand in 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, 2016, amounts to \$113.2 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 \$567 thousand (a \$1.3 million decrease for governmental activities and \$1.8 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 of road right-of-way.
- Increase in land improvements due to a new septic system for the Animal Shelter and improvements to the SWW fairgrounds.
- Increase in infrastructure due to the completion of the Lincoln Creek Bridge project and other additions.

- Increase in construction in progress due to the Packwood Airport runway project and various other County projects.
- Decrease in county buildings mainly due to annual depreciation.

Lewis County’s Capital Assets
(net of depreciation)

Capital Assets at Year-end (Net of Depreciation)	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 5,857,351	\$ 5,530,551	\$ 209,568	\$ 209,568	\$ 6,066,919	\$ 5,740,119
Land Use Rights (Intangible Assets)	114,160	95,807	4,614	4,614	118,774	100,421
Construction in Progress	2,506,377	2,249,166	2,417,504	314,905	4,923,881	2,564,071
Buildings	34,884,734	35,940,038	191,339	216,455	35,076,073	36,156,493
Improvements other than buildings	624,700	537,510	4,791,270	5,057,020	5,415,970	5,594,530
Machinery & Equipment	9,860,112	9,922,828	358,012	346,309	10,218,124	10,269,137
Intangible Assets	853,550	884,000	-	-	853,550	884,000
Infrastructure	50,515,877	51,312,947	-	-	50,515,877	51,312,947
Total	\$ 105,216,861	\$ 106,472,847	\$ 7,972,307	\$ 6,148,871	\$ 113,189,168	\$ 112,621,718

Additional information on Lewis County’s capital assets can be found in Note 5 within the Notes to the Financial Statements in this report.

Long-term debt. At the end of the current fiscal year, Lewis County’s total long-term debt outstanding was \$15.4 million. Of this amount, \$743 thousand comprises debt other than General Obligation Bonds backed by the full faith and credit of the government.

Lewis County’s Outstanding Debt

	Beginning Balance		Additions	Reductions	Ending Balance	
	12/31/2015				12/31/2016	
General Obligation Bonds	\$ 16,069,794	\$ -	\$ 1,462,122	\$ 14,607,672		
Notes Payable	783,845	-	41,124	742,721		
Total	\$ 16,853,639	\$ -	\$ 1,503,246	\$ 15,350,393		

Lewis County’s total debt decreased by \$1.5 million (8.9 percent) during the current fiscal year. The decrease was related to scheduled debt service during the year. Lewis County maintains an “A1” 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 \$163.2 million and \$92.6 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. This calculation does not include assets or liabilities related to Governmental Accounting Standards Board Statement No. 68 pension reporting requirements.

Additional information on Lewis County's long-term debt can be found in Note 11 within the Notes to the Financial Statements.

Economic Factors

The unemployment rate for Lewis County is currently 8.0 percent, a slight decrease from the rate of 8.6 percent a year ago. This is higher than the current state's average unemployment rate of 5.3 percent and the national average rate of 4.7 percent. Inflationary trends in the region are comparable to national indices.

Subsequent Events

In early 2017, Lewis County and the City of Centralia mutually agreed to name Lewis County Solid Waste Utility as the operating agent of the closed Centralia Landfill. The Solid Waste Disposal District will still provide funding to monitor and operate post closure duties under guidance from the Department of Ecology and Southwest Washington Clean Air Agency. More information regarding this agreement can be found in Note 16 within the Notes to the Financial Statements.

All of these factors were considered in preparing Lewis County's budget for the 2017 fiscal year.

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, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash & Cash Equivalents	\$ 11,940,600	\$ 2,708,491	\$ 14,649,091
Investments	43,268,830	2,392,377	45,661,207
Receivables	4,980,619	431,308	5,411,927
Interest Receivable	104,333	2	104,335
Internal Balances	431,061	178,728	609,789
Due from Other Governmental Units	4,251,601	411,468	4,663,069
Inventories	734,694	-	734,694
Prepayments	1,028,727	16,520	1,045,247
Capital Assets Not Being Depreciated:			
Land, Intangibles, (Nondepreciable)	6,825,061	214,182	7,039,243
Construction in Progress	2,506,377	2,417,504	4,923,881
Capital Assets Being Depreciated:			
Buildings & Structures	34,884,734	191,339	35,076,073
Improvements Other than Buildings	624,700	4,791,270	5,415,970
Machinery & Equipment	9,860,112	358,012	10,218,124
Infrastructure	50,515,877	-	50,515,877
Net Pension Asset	843,242	-	843,242
Total Assets	172,800,568	14,111,201	186,911,769
Deferred Outflow of Resources:			
Deferred Outflows Related to Refunding of Debt	283,838	-	283,838
Deferred Outflows Related to Pensions	4,684,826	168,544	4,853,370
Total Deferred Outflow of Resources	4,968,664	168,544	5,137,208
Liabilities			
Accounts Payable & Other Current Liabilities	2,535,183	682,794	3,217,977
Internal Balances	-	609,788	609,788
Due to Other Governmental Units	250,269	7,206	257,475
Accrued Interest Payable	36,480	-	36,480
Accrued Employee Benefits	2,674,036	89,028	2,763,064
Unearned Revenue	105,930	-	105,930
Custodial Accounts	2,055,440	22,803	2,078,243
Noncurrent Liabilities:			
Due Within One Year	2,885,292	41,124	2,926,416
General Obligation Debt	11,834,999	-	11,834,999
Other Credits	383,165	-	383,165
Contracts Payable - Leases	153,753	701,597	855,350
Compensated Absences	4,481,850	149,134	4,630,984
Net OPEB Obligation	2,482,860	-	2,482,860
Incurred but Not Reported	1,859,806	-	1,859,806
Net Pension Liability	24,823,994	1,033,774	25,857,768
Total Liabilities	56,563,057	3,337,248	59,900,305
Deferred Inflows of Resources:			
Related to Leases	-	6,423	6,423
Related to Pensions	752,169	32,632	784,801
Total Deferred Inflow of Resources	752,169	39,055	791,224
Net Position			
Net Investment in Capital Assets	92,186,435	7,229,586	99,416,021
Restricted: Special Revenue/Debt Service	16,833,229	-	16,833,229
Restricted: Pensions	843,242	-	843,242
Unrestricted (Deficit)	10,591,100	3,673,856	14,264,956
Total Net Position	\$ 120,454,006	\$ 10,903,442	\$ 131,357,448

See Accompanying Notes to Financial Statements

Statement of Activities
For Year Ended December 31, 2016

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 Services	\$ 15,862,159	\$ 6,518,740	\$ 4,751,628	\$ -	\$ (4,591,791)	\$ -	\$ (4,591,791)
Public Safety	21,822,096	4,780,446	908,638	337,404	(15,795,608)	-	(15,795,608)
Utilities	139,225	-	16,712	-	(122,513)	-	(122,513)
Transportation	20,763,845	227,625	10,233,953	1,228,040	(9,074,227)	-	(9,074,227)
Natural & Economic Environment	2,700,128	817,605	522,576	-	(1,359,947)	-	(1,359,947)
Social Services & Physical Health	6,114,600	1,535,776	2,419,191	-	(2,159,633)	-	(2,159,633)
Culture & Recreation	1,818,454	823,400	152,445	-	(842,609)	-	(842,609)
Interest on Long-Term Debt	487,465	-	-	-	(487,465)	-	(487,465)
Total Government Activities	69,707,972	14,703,592	19,005,143	1,565,444	(34,433,793)	-	(34,433,793)
Business-type activities:							
Solid Waste	7,939,089	8,065,495	-	-	-	126,406	126,406
Airports	288,690	80,731	-	1,930,476	-	1,722,517	1,722,517
Water Sewer	347,615	280,093	-	79,446	-	11,924	11,924
Total business-type activities	8,575,394	8,426,319	-	2,009,922	-	1,860,847	1,860,847
Total primary government	\$ 78,283,366	\$ 23,129,911	\$ 19,005,143	\$ 3,575,366	\$ (34,433,793)	\$ 1,860,847	\$ (32,572,946)
General Revenues:							
Property Taxes					\$ 23,370,811	\$ -	\$ 23,370,811
Private Harvest Taxes					2,887,434	-	2,887,434
Sales Tax					11,216,232	-	11,216,232
Excise Tax					1,458,233	-	1,458,233
Investment Earnings					585,634	(12,187)	573,447
Miscellaneous					11,228	(3,311)	7,917
Gain on Sale & Donation of Capital Assets					2,087,593	3,229	2,090,822
Insurance Proceeds					241,277	-	241,277
Grants/Contrib/Ins Proceeds not Program Specific					80,092	-	80,092
Transfers					(381,945)	381,945	-
Total General Revenues and Transfers					41,556,589	369,676	41,926,265
Change in Net Position					7,122,796	2,230,523	9,353,319
Net Position - Beginning					111,879,381	8,647,204	120,526,585
Prior Period Adjustment - Reclassifications					842,593	-	842,593
Prior Period Adjustment - Pensions					609,236	25,715	634,951
Net Position - Ending					\$ 120,454,006	\$ 10,903,442	\$ 131,357,448

See Accompanying Notes to Financial Statements

Balance Sheet
Governmental Funds
December 31, 2016

	General	Roads	Distressed Counties
Assets			
Cash & Cash Equivalents	\$ 2,892,937	\$ 3,245,253	\$ 1,235,212
Investments	6,997,437	3,091,077	2,138,574
Receivables, Net	589,680	586,107	107,196
Interest Receivable	61,355	-	480
Due from Other Funds	114,195	31,627	-
Interfund Loan Receivable	867,000	-	-
Due from Other Governmental Units	1,063,302	2,254,702	95,736
Inventories	2,960	-	-
Prepayments	50,995	51,202	-
Notes/Contracts Receivable	-	90,023	1,237,129
Debt Service Investment	-	-	-
Total Assets	12,639,861	9,349,991	4,814,327
Liabilities			
Accounts/Vouchers Payable	483,832	617,054	31,690
Retainage Payable	420,654	-	-
Due to Other Funds	29,174	580,815	18,567
Interfund Loans payable	-	-	-
Due to Other Governmental Units	14,576	36,925	99,084
Accrued Employee Benefits	1,458,618	527,795	-
Unearned Revenue	1,848	10,243	-
Custodial Accounts	426,436	7,096	-
Total Liabilities	2,835,138	1,779,928	149,341
Deferred Inflows			
Unavailable Revenue (Property Taxes)	463,158	517,067	-
Total Deferred Inflows of Resources	463,158	517,067	-
Fund Balances			
Nonspendable	920,955	141,225	1,237,128
Restricted: Special Revenue/Capital Projects	789,093	117,050	3,152,017
Restricted: Debt Service	-	-	-
Committed	-	-	-
Assigned	25,951	6,794,721	275,841
Unassigned	7,605,566	-	-
Total Fund Balances	9,341,565	7,052,996	4,664,986
Total Liabilities, Deferred Inflows, and Fund Balances			
	\$ 12,639,861	\$ 9,349,991	\$ 4,814,327

See Accompanying Notes to Financial Statements

Balance Sheet
Governmental Funds
December 31, 2016

	2007 Bond Redemption	Capital Facilities Plan	Other Governmental Funds	Total Governmental Funds
Assets				
Cash & Cash Equivalents	\$ 12,744	\$ 12,449	\$ 1,781,470	\$ 9,180,065
Investments	-	7,490,089	8,515,736	28,232,913
Receivables, Net	-	-	594,707	1,877,690
Interest Receivable	839	7,859	6,268	76,801
Due from Other Funds	-	1,629	46,565	194,016
Interfund Loan Receivable	-	148,513	-	1,015,513
Due from Other Governmental Units	-	105,536	732,325	4,251,601
Inventories	-	-	-	2,960
Prepayments	-	-	206,770	308,967
Notes/Contracts Receivable	-	-	-	1,327,152
Debt Service Investment	1,559,968	-	-	1,559,968
Total Assets	1,573,551	7,766,075	11,883,841	48,027,646
Liabilities				
Accounts/Vouchers Payable	-	36,789	450,444	1,619,809
Retainage Payable	-	-	-	420,654
Due to Other Funds	-	57,738	67,624	753,918
Interfund Loans payable	-	-	480,000	480,000
Due to Other Governmental Units	-	-	98,977	249,562
Accrued Employee Benefits	-	-	459,343	2,445,756
Unearned Revenue	-	-	93,839	105,930
Custodial Accounts	1,569,729	-	52,179	2,055,440
Total Liabilities	1,569,729	94,527	1,702,406	8,131,069
Deferred Inflows				
Unavailable Revenue (Property Taxes)	-	-	362,400	1,342,625
Total Deferred Inflows of Resources	-	-	362,400	1,342,625
Fund Balances				
Nonspendable	-	148,513	206,771	2,654,592
Restricted: Special Revenue/Capital Projects	-	6,646,707	4,304,676	15,009,543
Restricted: Debt Service	3,822	-	18,352	22,174
Committed	-	-	422,168	422,168
Assigned	-	876,328	4,888,419	12,861,260
Unassigned	-	-	(21,351)	7,584,215
Total Fund Balances	3,822	7,671,548	9,819,035	38,553,952
Total Liabilities, Deferred Inflows, and Fund Balances				
	\$ 1,573,551	\$ 7,766,075	\$ 11,883,841	\$ 48,027,646

See Accompanying Notes to Financial Statements

Reconciliation of the Governmental Balance Sheets
To the Government-Wide Statement of Net Position - Governmental Funds
December 31, 2016

Fund balances - total governmental funds	\$	38,553,952
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows related to refunding of debt and pensions are not financial resources and therefore not reported in the governmental funds		4,537,303
Capital and net pension assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		93,633,764
Some receivable balances are not yet available and are not reported as revenue in the governmental funds.		1,722,933
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		(21,773,512)
Net pension obligation is reported as a liability in the governmental activities and is not considered to represent a financial liability, therefore, it is not reported in the governmental funds.		(22,128,524)
Internal service funds are used by management to charge the costs of certain activities such as insurance, fleet, facilities maintenance, radio, and information services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		25,249,013
Revenue, such as property taxes, are recorded as deferred inflows of resources in the governmental funds because they are not current financial resources are accrued under the economic resources basis of accounting and recorded on the statement of net position.		1,342,625
Deferred inflows related to pensions are not reported in the governmental funds.		(683,548)
Net Position of government activities.	<u>\$</u>	<u>120,454,006</u>

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For The Year Ended December 31, 2016

	General	Roads	Distressed Counties
Revenues			
Taxes	\$ 20,415,804	\$ 11,586,865	\$ 1,210,997
Licenses & Permits	45,973	41,832	-
Intergovernmental	5,442,441	11,461,991	1,362
Charges for Services	4,907,045	228,543	-
Fines & Forfeits	1,657,484	-	-
Interest & Other Earnings	1,852,148	27,433	28,186
Miscellaneous	114,777	1,310	-
Total Revenues	34,435,672	23,347,974	1,240,545
Expenditures			
General Government Services	14,909,147	-	-
Security of Persons & Property	17,020,512	-	-
Utilities	-	-	-
Transportation	-	17,175,367	-
Natural & Economic Environment	593,518	100,529	634,576
Mental & Physical Health	458,104	-	-
Culture & Recreation	228,374	-	-
Debt Service:			
Principal	54,335	6,375	-
Interest & Other Debt Service	2,317	344	-
Capital Outlays	75,541	3,641,759	-
Total Expenditures	33,341,848	20,924,374	634,576
Excess of Revenues Over (Under) Expenditures	1,093,824	2,423,600	605,969
Other Financing Sources/(Uses)			
Lease Receipts - Capital	43,823	-	-
Insurance Recoveries	-	-	-
Proceeds from Sale of Capital Assets	848,499	1,150,494	-
Transfers-In	106,456	287,444	-
Transfers-Out	(2,958,123)	(66,272)	(240,808)
Total Other Financing Sources/(Uses)	(1,959,345)	1,371,666	(240,808)
Net Change in Fund Balance	(865,521)	3,795,266	365,161
Fund Balance - January 1 Restated	10,207,086	3,257,730	4,299,825
Fund Balance - December 31	\$ 9,341,565	\$ 7,052,996	\$ 4,664,986

See Accompanying Notes to Financial Statements

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

For The Year Ended December 31, 2016

	2007 Bond Redemption	Capital Facilities Plan	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ -	\$ 2,741,001	\$ 2,761,157	\$ 38,715,824
Licenses & Permits	-	-	1,114,235	1,202,040
Intergovernmental	-	-	3,268,135	20,173,929
Charges for Services	-	5,834	4,480,688	9,622,110
Fines & Forfeits	-	-	19,994	1,677,478
Interest & Other Earnings	-	73,956	904,025	2,885,748
Miscellaneous	321,160	14	105,779	543,040
Total Revenues	321,160	2,820,805	12,654,013	74,820,169
Expenditures				
General Government Services	-	94,649	729,161	15,732,957
Security of Persons & Property	-	80,018	3,889,198	20,989,728
Utilities	-	-	14,389	14,389
Transportation	-	-	357	17,175,724
Natural & Economic Environment	-	-	1,396,275	2,724,898
Mental & Physical Health	-	4,829	5,660,909	6,123,842
Culture & Recreation	-	3,520	1,492,055	1,723,949
Debt Service:				
Principal	242,122	-	1,232,142	1,534,974
Interest & Other Debt Service	74,084	-	420,399	497,144
Capital Outlays	-	13,570	632,035	4,362,905
Total Expenditures	316,206	196,586	15,466,920	70,880,510
Excess of Revenues Over (Under) Expenditures	4,954	2,624,219	(2,812,907)	3,939,659
Other Financing Sources/(Uses)				
Lease Receipts - Capital	-	-	7,314	51,137
Insurance Recoveries	-	-	239,200	239,200
Proceeds from Sale of Capital Assets	-	-	25,425	2,024,418
Transfers-In	-	-	3,602,395	3,996,295
Transfers-Out	-	(1,175,189)	(313,091)	(4,753,483)
Total Other Financing Sources/(Uses)	-	(1,175,189)	3,561,243	1,557,567
Net Change in Fund Balance	4,954	1,449,030	748,336	5,497,226
Fund Balance - January 1 Restated	(1,132)	6,222,518	9,070,699	33,056,726
Fund Balance - December 31	\$ 3,822	\$ 7,671,548	\$ 9,819,035	\$ 38,553,952

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, 2016

Net changes in fund balances - total governmental funds	\$	5,497,226
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.		4,362,907
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations) is to increase/decrease net position.		(1,484)
Repayment of bond principal and accrued interest is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the governmental statement of net position. Issuance of debt in the governmental funds provides current financial resources to governmental funds, but is not included in the statement of activities.		1,493,516
Some revenues and 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.		(4,689,928)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.		460,559
Change in net position of governmental activities.	<u>\$</u>	<u>7,122,796</u>

See Accompanying Notes to Financial Statements

GENERAL FUND
Expenditures by Department Budget-to-Actual Comparison Statement
For The Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance- Favorable (Unfavorable)
Commissioners - Legislative				
General Government	\$ 943,736	\$ 932,028	\$ 908,705	\$ 23,323
Principal	-	-	3,197	(3,197)
Interest & Other Debt Service	-	-	171	(171)
Total Commissioners - Legislative	943,736	932,028	912,073	19,955
Auditor				
General Government	1,247,585	1,260,685	1,246,367	14,318
Capital Outlay	-	-	8,779	(8,779)
Principal	-	-	1,251	(1,251)
Interest & Other Debt Service	-	-	73	(73)
Total Auditor	1,247,585	1,260,685	1,256,470	4,215
Auditor - Elections				
General Government	304,397	444,497	434,690	9,807
Principal	-	-	313	(313)
Interest & Other Debt Service	-	-	18	(18)
Total Auditor - Elections	304,397	444,497	435,021	9,476
Assessor				
General Government	1,717,315	1,739,125	1,663,039	76,086
Capital Outlay	-	25,000	24,444	556
Principal	-	-	2,641	(2,641)
Interest & Other Debt Service	-	-	210	(210)
Total Assessor	1,717,315	1,764,125	1,690,334	73,791
Board of Equalization				
General Government	15,238	15,238	7,455	7,783
Total Board of Equalization	15,238	15,238	7,455	7,783
Treasurer				
General Government	810,405	831,889	809,277	22,612
Interest & Other Debt Service	-	-	41	(41)
Total Treasurer	810,405	831,889	809,318	22,571
Clerk				
General Government	1,145,424	1,145,424	1,115,950	29,474
Principal	-	-	712	(712)
Interest & Other Debt Service	-	-	10	(10)
Total Clerk	1,145,424	1,145,424	1,116,672	28,752

GENERAL FUND
Expenditures by Department Budget-to-Actual Comparison Statement
For The Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance- Favorable (Unfavorable)
Superior Court				
General Government	1,312,618	1,357,118	1,333,702	23,416
Principal	-	-	1,688	(1,688)
Interest & Other Debt Service	-	-	111	(111)
Total Superior Court	1,312,618	1,357,118	1,335,501	21,617
District Court				
General Government	1,771,753	1,829,118	1,703,954	125,164
Capital Outlay	-	-	16,982	(16,982)
Principal	-	-	4,071	(4,071)
Interest & Other Debt Service	-	-	179	(179)
Total District Court	1,771,753	1,829,118	1,725,186	103,932
Prosecuting Attorney				
General Government	3,092,126	3,104,931	3,033,288	71,643
Principal	-	-	18,090	(18,090)
Interest & Other Debt Service	-	-	485	(485)
Total Prosecuting Attorney	3,092,126	3,104,931	3,051,863	53,068
Self Insurance				
General Government	206,862	222,162	218,244	3,918
Principal	-	-	820	(820)
Interest & Other Debt Service	-	-	53	(53)
Total Self Insurance	206,862	222,162	219,117	3,045
Courts: Designated Accounts				
General Government	1,262,900	1,290,300	1,265,016	25,284
Total Courts: Designated Accounts	1,262,900	1,290,300	1,265,016	25,284
Civil Service				
General Government	16,202	20,202	18,706	1,496
Total Civil Service	16,202	20,202	18,706	1,496
Disability Board				
Security of Persons and Property	1,800	1,800	540	1,260
Total Disability Board	1,800	1,800	540	1,260
State Examiner				
General Government	40,000	40,826	40,825	1
Total State Examiner	40,000	40,826	40,825	1
Association Dues				
General Government	27,000	27,000	24,084	2,916
Total Association Dues	27,000	27,000	24,084	2,916

GENERAL FUND
Expenditures by Department Budget-to-Actual Comparison Statement
For The Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance- Favorable (Unfavorable)
Labor Relations/Human Resources				
General Government	253,876	281,236	253,135	28,101
Security of Persons and Property	-	-	21,394	(21,394)
Principal	-	-	820	(820)
Interest & Other Debt Service	-	-	53	(53)
Total Labor Relations/Human Resources	253,876	281,236	275,402	5,834
Budget Office				
General Government	698,319	739,216	713,271	25,945
Principal	-	-	3,111	(3,111)
Interest & Other Debt Service	-	-	124	(124)
Total Budget Office	698,319	739,216	716,506	22,710
Boundary Review board				
Economic Environment	6,537	6,537	3,311	3,226
Total Boundary Review board	6,537	6,537	3,311	3,226
Central Services				
General Government	149,613	122,712	119,439	3,273
Total Central Services	149,613	122,712	119,439	3,273
Sheriff				
Security of Persons and Property	7,219,779	7,270,959	6,949,872	321,087
Capital Outlay	-	-	7,485	(7,485)
Principal	-	-	5,264	(5,264)
Interest & Other Debt Service	-	-	163	(163)
Total Sheriff	7,219,779	7,270,959	6,962,784	308,175
Jail				
Security of Persons and Property	7,028,069	7,147,659	6,954,730	192,929
Principal	-	-	6,068	(6,068)
Interest & Other Debt Service	-	-	338	(338)
Total Jail	7,028,069	7,147,659	6,961,136	186,523
Juvenile				
General Government	1,201	1,201	-	1,201
Security of Persons and Property	3,043,466	3,107,335	3,093,976	13,359
Capital Outlay	-	-	10,577	(10,577)
Principal	-	-	1,545	(1,545)
Interest & Other Debt Service	-	-	92	(92)
Total Juvenile	3,044,667	3,108,536	3,106,190	2,346
Noxious Weed Control				
Economic Environment	172,514	212,143	180,772	31,371
Total Noxious Weed Control	172,514	212,143	180,772	31,371

GENERAL FUND
Expenditures by Department Budget-to-Actual Comparison Statement
For The Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance- Favorable (Unfavorable)
Air Pollution Control				
Economic Environment	15,000	15,000	14,392	608
Total Air Pollution Control	15,000	15,000	14,392	608
Animal Shelter				
Economic Environment	346,931	362,331	357,965	4,366
Total Animal Shelter	346,931	362,331	357,965	4,366
Coroner				
Mental and Physical Health	439,996	464,801	458,104	6,697
Capital Outlay	5,170	5,170	7,274	(2,104)
Principal	-	-	2,076	(2,076)
Interest & Other Debt Service	-	-	13	(13)
Total Coroner	445,166	469,971	467,467	2,504
WSU Extension				
Culture and Recreation	241,058	241,058	228,374	12,684
Principal	-	-	2,668	(2,668)
Interest & Other Debt Service	-	-	183	(183)
Total WSU Extension	241,058	241,058	231,225	9,833
Current Expense Transfers				
Transfers-Out	2,597,524	3,200,824	2,958,123	242,701
Total Current Expense Transfers	2,597,524	3,200,824	2,958,123	242,701
Total Expenditures	36,134,414	37,465,525	36,262,893	1,202,632

Budget-To-Actual Comparison Statement
For The Year Ended December 31, 2016

	General Fund			
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Final Budget-Positive (Negative)
Revenues				
Taxes	\$ 19,828,535	20,141,535	\$ 20,415,804	\$ 274,269
Licenses & Permits	31,400	31,400	45,973	14,573
Intergovernmental	4,999,999	5,442,441	5,442,441	-
Charges for Services	3,845,286	3,876,286	4,895,045	1,018,759
Fines & Forfeits	2,054,067	2,054,067	1,657,484	(396,583)
Interest & Other Earnings	2,015,210	1,931,934	1,852,148	(79,786)
Miscellaneous	31,290	101,790	114,777	12,987
Total Revenues	32,805,787	33,579,453	34,423,672	844,219
Expenditures				
General Government Services	15,016,570	15,404,908	14,909,147	495,761
Security of Persons & Property	17,293,114	17,527,753	17,020,512	507,241
Natural & Economic Environment	540,982	596,011	556,440	39,571
Mental & Physical Health	439,996	464,801	458,104	6,697
Culture & Recreation	241,058	241,058	228,374	12,684
Debt Service:				
Principal	-	-	54,335	(54,335)
Interest & Other Debt Service	-	-	2,317	(2,317)
Capital Outlays	5,170	30,170	75,541	(45,371)
Total Expenditures	33,536,890	34,264,701	33,304,770	959,931
Excess of Revenues Over (Under) Expenditures	(731,103)	(685,248)	1,118,902	1,804,150
Other Financing Sources/(Uses)				
Lease Receipts - Capital	-	-	43,823	43,823
Proceeds from Sale of Capital Assets	700,000	700,000	848,499	148,499
Transfers-In	101,000	101,000	91,456	(9,544)
Transfers-Out	(2,597,524)	(3,200,824)	(2,958,123)	242,701
Total Other Financing Sources/(Uses)	(1,796,524)	(2,399,824)	(1,974,345)	425,479
Net Change in Fund Balance	(2,527,627)	(3,085,072)	(855,443)	2,229,629
Fund Balance - January 1 Restated	10,171,057	10,171,057	10,171,057	-
Fund Balance - December 31	\$ 7,643,430	\$ 7,085,985	\$ 9,315,614	\$ 2,229,629

Perspective Difference Reconciliation:

Actual Fund Balance - Schedule of Revenues, Expenditures, And Changes in Fund Balance 9,315,614

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

Flood Control Zone #125	10,917
Cowlitz River Basin Subzone #126	15,000
SWW Fair Entertainment Reserve #197	34
Total Fund Balance - General Fund Balance Sheet for Governmental Funds	9,341,565

See Accompanying Notes to Financial Statements

Budget-to-Actual Comparison Statement

For The Year Ended December 31, 2016

Special Revenue: Roads				
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 11,500,410	\$ 11,500,410	\$ 11,586,865	\$ 86,455
Licenses & Permits	-	-	41,832	41,832
Intergovernmental	15,912,435	15,912,435	11,461,991	(4,450,444)
Charges for Services	83,600	83,600	228,543	144,943
Fines & Forfeits	-	-	-	-
Interest & Other Earnings	13,322	13,322	26,963	13,641
Miscellaneous	-	-	1,310	1,310
Total Revenues	27,509,767	27,509,767	23,347,504	(4,162,263)
Expenditures				
Transportation	16,977,260	16,977,260	17,175,367	(198,107)
Economic Environment	127,401	127,401	100,529	26,872
Debt Service:				
Principal	-	-	6,375	(6,375)
Interest & Other Debt Service	-	-	344	(344)
Capital Outlays	10,056,001	10,056,001	3,641,759	6,414,242
Total Expenditures	27,160,662	27,160,662	20,924,374	6,236,288
Excess of Revenues Over (Under) Expenditures	349,105	349,105	2,423,130	2,074,025
Other Financing Sources/(Uses)				
Proceeds from Sale of Capital Assets	900,000	900,000	1,150,494	250,494
Transfers-In	273,000	273,000	270,808	(2,192)
Transfers-Out	(63,517)	(63,517)	(66,272)	(2,755)
Total Other Financing Sources/(Uses)	1,109,483	1,109,483	1,355,030	245,547
Net Change in Fund Balance	1,458,588	1,458,588	3,778,160	2,319,572
Fund Balance - January 1 Restated	3,157,786	3,157,786	3,157,786	-
Fund Balance - December 31	\$ 4,616,374	\$ 4,616,374	\$ 6,935,946	\$ 2,319,572

Perspective Difference Reconciliation:

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

6,935,946

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

117,050

Total Fund Balance - Roads Fund Balance

Sheet

7,052,996

See Accompanying Notes to Financial Statements

Budget-to-Actual Comparison Statement
For The Year Ended December 31, 2016

Special Revenue: Distressed Counties				
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 1,150,000	\$ 1,150,000	\$ 1,210,997	\$ 60,997
Intergovernmental	-	-	1,362	1,362
Interest & Other Earnings	17,000	17,000	28,186	11,186
Miscellaneous	-	-	-	-
Total Revenues	1,167,000	1,167,000	1,240,545	73,545
Expenditures				
Economic Environment	1,205,000	1,205,000	634,576	570,424
Total Expenditures	1,205,000	1,205,000	634,576	570,424
Excess of Revenues Over (Under)				
Expenditures	(38,000)	(38,000)	605,969	643,969
Other Financing Sources/(Uses)				
Transfers-Out	(273,000)	(273,000)	(240,808)	32,192
Total Other Financing Sources/(Uses)	(273,000)	(273,000)	(240,808)	32,192
Net Change in Fund Balance	(311,000)	(311,000)	365,161	676,161
Fund Balance - January 1 Restated	4,299,825	4,299,825	4,299,825	-
Fund Balance - December 31	\$ 3,988,825	\$ 3,988,825	\$ 4,664,986	\$ 676,161

Statement of Net Position
Proprietary Funds
December 31, 2016

	Business-type Activity-Enterprise Funds			
	Solid Waste Utility	Solid Waste Disposal District	Vader Water System Utility	Packwood Airport
Assets				
Current Assets:				
Cash & Cash Equivalents	\$ 797,407	\$ 1,547,571	\$ 7,627	\$ 182,270
Investments	735,021	1,424,374	10,926	168,009
Receivables, Net	31,919	328,262	70,356	-
Interest Receivable	-	-	2	-
Due from Other Funds	178,728	-	-	-
Due from Other Governmental Units	22,869	-	79,446	270,885
Inventories	-	-	-	-
Prepayments	6,008	144	2,541	2,833
Noncurrent Assets:				
Land	112,682	-	34,279	46,221
Buildings & Structures, Net	96,418	-	75,985	2,219
Other Improvements, Net	616,778	-	2,542,982	622,176
Machinery & Equipment, Net	352,575	-	5,437	-
Construction in Progress	-	-	75,617	2,207,701
Total Assets	2,950,405	3,300,351	2,905,198	3,502,314
Deferred Outflow of Resources:				
Related to Pensions	149,287	-	10,527	-
Total Deferred Outflow of Resources	149,287	-	10,527	-
Liabilities				
Current Liabilities:				
Accounts/Vouchers Payable	54,227	456,445	32,412	109,779
Due to Other Funds	38,672	178,728	5,255	-
Interfund Loans Payable	-	-	20,000	367,000
Due to Other Governmental Units	-	-	7,206	-
Accrued Employee Benefits	76,527	-	7,295	-
Custodial Accounts	-	4,387	16,200	-
Due Within One Year	-	-	41,124	-
Noncurrent Liabilities:				
Loans Payable, Interfund	-	-	-	-
Compensated Absences	134,021	-	5,954	-
Notes, Contracts, Leases Payable	-	-	701,597	-
Incurred but Not Reported	-	-	-	-
Net Pension	913,805	-	66,366	-
Total Liabilities	1,217,252	639,560	903,409	476,779
Deferred Inflow of Resources				
Related to Leases	-	-	-	-
Related to Pensions	29,419	-	1,539	-
Total Deferred Inflow of Resources	29,419	-	1,539	-
Net Position				
Net Investment in Capital Assets	1,178,453	-	1,991,579	2,878,317
Restricted for Risk	-	-	-	-
Management/County	-	-	-	-
Unrestricted	674,568	2,660,791	19,198	147,218
Total Net Position	\$ 1,853,021	\$ 2,660,791	\$ 2,010,777	\$ 3,025,535

See Accompanying Notes to Financial Statements

Statement of Net Position
Proprietary Funds
December 31, 2016

	Business-type		Governmental Activities - Internal Service Funds
	Other		
	Enterprise Funds	Totals	
Assets			
Current Assets:			
Cash & Cash Equivalents	\$ 173,616	\$ 2,708,491	\$ 2,760,536
Investments	54,047	2,392,377	13,475,948
Receivables, Net	771	431,308	52,844
Interest Receivable	-	2	27,532
Due from Other Funds	-	178,728	621,581
Due from Other Governmental Units	38,268	411,468	-
Inventories	-	-	731,734
Prepayments	4,994	16,520	689,891
Noncurrent Assets:			
Land	21,000	214,182	1,606,961
Buildings & Structures, Net	16,717	191,339	3,162,807
Other Improvements, Net	1,009,334	4,791,270	187,934
Machinery & Equipment, Net	-	358,012	7,467,466
Construction in Progress	134,186	2,417,504	1,166
Total Assets	1,452,933	14,111,201	30,786,400
Deferred Outflow of Resources:			
Related to Pensions	8,730	168,544	431,361
Total Deferred Outflow of Resources	8,730	168,544	431,361
Liabilities			
Current Liabilities:			
Accounts/Vouchers Payable	29,931	682,794	507,010
Due to Other Funds	133	222,788	17,613
Interfund Loans Payable	-	387,000	-
Due to Other Governmental Units	-	7,206	707
Accrued Employee Benefits	5,206	89,028	228,280
Custodial Accounts	2,216	22,803	-
Due Within One Year	-	41,124	-
Noncurrent Liabilities:			
Loans Payable, Interfund	-	-	148,513
Compensated Absences	9,159	149,134	414,476
Notes, Contracts, Leases Payable	-	701,597	28,252
Incurred but Not Reported	-	-	1,859,806
Net Pension	53,603	1,033,774	2,695,470
Total Liabilities	100,248	3,337,248	5,900,127
Deferred Inflow of Resources			
Related to Leases	6,423	6,423	-
Related to Pensions	1,674	32,632	68,621
Total Deferred Inflow of Resources	8,097	39,055	68,621
Net Position			
Net Investment in Capital Assets	1,181,237	7,229,586	12,396,916
Restricted for Risk			
Management/County	-	-	436,240
Unrestricted	172,081	3,673,856	12,415,857
Total Net Position	\$ 1,353,318	\$ 10,903,442	\$ 25,249,013

See Accompanying Notes to Financial Statement

Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Funds

For The Year Ended December 31, 2016

	Solid Waste Utility	Solid Waste Disposal Dist	Vader Water System Utility	Packwood Airport
Operating Revenues				
Charges for Services	\$ 2,170,176	\$ 5,895,319	\$ 280,093	\$ -
Equipment Rental	-	-	-	-
Insurance Premiums and Recoveries	-	-	-	-
Other Operating Revenue	-	-	-	-
Total Operating Revenues	2,170,176	5,895,319	280,093	-
Operating Expenses				
Personnel - Salaries, Wages, Benefits	1,182,910	-	129,284	-
Supplies & Expenses	50,001	-	8,351	-
Services & Other Charges	766,279	5,677,798	91,013	6,125
Intergovernmental Services & Charges	5,390	152,131	3,779	615
Depreciation, Amortization, & Depletion	104,580	-	110,688	21,384
Risk Transfer payments	-	-	-	-
Insurance Claims and Expenses	-	-	-	-
Total Operating Expenses	2,109,160	5,829,929	343,115	28,124
Operating Income (Loss)	61,016	65,390	(63,022)	(28,124)
Non-Operating Revenues (Expenses)				
Interest and Investment Revenue (Expense)	-	-	(9,963)	(2,400)
Grants/Contributions	-	-	-	-
Other Non-Operating Revenue (Expenses)	(99,509)	77,942	11,906	1,902
Gain (Loss) on Disposal of Capital Assets	3,229	-	-	-
Capital Asset Loss Insurance Recovery	-	-	-	-
Total Non-Operating Revenues (Expenses)	(96,280)	77,942	1,943	(498)
Income (Loss) Before Contributions and Transfers	(35,264)	143,332	(61,079)	(28,622)
Capital Contrib. - Private/Local/Governmental	-	-	-	-
Grants - Capital	-	-	79,446	1,815,079
Transfer In (Out)	147,600	-	(5,255)	175,000
Change in Net Position	112,336	143,332	13,112	1,961,457
Net Position-Beginning	1,717,954	2,517,459	1,996,014	1,064,078
Prior Period Adjustments - Pensions	22,731	-	1,651	-
Net Position-Ending	\$ 1,853,021	\$ 2,660,791	\$ 2,010,777	\$ 3,025,535

See Accompanying Notes to Financial Statements

Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Funds

For The Year Ended December 31, 2016

	Other Enterprise Funds	Enterprise-type Totals	Governmental Activities - Internal Service Funds
Operating Revenues			
Charges for Services	\$ 60,424	\$ 8,406,012	\$ 5,299,493
Equipment Rental	-	-	3,910,637
Insurance Premiums and Recoveries	-	-	1,564,535
Other Operating Revenue	20,307	20,307	-
Total Operating Revenues	80,731	8,426,319	10,774,665
Operating Expenses			
Personnel - Salaries, Wages, Benefits	63,866	1,376,060	3,789,420
Supplies & Expenses	55,732	114,084	2,172,777
Services & Other Charges	29,143	6,570,358	2,664,808
Intergovernmental Services & Charges	220	162,135	22,445
Depreciation, Amortization, & Depletion	116,105	352,757	1,197,255
Risk Transfer payments	-	-	649,780
Insurance Claims and Expenses	-	-	460,189
Total Operating Expenses	265,066	8,575,394	10,956,674
Operating Income (Loss)	(184,335)	(149,075)	(182,009)
Non-Operating Revenues (Expenses)			
Interest and Investment Revenue (Expense)	176	(12,187)	109,275
Grants/Contributions	-	-	1,977
Other Non-Operating Revenue (Expenses)	4,448	(3,311)	9,251
Gain (Loss) on Disposal of Capital Assets	-	3,229	55,404
Capital Asset Loss Insurance Recovery	-	-	19,558
Total Non-Operating Revenues (Expenses)	4,624	(12,269)	195,465
Income (Loss) Before Contributions and Transfers	(179,711)	(161,344)	13,456
Capital Contrib. - Private/Local/Governmental	-	-	71,866
Grants - Capital	115,397	2,009,922	-
Transfer In (Out)	64,600	381,945	375,242
Change in Net Position	286	2,230,523	460,564
Net Position-Beginning	1,351,699	8,647,204	24,724,382
Prior Period Adjustments - Pensions	1,333	25,715	64,067
Net Position-Ending	\$ 1,353,318	\$ 10,903,442	\$ 25,249,013

See Accompanying Notes to Financial Statements

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

	Solid Waste Utility	Solid Waste Disposal Dist	Vader Water System Utility
Cash Flows from Operating Activities:			
Cash Received from Charges for Services	\$ 1,922,207	\$ 5,889,412	\$ 276,918
Cash Received from Premiums/Recoveries	-	-	-
Cash Received from Rent Proceeds	-	-	-
Cash Received from Equipment Rental	-	-	-
Payments for Wages & Benefits	(1,244,022)	-	(118,968)
Payments for Inventory & Supplies	(38,723)	-	(4,293)
Payments to Suppliers for Goods & Services	(743,445)	(5,549,042)	(99,986)
Payments for Risk Transfer	-	-	-
Payments for Claimants & Beneficiaries	-	-	-
Other Non-Operating Revenues	1,012	77,942	11,906
Other Non-Operating Expenses	(100,000)	-	-
Net Cash Provided (Used) by Operating Activities	(202,971)	418,312	65,577
Cash Flows from Non-Capital Financing Activities:			
Proceeds from Interfund Loan	-	-	20,000
Payments of Interfund Loan & Interest	-	-	-
Operating Grants/Contributions Received	201,092	-	-
Transfers-In	147,600	-	-
Transfers-Out	-	-	-
Cash Provided (Used) by Financing Activities	348,692	-	20,000
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Capital Improvement Assessments	-	-	-
Payments of Interfund Loan & Interest	-	-	-
Principal Paid on Capital Debt	-	-	(46,379)
Interest Paid on Capital Debt	-	-	(10,017)
Proceeds from Sale/Disposal of Capital Assets	6,675	-	-
Acquisition/Construction of Capital Assets	(71,481)	-	(52,971)
Capital Grants Received	-	-	-
Insurance Proceeds	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(64,806)	-	(109,367)
Cash Flows from Investing Activities:			
Receipt of Interest	-	-	54
Sale of Investment Securities	806,764	1,418,054	25,168
Purchase of Investment Securities	(735,021)	(1,424,374)	(10,926)
Cash Provided by Investing Activities	71,743	(6,320)	14,296
Net Increase (Decrease) in Cash & Cash Equivalents	152,658	411,992	(9,494)
Cash & Cash Equivalents at Beginning of Year	644,749	1,135,579	17,121
Cash & Cash Equivalents at End of Year	\$ 797,407	\$ 1,547,571	\$ 7,627

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

	Solid Waste Utility	Solid Waste Disposal Dist	Vader Water System Utility
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Net Operating Income (Loss)	\$ 61,016	\$ 65,390	\$ (63,022)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operations:			
Depreciation Expense	104,581	-	110,688
Operating Grants	(174,503)	-	-
Prior Period Adjustment to Net Position (GASB 68)	22,731	-	1,651
Other Non-Operating Revenue	491	77,942	11,906
Other Non-Operating (Expense)	(100,000)	-	-
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables	(72,945)	(6,128)	(5,875)
(Increase) Decrease in Inventories	-	-	-
(Increase) Decrease in Prepays	(961)	5	(1,910)
Increase (Decrease) in Payables	135,224	281,103	25,110
Change in Deferred Inflows and Outflows:			
(Increase) Decrease in Deferred Outflows-Pensions	(83,893)	-	(6,093)
Increase (Decrease) in Deferred Inflows-Pensions	(94,712)	-	(6,878)
Total Adjustments	(263,987)	352,922	128,599
Net Cash Provided (Used) by Operating Activities	\$ (202,971)	\$ 418,312	\$ 65,577
Noncash Investing, Capital, & Financing Activities:			
Contributions of Capital Assets	\$ -	\$ -	\$ -
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, 2016

	Packwood Airport	Other Enterprise Funds	Totals
Cash Flows from Operating Activities:			
Cash Received from Charges for Services	\$ -	\$ 60,424	\$ 8,148,961
Cash Received from Premiums/Recoveries	-	-	-
Cash Received from Rent Proceeds	-	20,640	20,640
Cash Received from Equipment Rental	-	-	-
Payments for Wages & Benefits	-	(68,785)	(1,431,775)
Payments for Inventory & Supplies	-	(829)	(43,845)
Payments to Suppliers for Goods & Services	(7,646)	(84,707)	(6,484,826)
Payments for Risk Transfer	-	-	-
Payments for Claimants & Beneficiaries	-	-	-
Other Non-Operating Revenues	1,902	4,805	97,567
Other Non-Operating Expenses	-	(327)	(100,327)
Net Cash Provided (Used) by Operating Activities	(5,744)	(68,779)	206,395
Cash Flows from Non-Capital Financing Activities:			
Proceeds from Interfund Loan	-	-	20,000
Payments of Interfund Loan & Interest	364,600	-	364,600
Operating Grants/Contributions Received	-	990	202,082
Transfers-In	175,000	64,600	387,200
Transfers-Out	-	-	-
Cash Provided (Used) by Financing Activities	539,600	65,590	973,882
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Capital Improvement Assessments	-	761	761
Payments of Interfund Loan & Interest	-	-	-
Principal Paid on Capital Debt	-	-	(46,379)
Interest Paid on Capital Debt	-	-	(10,017)
Proceeds from Sale/Disposal of Capital Assets	-	-	6,675
Acquisition/Construction of Capital Assets	(1,811,835)	(104,970)	(2,041,257)
Capital Grants Received	1,565,857	103,046	1,668,903
Insurance Proceeds	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(245,978)	(1,163)	(421,314)
Cash Flows from Investing Activities:			
Receipt of Interest	-	176	230
Sale of Investment Securities	34,683	76,001	2,360,670
Purchase of Investment Securities	(168,009)	(54,047)	(2,392,377)
Cash Provided by Investing Activities	(133,326)	22,130	(31,477)
Net Increase (Decrease) in Cash & Cash Equivalents	154,552	17,778	727,486
Cash & Cash Equivalents at Beginning of Year	27,718	155,838	1,981,005
Cash & Cash Equivalents at End of Year	\$ 182,270	\$ 173,616	\$ 2,708,491

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

	Packwood Airport	Other Enterprise Funds	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Net Operating Income (Loss)	\$ (28,124)	\$ (184,335)	\$ (149,075)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operations:			
Depreciation Expense	21,384	116,105	352,758
Operating Grants	-	-	(174,503)
Prior Period Adjustment to Net Position (GASB 68)	-	1,333	25,715
Other Non-Operating Revenue	1,902	4,775	97,016
Other Non-Operating (Expense)	-	(327)	(100,327)
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables	-	(260)	(85,208)
(Increase) Decrease in Inventories	-	-	-
(Increase) Decrease in Prepaids	(906)	(88)	(3,860)
Increase (Decrease) in Payables	-	5,072	446,509
Change in Deferred Inflows and Outflows:			
(Increase) Decrease in Deferred Outflows-Pensions	-	(4,921)	(94,907)
Increase (Decrease) in Deferred Inflows-Pensions	-	(6,133)	(107,723)
Total Adjustments	22,380	115,556	355,470
Net Cash Provided (Used) by Operating Activities	\$ (5,744)	\$ (68,779)	\$ 206,395
Noncash Investing, Capital, & Financing Activities:			
Contributions of Capital Assets	\$ -	\$ -	\$ -
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, 2016

	<u>Governmental Activities - Internal Service Funds</u>
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	\$ 5,102,254
Cash Received from Premiums/Recoveries	1,586,843
Cash Received from Rent Proceeds	-
Cash Received from Equipment Rental	3,910,637
Payments for Wages & Benefits	(3,646,326)
Payments for Inventory & Supplies	(1,310,496)
Payments to Suppliers for Goods & Services	(3,149,932)
Payments for Risk Transfer	(680,680)
Payments for Claimants & Beneficiaries	(720,800)
Other Non-Operating Revenues	9,251
Other Non-Operating Expenses	-
Net Cash Provided (Used) by Operating Activities	<u>1,100,751</u>
Cash Flows from Non-Capital Financing Activities:	
Proceeds from Interfund Loan	-
Payments of Interfund Loan & Interest	-
Operating Grants/Contributions Received	1,977
Transfers-In	380,635
Transfers-Out	(5,393)
Cash Provided (Used) by Financing Activities	<u>377,219</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Capital Improvement Assessments	-
Payments of Interfund Loan & Interest	(49,636)
Principal Paid on Capital Debt	(12,129)
Interest Paid on Capital Debt	(593)
Proceeds from Sale/Disposal of Capital Assets	125,592
Acquisition/Construction of Capital Assets	(825,743)
Capital Grants Received	32,015
Insurance Proceeds	19,558
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(710,936)</u>
Cash Flows from Investing Activities:	
Receipt of Interest	108,698
Sale of Investment Securities	13,235,505
Purchase of Investment Securities	(13,475,948)
Cash Provided by Investing Activities	<u>(131,745)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	635,289
Cash & Cash Equivalents at Beginning of Year	2,125,247
Cash & Cash Equivalents at End of Year	<u>\$ 2,760,536</u>

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

	Governmental Activities - Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Net Operating Income (Loss)	\$ (182,009)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Used by Operations:	
Depreciation Expense	1,197,255
Operating Grants	-
Prior Period Adjustment to Net Position (GASB 68)	64,067
Other Non-Operating Revenue	9,251
Other Non-Operating (Expense)	-
Change in Assets and Liabilities:	
(Increase) Decrease in Receivables	(174,931)
(Increase) Decrease in Inventories	111,706
(Increase) Decrease in Prepaids	(40,941)
Increase (Decrease) in Payables	636,647
Change in Deferred Inflows and Outflows:	
(Increase) Decrease in Deferred Outflows-Pensions	(255,946)
Increase (Decrease) in Deferred Inflows-Pensions	(264,348)
Total Adjustments	1,282,760
Net Cash Provided (Used) by Operating Activities	\$ 1,100,751
Noncash Investing, Capital, & Financing Activities:	
Contributions of Capital Assets	\$ 39,851
Gain (Loss) on Disposal of Capital Assets	42,455

See Accompanying Notes to Financial Statements

Statement of Net Position
Fiduciary Funds
December 31, 2016

	Agency Funds
Assets	
Current Assets:	
Cash & Cash Equivalents	\$ 6,247,882
Investments	135,491,563
Total Assets	141,739,445
 Liabilities	
Current Liabilities:	
Warrants Payable	1,274,244
Accounts/Vouchers Payable	465,852
Custodial Accounts	139,999,349
Total Liabilities	\$ 141,739,445

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 unit. 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. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Separate financial statements are provided for governmental funds and proprietary funds. Fiduciary funds are reported in aggregate and 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 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 Distressed Counties Fund is used to account for .09% of the state sales tax for the purpose of financing public facilities and infrastructure related to economic development.

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. This fund is also used to account for the one-tenth of 1% sales and use tax to be used for the jail and juvenile detention facilities.

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, 2016

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.

The Packwood Airport Fund accounts for activity of the airport located in Packwood, WA. The main source of revenue for the airport is from capital grants.

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, radio services, and information technology services.

The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds account for deposits that are temporarily held for other entities prior to disbursement. Disbursement is per instructions and approval by the respective agency's authoritative body.

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

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 except the General fund and Roads fund. Funds that do not qualify as Special Purpose Funds per GASB Statement No. 54 are included in a reconciliation on the respective budget to actual statement. 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, 2016

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 2016 budget was adopted by the BOCC on Monday, December 7, 2015.

3. Amending the Budget

The budget, as adopted, constitutes the legal authority for expenditures. 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 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.

The budget amounts shown in the combined financial statements are the final authorized amounts as revised during the 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 Balance/Net Position

During fiscal year 2016, two internal service funds, Facilities and Radio Services, incurred an ending deficit in net position. Two special revenue funds, Law Library and Southwest Washington Fair, incurred an ending deficit in fund balance.

The deficit net position in the amount of \$89,427 in the Radio Services fund can be attributed to the implementation of pension reporting requirements in GASB Statement No. 68. The Radio Services fund was established in 2016 and resulted in the movement of a portion of previously governmental pension liabilities to an internal service fund. The allocation of pension liabilities and deferred inflows/outflows to the Radio Services fund had a large impact on net position, specifically pension liability in the amount of \$119,969. The Facilities fund also ended with a deficit net position in the amount of \$995,505. A large portion of this deficit can also be attributed to the pension reporting requirements in GASB Statement No. 68. A pension liability in the amount of \$967,408 was allocated to the Facilities fund.

The Law Library fund ended 2016 with a deficit fund balance in the amount of \$3,946. This was due to realized revenue coming in 19% under anticipated revenue. The Southwest Washington Fair fund incurred a deficit ending fund balance of \$3,548. This was also due to realized revenue being 4% less than anticipated. Neither fund's actual expenditures exceeded their budget.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2016, all cash and cash equivalents were cash on hand and demand deposits with average maturities as noted in Note 3. 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.

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 2016 were approximately \$9,819,198.

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 amortized cost. The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations (See Deposits and Investments Note No. 3).

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Property Taxes Note No. 4). 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, 2016, \$1,195 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 been prepared by not paid by the end of the fiscal year. Notes and contracts receivable consist of amounts owed on open accounts from private individuals, organizations, or other governmental entities for goods and services rendered or loans.

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 13 – Interfund Balances and Transfers.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 the Equipment Rental and Revolving Fund 501 are valued at cost using the first-in/first-out (FIFO) method. All other proprietary funds are valued by the weighted average method which approximates the market value.

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

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:

<u>Fund</u>	<u>Cash</u>	<u>Investments</u>
County Insurance	\$ -	\$ 436,240

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 acquisition 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. All land is capitalized regardless of cost or value. 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

Machinery and equipment purchased on capital leases are treated as capital assets, indicating a constructive or actual transfer of the benefits and risks of ownership to the county, and are valued at the present value of the minimum lease payments required by contract.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

8. *Compensated Absences*

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. 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.

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 recognized as receivables, including amounts due from other governments, which cannot be classified as revenues and amounts collected prior to recognition criteria being met.

12. *Pensions*

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

13. *Fund Balance Classification*

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

14. *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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

- 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.

15. Fund Balances

	General Fund	Roads	Distressed Counties	Capital Projects	Special Revenue	Debt Service	Capital Facilities Plan	Total Funds
Fund Balances:								
Nonspendable:								
Loans Receivable	867,000	90,023	1,237,128	-	-	-	148,513	2,342,664
Inventory	2,960	-	-	-	-	-	-	2,960
Prepays	50,995	51,202	-	-	206,771	-	-	308,968
Total Nonspendable	920,955	141,225	1,237,128	-	206,771	-	148,513	2,654,592
Restricted:								
Debt Service	-	-	-	-	-	22,174	-	22,174
General Government & Judicial	340,878	-	-	-	435,574	-	6,646,707	7,423,159
Public Safety	404,282	-	-	-	285,585	-	-	689,867
Transportation	-	117,050	-	-	-	-	-	117,050
Natural & Economic Environment	43,933	-	3,152,017	50,000	351,836	-	-	3,597,786
Social Services & Physical Health	-	-	-	-	1,323,928	-	-	1,323,928
Public Services	-	-	-	-	1,857,753	-	-	1,857,753
Total Restricted	789,093	117,050	3,152,017	50,000	4,254,676	22,174	6,646,707	15,031,717
Committed:								
General Government Services	-	-	-	-	58,909	-	-	58,909
Security of Persons & Property	-	-	-	-	-	-	-	-
Utilities & Environment	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-
Natural & Economic Environment	-	-	-	363,259	-	-	-	363,259
Mental & Physical Health	-	-	-	-	-	-	-	-
Culture & Recreation	-	-	-	-	-	-	-	-
Public Services	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-
Total Committed	-	-	-	363,259	58,909	-	-	422,168
Assigned:								
General Government & Judicial	-	-	-	-	29,193	-	-	29,193
Public Safety	-	-	-	-	416,582	-	-	416,582
Utilities	-	-	-	-	-	-	-	-
Transportation	-	6,794,721	-	-	-	-	-	6,794,721
Natural & Economic Environment	25,917	-	275,841	-	126	-	-	301,884
Social Services & Physical Health	-	-	-	-	553,412	-	-	553,412
Culture & Recreation	34	-	-	-	48,219	-	-	48,253
Public Services	-	-	-	-	312,518	-	-	312,518
Capital Projects	-	-	-	3,528,369	-	-	876,328	4,404,697
Total Assigned	25,951	6,794,721	275,841	3,528,369	1,360,050	-	876,328	12,861,260
Unassigned:								
	7,605,566	-	-	-	(21,351)	-	-	7,584,215
Total Fund Balances:	9,341,565	7,052,996	4,664,986	3,941,628	5,859,055	22,174	7,671,548	38,553,952

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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	<u>\$ 38,553,952</u>
Deferred outflows related to refunding of debt and pensions are not financial resources and therefore not reported in the governmental funds	4,537,303
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	92,790,522
Net pension assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	843,242
Some receivable balances are not yet available and are not reported as revenue in the governmental funds. This includes receivables due from the Administrative Office of the Courts collected on behalf of Superior and District Court.	1,722,933
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(21,773,512)
Net pension obligation is reported as a liability in the governmental activities and is not considered to represent a financial liability, therefore, it is not reported in the governmental funds.	(22,128,524)
Internal service funds are used by management to charge the costs of certain activities such as insurance, fleet, facilities maintenance, radio, and information services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	25,249,013
Revenue, such as property taxes, are recorded as deferred inflows of resources in the governmental funds because they are not current financial resources are accrued under the economic resources basis of accounting and recorded on the statement of net position.	1,342,625
Deferred inflows related to pensions are not reported in the governmental funds.	(683,548)
Total Net Position of government activities	<u>\$ 120,454,006</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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	<u>\$ 5,497,226</u>
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.	4,362,905
The net effect of miscellaneous transactions involving capital assets (donation and loss related to improvement) is a increase/decrease net position.	(1,484)
Repayment of bond principal and accrued interest is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the governmental statement of net position. Issuance of debt in the governmental funds provides current financial resources to governmental funds, but is not included in the statement of activities.	1,493,516
Some revenues and 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.	(4,689,928)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.	460,559
Change in net position of governmental activities.	<u>\$ 7,122,794</u>

NOTE 3 – DEPOSITS AND INVESTMENTS

A. 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).

B. Investments

The county maintains an internal cash pool for idle cash that has not been invested for the benefit of specific funds. All interest earnings from this pool are credited to the General Fund. Cash balances of the individual funds constitute a portion

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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, 2016, the county had the following investments:

Investment Type:	Carrying Amount	Fair Value
U.S. Gov't Securities	\$ 24,825,945	\$ 24,730,578
Municipal Bonds	9,744,438	9,643,341
Subtotal - Investments Subject to Credit Risk Classification	34,570,383	34,373,919
State Treasurer's Investment Pool	42,077,185	42,077,185
Bank Deposits	111,934,945	111,934,945
Time Deposits	170,320	170,320
Subtotal - Investments Not Subject To Credit Risk Classification	154,182,450	154,182,450
Total Investments	\$ 188,752,833	\$ 188,556,369

Of the investments listed above, \$45,661,207, are investments held by County funds. The remainder of the investments are held in fiduciary funds for outside agencies and invested in the Local Government Investment Pool along with County funds.

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.

The Washington State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations (RCW 43.250.020). The LGIP is comparable to a Rule 2a-7 money market fund, as currently recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. As such, investments are reported at amortized cost (which approximates fair value). Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. For bank deposits and repurchase agreements, this cost-based measure equals their carrying value amount. Fair value is determined monthly. The reported value of the County's investment in the LGIP is dollar for dollar equal to the fair value of pool shares.

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9 a.m. and 10 a.m. at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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, banker's 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.

The ratings of debt securities as of December 31, 2016 are:

Municipal Bonds	Rating
Churchill County NV School Dist	AAA S&P
Connecticut State UNLTD TXBL GO	AA- S&P
Energy Northwest	AA- S&P
Houston TX LTD GO Build America	AA S&P
Easton SD #28 Kittitas County	Aa1 Moody's
NYC GO UNLTD TXBL	AA S&P
Peters Township PA School Dist LTD TXBL GO	Aa2 Moody's
Pierce Co SD #402 UNLTD TXBL GO	AA3 Moody's
Richland WA Elect Rev Bond	A+ Moody's
Evaline SD #36 UNLTD TXBL GO	N/A*
Snohomish County LTD TXBL GO	AA+ S&P
Spokane County LTD TXBL GO	AA S&P
Stratford CT ULTD TXBL GO	AA S&P

* Irrevocable pledge of annual levy for payment of principal and interest

Investments Measured at Fair Value

The County measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

Investments Subject to Credit Risk Classification (U.S. Gov't Securities and Municipal Bonds) are Level 1 inputs and are valued using quoted market prices. Investments Not Subject to Credit Risk Classification (State Treasurer's Investment Pool, Bank Deposits and Time Deposits) are not subject to fair value level disclosure.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed as collected and those collections requiring remittance are distributed to other jurisdictions after the end of each month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property is established for next year's levy at 100% of market value.
October 31	Second installment is due.

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

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 2016 was \$2.22 per \$1,000 on an assessed valuation of \$5,019,227,020 or a total road tax of \$11,159,620.

The diverted county road levy for 2016 was \$0.260967 per \$1,000 on an assessed valuation of \$5,019,227,020 for a total appropriation of \$1,309,854. At December 31, 2016 the actual diverted road levy was \$1,291,102.

The county's total regular levy for 2016 was \$1.6870 per \$1,000 on an assessed valuation of \$7,057,914,504 for a total regular tax of \$11,906,876. The components of the regular levy are:

	Levy	Tax
General Fund	1.64266339	11,593,778
Veterans' Relief	0.019716164	139,155
Social Services	0.024645098	173,943
Totals	1.68702465	11,906,876

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

GOVERNMENTAL TYPE ACTIVITIES	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital Assets, not being depreciated:				
Land	\$ 5,530,551	\$ 326,800	\$ -	\$ 5,857,351
Land Use Rights (Intangible Assets)	95,807	18,353	-	114,160
Intangible Assets	884,000	-	30,450	853,550
Construction in Progress	2,249,166	3,681,369	3,424,158	2,506,377
Total Capital Assets, not being depreciated	<u>8,759,524</u>	<u>4,026,522</u>	<u>3,454,608</u>	<u>9,331,438</u>
Capital Assets being depreciated:				
Buildings	64,706,652	183,254	-	64,889,906
Improvements other than buildings	3,513,975	159,977	24,672	3,649,280
Machinery & Equipment	25,617,343	1,106,755	640,879	26,083,219
Intangible Assets	-	-	-	-
Infrastructure	108,427,324	2,090,910	-	110,518,234
Total Capital Assets, being depreciated	<u>202,265,294</u>	<u>3,540,896</u>	<u>665,551</u>	<u>205,140,639</u>
Less Accumulated Depreciation for:				
Buildings	28,766,614	1,238,558	-	30,005,172
Improvements other than buildings	2,976,465	61,000	12,885	3,024,580
Machinery & Equipment	15,421,406	1,402,842	601,141	16,223,107
Intangible Assets	-	-	-	-
Infrastructure	57,114,377	2,887,980	-	60,002,357
Total Accumulated Depreciation	<u>104,278,862</u>	<u>5,590,380</u>	<u>614,026</u>	<u>109,255,216</u>
Total Capital Assets being depreciated, net	97,986,432	(2,049,484)	51,525	95,885,423
Governmental Type Activities Capital Assets, net	<u>\$ 106,745,956</u>	<u>\$ 1,977,038</u>	<u>\$ 3,506,133</u>	<u>\$ 105,216,861</u>

Note: Beginning Balances for Machinery & Equipment & Accumulated Depreciation-Machinery & Equipment were restated.

Depreciation Expense was charged to functions as follows:

General Government	\$ 388,297
Public Safety	758,075
Utilities	124,560
Transportation	2,955,893
Natural and Economic Environment	11,256
Social Services	40,249
Culture and Recreation	114,795
	<u>\$ 4,393,125</u>

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

1,197,255

Total Governmental Activities Depreciation Expense \$ 5,590,380

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

BUSINESS TYPE ACTIVITIES	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital Assets, not being depreciated:				
Land	\$ 209,568	\$ -	\$ -	\$ 209,568
Land Use Rights (Intangible Assets)	4,614	-	-	4,614
Construction in Progress	314,905	2,102,599	-	2,417,504
Total Capital Assets, not being depreciated	<u>529,087</u>	<u>2,102,599</u>	<u>-</u>	<u>2,631,686</u>
Capital Assets being depreciated:				
Buildings	1,344,518	-	-	1,344,518
Improvements other than buildings	6,858,945	-	-	6,858,945
Machinery & Equipment	880,206	77,041	17,232	940,015
Intangible Assets	-	-	-	-
Total Capital Assets, being depreciated	<u>9,083,669</u>	<u>77,041</u>	<u>17,232</u>	<u>9,143,478</u>
Less Accumulated Depreciation for:				
Buildings	1,128,063	25,116	-	1,153,179
Improvements other than buildings	1,801,925	265,750	-	2,067,675
Machinery & Equipment	533,897	61,892	13,786	582,003
Intangible Assets	-	-	-	-
Total Accumulated Depreciation	<u>3,463,885</u>	<u>352,758</u>	<u>13,786</u>	<u>3,802,857</u>
Total Capital Assets being depreciated, net	5,619,784	(275,717)	3,446	5,340,621
Business Type Activities Capital Assets, net	<u>\$ 6,148,871</u>	<u>\$ 1,826,882</u>	<u>\$ 3,446</u>	<u>\$ 7,972,307</u>

Depreciation Expense was charged to functions as follows:

Solid Waste	\$ 104,581
Water Utilities	110,688
Airport	137,489
Total	<u>\$ 352,758</u>

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ (25,857,768)
Pension assets	\$ 843,242
Deferred outflows of resources	\$ 4,853,370
Deferred inflows of resources	\$ (784,801)
Pension expense/expenditures	\$ 1,555,660

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

* For employees participating in JBM, the contribution rate was 15.30%.

The County's actual PERS plan contributions were \$1,365,162 to PERS Plan 1 and \$1,497,044 to PERS Plan 2/3 for the year ended December 31, 2016.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Public Safety Employees' Retirement System (PSERS)

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

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

PSERS membership includes:

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

PSERS covered employers include:

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

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

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

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

The County's actual plan contributions were \$191,740 to PSERS Plan 2 for the year ended December 31, 2016.

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

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

NOTES TO FINANCIAL STATEMENTS

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time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

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

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

The County's actual contributions to the plan were \$133,400 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the County as its proportionate share of this amount is \$87,275.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

NOTES TO FINANCIAL STATEMENTS

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There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

NOTES TO FINANCIAL STATEMENTS

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Sensitivity of the Net Pension Liability/(Asset)

The table below presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 15,303,309	\$ 12,690,369	\$ 10,441,774
PERS 2/3	\$ 23,631,396	\$ 12,834,920	\$ (6,681,317)
PSERS 2	\$ 1,443,679	\$ 332,480	\$ (459,031)
LEOFF 1	\$ (198,574)	\$ (334,276)	\$ (450,272)
LEOFF 2	\$ 1,427,284	\$ (508,967)	\$ (1,968,338)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the County reported a total pension liability of \$25,857,769 for its proportionate share of the net pension liabilities as follows:

Plan	Liability (or Asset)
PERS 1	\$ 12,690,369
PERS 2/3	\$ 12,834,920
PSERS 2	\$ 332,480
LEOFF 1	\$ (334,276)
LEOFF 2	\$ (508,967)

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (334,276)	\$ (508,967)
State's proportionate share of the net pension asset associated with the employer	\$ (2,261,037)	\$ (331,809)
TOTAL	\$ (2,595,313)	\$ (840,776)

At June 30, the County's proportionate share of the collective net pension liabilities was as follows:

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Plan	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.246718%	0.236299%	-0.010419%
PERS 2/3	0.261109%	0.254918%	-0.006191%
PSERS 2	0.812390%	0.782342%	-0.030048%
LEOFF 1	0.033869%	0.032445%	-0.001424%
LEOFF 2	0.093119%	0.087507%	-0.005612%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the County recognized pension expense as follows:

Plan	Pension Expense
PERS 1	\$ (515,959)
PERS 2/3	\$ 1,679,293
PSERS 2	\$ 242,170
LEOFF 1	\$ (28,970)
LEOFF 2	\$ 179,126
TOTAL	\$ 1,555,660

Deferred Outflows of Resources and Deferred Inflows of Resources

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 319,524	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 687,692	\$ -
TOTAL	\$ 1,007,216	\$ 0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 683,452	\$ (423,702)
Net difference between projected and actual investment earnings on pension plan investments	\$ 1,570,624	\$ -
Changes of assumptions	\$ 132,659	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ (358,513)
Contributions subsequent to the measurement date	\$ 755,238	\$ -
TOTAL	\$ 3,141,973	\$ (782,215)

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 113,252	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 68,572	\$ -
Changes of assumptions	\$ 1,291	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 1,631	\$ (2,586)
Contributions subsequent to the measurement date	\$ 102,047	\$ -
TOTAL	\$ 286,793	\$ (2,586)

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 33,979	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	\$ 33,979	\$ 0

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 69,742	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 182,892	\$ -
Changes of assumptions	\$ 1,919	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 62,230	\$ -
Contributions subsequent to the measurement date	\$ 66,626	\$ -
TOTAL	\$ 383,409	\$ 0

TOTAL-ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 866,444	\$ (423,702)
Net difference between projected and actual investment earnings on pension plan investments	\$ 2,175,591	\$ -
Changes of assumptions	\$ 135,869	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 63,861	\$ (361,099)
Contributions subsequent to the measurement date	\$ 1,611,603	\$ -
TOTAL	\$ 4,853,370	\$ (784,801)

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	\$ (78,673)
2018	\$ (78,673)
2019	\$ 293,448
2020	\$ 183,422
2021	\$ -
Thereafter	\$ -

Year ended December 31:	PERS 2/3
2017	\$ (120,166)
2018	\$ (120,166)
2019	\$ 1,112,679
2020	\$ 732,172
2021	\$ -
Thereafter	\$ -

Year ended December 31:	PSERS 2
2017	\$ 22,240
2018	\$ 22,240
2019	\$ 64,486
2020	\$ 50,506
2021	\$ 22,725
Thereafter	\$ (36)

Year ended December 31:	LEOFF 1
2017	\$ (7,022)
2018	\$ (7,022)
2019	\$ 29,428
2020	\$ 18,594
2021	\$ -
Thereafter	\$ -

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Year ended December 31:	LEOFF 2
2017	\$ 10,893
2018	\$ 10,893
2019	\$ 164,499
2020	\$ 117,423
2021	\$ 13,077
Thereafter	\$ -

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (HEALTH CARE)

The County provides other post-employment benefits (OPEB) in addition to the pension benefits described in Note 6.

A. LEOFF Plan 1

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

1. Plan Description

In accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26), the county provides certain lifetime health care benefits for retired full-time, fully compensated, law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. Substantially all of the county's law enforcement officers who established membership in the LEOFF 1 retirement system may become eligible for those benefits when they reach normal retirement age. The Lewis County Sheriff's Department, in conjunction with the Lewis County Disability Board, reimburses retired LEOFF 1 law enforcement officers for reasonable medical charges as described in the LEOFF act. In 2016, 20 retirees received benefits under this act. As of December 31, 2016, 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 state law. 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 \$2,482,860 is reported as a non-current liability on the Statement of Net Position.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

	Year Ending 12/31/2016	Year Ending 12/31/2015	Year Ending 12/31/2014
Determination of Annual Required Contribution:			
Normal Cost at Year End	\$ -	\$ -	\$ -
Amortization of UAAL *	817,333	850,394	752,072
Annual Required Contribution	<u>\$ 817,333</u>	<u>\$ 850,394</u>	<u>\$ 752,072</u>
Determination of Net OPEB Obligation:			
Annual Required Contribution	\$ 817,333	\$ 850,394	\$ 752,072
Interest on Prior Year Net OPEB Obligation	82,895	68,618	63,221
NOO Amortization **	(186,391)	(154,289)	(142,154)
Annual OPEB Cost	<u>713,837</u>	<u>764,723</u>	<u>673,139</u>
Contributions Made	<u>(303,345)</u>	<u>(407,796)</u>	<u>(538,222)</u>
Increase in Net OPEB Obligation	<u>\$ 410,492</u>	<u>\$ 356,927</u>	<u>\$ 134,917</u>
Net OPEB Obligation - End of Year:			
Net OPEB Obligation - Beginning of Year	\$ 2,072,369	\$ 1,715,442	\$ 1,580,525
Increase in Net OPEB Obligation	410,492	356,927	134,917
Net OPEB Obligation - End of Year	<u>\$ 2,482,861</u>	<u>\$ 2,072,369</u>	<u>\$ 1,715,442</u>

* Unfunded Actuarial Accrued Liability (UAAL)

** Net OPEB Obligation

4. Funded Status and Funding Progress

As of December 31, 2016 the plan was 0% funded. The accrued liability for benefits was \$9,087,422 and the actuarial value of the assets was \$0 resulting in a UAAL of \$9,087,422.

The cost of retiree health care benefits are recognized in the General Fund as claims are paid. For 2016, these costs totaled \$303,345 with a cost per retiree of \$15,167.

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 used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014, 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 four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was the

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. The healthcare cost inflation trends, which vary by medical plan and age, start at approximately 6.2 percent in 2014 and gradually decrease to 4.6 in 2081 and beyond. The discount rate used in the assumption was 4 percent and the inflation rate used was 3 percent. 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. Investments reported in the Risk Management internal service fund for LEOFF 1 at December 31, 2016 were \$6,088,765. 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. 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 seven retirees under the age of 65 participating at the end of 2015. 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 8 - LEASES

A. Operating Leases

The County leases office space and radio sites under operating leases. Lease terms of office space range from annual leases to a multi-year lease that extends to 2021. Lease terms of radio sites are multi-year with one extending to 2020. Operating lease expenditures for the year ended December 31, 2016 were \$71,077. The future minimum lease payments for these leases are:

Year Ending December 31	Amount
2017	\$ 49,494
2018	\$ 49,811
2019	\$ 42,749
2020	\$ 40,563
2021	\$ 30,520
Total	\$ 213,137

B. Capital Leases

The County has entered into the transactions that are recorded as capital lease purchases to account for copier and mailing system leases. These long-term contracts incorporate some or all of the benefits and risks of ownership. The leased assets and related obligations are accounted for in the statement of net position. The net capital lease amount shown below reflects the assets continuing to be financed through the capital lease. These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The assets acquired through capital lease are as follows:

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Asset	Governmental Activities	Business-Type Activities
Machinery & Equipment	\$ 456,275	\$ -
Less: Accumulated Depreciation	\$ (217,011)	\$ -
Present Value of Minimum Lease Payments	\$ 239,264	\$ -
Plus amount representing interest	\$ 5,607	\$ -
Total Invested in Capital Leases	\$ 244,871	\$ -

The future minimum lease obligations and net present value of minimum lease payments for assets acquired through capital leases as of December 31, 2016 were as follows:

Year Ending December 31	Governmental Activities	Business-Type Activities
2017	\$ 88,432	\$ -
2018	76,370	-
2019	52,776	-
2020	21,689	-
2021	5,604	-
Total Minimum Lease Payments	\$ 244,871	\$ -
Less: Interest	\$ (5,607)	\$ -
Present Value of Minimum Lease Payments	\$ 239,264	\$ -

NOTE 9 - DEFERRED COMPENSATION PLAN

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

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

NOTE 10 - RISK MANAGEMENT

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance for further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions (“SIRs”) equal to the greater of the deductible for the member with the claim or \$100,000. More recent years’ reinsurance programs have included “corridor deductibles” with aggregated stop losses which have the effect of increasing the Pool’s SIR. For 2015-16, this “corridor” increased the SIR to \$2 million, but with an aggregated stop loss of \$3.45 million. Other reinsurance agreements respond to the applicable policy limits. Those reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer). Since the Pool is a cooperative program, there is a joint liability among the participating members.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

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

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

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, 2016, which includes estimates for Incurred But Not Reported claims (IBNR) were as follows:

	2016	2015
General Liability Claims	\$ 1,500,000	\$ 1,500,000
Unemployment Claims	184,823	184,823
Total	\$ 1,684,823	\$ 1,684,823

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

	Year Ended: 12/31/2016	Year Ended: 12/31/2015
Unpaid Claims, Beginning of Fiscal Year	\$ 1,684,823	\$ 1,684,823
Incurring Claims	294,235	644,032
Changes In Estimates	-	-
Claim Payments	(294,235)	(644,032)
Unpaid Claims, End of Fiscal Year	\$ 1,684,823	\$ 1,684,823

As of December 31, 2016, cash and investments were \$5,927 and \$8,959,413, respectively, this included \$6,088,765 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. A third party administrator processes these claims.

Based on the county's claims management firm, historical estimates, and Washington State Department of Labor & Industries data, the county's estimated reserve for probable losses at December 31, 2016 was \$174,982:

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

	Year Ended: 12/31/2016	Year Ended: 12/31/2015
Unpaid Claims, Beginning of Fiscal Year	\$ 174,982	\$ 174,982
Incurring Claims (Payments by Administrator)	292,566	327,804
Claim Payments	(272,998)	(247,662)
Other - Cash Pension Adjustment	(39,174)	(58,423)
Accrued/Timing (with IBNR estimate)	19,606	(21,719)
Claims Liability, End of Fiscal Year	\$ 174,982	\$ 174,982

The county has two fully funded pension obligations held by the State of Washington Department of Labor and Industries with a cash value of \$739,468 at December 31, 2016. 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, 2016, cash and investments were \$2,012,785 including \$436,240 restricted for minimum cash reserves. Total net position at December 31, 2016 was \$1,836,734.

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. In addition, the County has purchased a cyber-liability policy through WCRP. 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>12/31/2016</u>
\$3,780,000 – Issued August 2015, to defease, pay, redeem, and retire the 2005 General Obligation bonds. Interest is paid at 2.13% with annual principal installments of \$400,000 to \$450,000 through December 1, 2024.	\$3,380,000
\$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 principal installments of \$475,000 to \$720,000 through December 1, 2027.	\$6,720,000
\$4,925,000 – Issued September 2, 2009, to defease, pay, redeem, and retire the 1999 refunded bonds. Interest is paid at 2.50% to 4.25% with annual principal installments of \$395,188 to \$442,000 through December 1, 2024.	\$2,975,000

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

\$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 the final balloon payment in the amount of \$1,532,672 due June 1, 2017. The Chehalis-Centralia Airport has a note payable due to the County for these payments. \$1,532,672

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 Plan upgrade and raw water improvements; whereby, the County by court order became owner of the Vader Water System and also assumed loan responsibility. All principal and interest payments made by the Vader Water System Utility are paid by water revenue. Interest is paid at 1.50% on annual principal installments of \$29,196 through October 1, 2033. \$408,750

Washington State, Drinking Water State Revolving Fund - Dept. of Community Development – \$357,337 – assumed October 2015, for the purpose of financing the City of Vader Water Distribution Systems Improvement project, which consists of improvements to reduce the exposure to public health, to decrease lost and unaccounted water usage, and to improve system efficiency. The original terms of this loan stated a principal of \$721,822, however per the contract terms upon completion of the project 50% shall be forgiven. Interest is paid at 1.00% on annual principal installments of \$11,927 through October 1, 2044. \$333,971

Total Outstanding Debt

\$15,350,393

B. Debt Service Requirements to Maturity

Annual debt service requirements to maturity for governmental general obligation bonds and notes payable for business-type activities are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 2,772,672	\$ 422,262	\$ 41,124	\$ 9,471
2018	1,265,000	357,336	41,124	8,913
2019	1,310,000	318,679	41,124	8,357
2020	1,345,000	278,571	41,124	7,799
2021	1,385,000	238,182	41,124	7,242
2022-2026	5,810,000	563,427	205,620	27,852
2027-2031	720,000	21,600	176,423	13,922
2032-2036	-	-	59,638	6,560
2037-2041	-	-	59,637	3,578
2042-2046	-	-	35,783	716
Total	\$ 14,607,672	\$ 2,200,057	\$ 742,721	\$ 94,410

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

C. Changes in Government-wide Long-Term Liabilities

The following is a summary of the County's Long-Term Liabilities transactions for the year ended December 31, 2016:

Activity:	Beginning Balance 01/01/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 16,069,794	\$ -	\$ 1,462,122	\$ 14,607,672	2,772,672
Capital Leases	273,109	51,137	84,982	239,264	85,511
Net OPEB Obligation	2,072,369	410,491	-	2,482,860	-
Net Pension Liability	21,476,793	3,347,202	-	24,823,994	-
Compensated Absences	4,618,852	-	109,894	4,508,958	27,109
Total Governmental Activities	\$ 44,510,917	\$ 3,808,830	\$ 1,656,998	\$ 46,662,748	\$ 2,885,292
Business-Type Activities:					
Notes Payable	\$ 783,845	\$ -	\$ 41,124	\$ 742,721	\$ 41,124
Net Pension Liability	906,704	127,070	-	1,033,774	-
Compensated Absences	153,125	-	3,991	149,134	-
Total Business-type Activities	\$ 1,843,674	\$ 127,070	\$ 45,115	\$ 1,925,629	\$ 41,124

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, \$414,476 of internal service funds compensated absences and \$40,543 of capital lease liability 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, 2016, the county had \$18,652 available in the debt service funds. Additionally, pursuant to the Transfer Agreement, Debt Service Fund 2007 includes a deposit and accrued interest of \$1,573,551 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. 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, 2016, the amount of defeased debt outstanding but removed for the Governmental Long Term Debt amounted to \$20,100,000.

F. 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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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.

G. 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, 2016, the Public Facilities District limited sales tax obligations bonds outstanding amounted to \$5,245,000.

NOTE 12 - JUDGMENTS AND CONTINGENCIES

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

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 - 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, 2016:

Fund	Due to Other Funds	Due From Other Funds
General Fund	\$ 29,174	\$ 114,195
Roads Fund	597,451	31,627
Distressed Counties Fund	18,567	-
Capital Facilities Fund	57,738	1,629
Nonmajor Governmental Funds	67,625	63,199
Internal Service Funds	17,614	621,580
Solid Waste Utility	38,673	178,728
Solid Waste Disposal District	178,728	-
Vader Water System Utility	5,255	-
Nonmajor Business Type Funds	133	-
Total	\$ 1,010,958	\$ 1,010,958

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 2016:

Interfund Loans					
Borrowing Fund	Lending Fund	Balance			Balance
		12/31/2015	New Loans	Payments	12/31/2016
Flood Authority	General Fund	\$ 150,000	\$ -	\$ -	\$ 150,000
Vader Water System Imp.	General Fund	35,920	-	35,920	-
Equipment Rental & Revolving	Capital Facilities	198,000	-	49,487	148,513
Communications	General Fund	-	330,000	-	330,000
Packwood Airport	General Fund	-	367,000	-	367,000
Vader Water System Utility	General Fund	-	20,000	-	20,000
Total		\$ 383,920	\$ 717,000	\$ 85,407	\$ 1,015,513

C. 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 the Distressed Counties Fund to the Roads fund are for the North County Industrial Access project authorized by Resolution 14-286. Transfers from the Capital Facilities Fund to the Debt Service Funds are to cover bond redemption payments. The following table displays interfund transfers during 2016:

Fund	Transfer In	Transfer Out
General Fund	\$ 91,456	\$ 2,958,123
Roads Fund	270,808	66,272
Distressed Counties Fund	-	240,808
Capital Facilities Fund	-	1,175,189
Nonmajor Governmental Funds	1,994,443	313,091
Internal Service Funds	380,635	5,393
Debt Service Funds	1,639,589	-
Business Type Funds	387,200	5,255
Total	\$ 4,764,131	\$ 4,764,131

NOTE 14 - CLOSURE AND POSTCLOSURE CARE COST

A. Governing Laws, Background and Funding

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, 2016

On May 1, 1990, Centralia, Chehalis, Morton, Mossyrock, Pe Ell, Vader, and Lewis County entered into an interlocal agreement regarding closure of the Centralia Landfill. Under the agreement, the local governments formed the Centralia Landfill Closure Group (CLCG) and agreed to take all action reasonably necessary to comply with certain environmental laws governing remediation and closure of the Landfill, and to share the costs of such compliance, to the extent such costs are not covered by amounts in the Landfill Closure Trust Fund or recovery from insurance claims. The agreement allocated responsibility for those costs among the signing local governments. The City's allocation of liability is for 35.08% of the costs and fees associated with litigation related to landfill remediation and closure. Parties to the agreement could opt out once the shared costs reached \$13 million.

The City reached a settlement of \$2.7 million in its claim against its insurers regarding the insurers' duty to defend and indemnify the City for remediation of the Landfill under the City's property and comprehensive general liability insurance policies.

In addition to the members of the CLCG, the Washington Department of Ecology (DOE) has identified at least four other potentially liable parties (PLP) who are responsible for assisting in remediating the Landfill. The CLCG negotiated with one of the PLPs to obtain a contribution for cleanup costs.

As local government PLPs in an economically disadvantaged county, the City and other members of the CLCG are eligible to receive up to 75% grant funding for remedial action costs under the DOE remedial action grants program. The City obtained a \$1.94 million grant under this program to conduct an estimated \$2.66 million interim action at the Landfill. This interim action, which was undertaken pursuant to a consent decree entered into between the members of the CLCG and the DOE, was intended to separate storm water from leachate, limit public access to the Landfill, and provide temporary cover over closed portions of the Landfill.

In April 1992, the DOE negotiated with the CLCG members and two other PLPs to develop a scope of ecology work and consent decree for a remedial investigation and feasibility study (RI/FS) at the Landfill. The DOE issued a first phase grant award beginning in January 1993, for RI/FS work.

In April of 1994, the Landfill closed pursuant to agreements and a final cover was installed in the summer of 1994. In August, the CLCG received a Local Government grant of \$8.7 million from the Lewis County Sanitation District and a \$5 million grant from the DOE to fund the final cover and provide funds for remediation and closure.

The \$8.7 million grant from the Lewis County Sanitation District was returned to them in April 1997 because construction activities at the landfill did not require that support. Remedial investigation leading to feasibility reports have been delivered to the DOE for their review and issuance of a cleanup action plan. The DOE has reviewed the CLCG's feasibility study and issued a draft Cleanup Action Plan (CAP). The draft CAP was available for public review and comment in September 2000. A second public hearing on the proposed consent decree was held in March of 2001. The order entering the CAP Consent Decree was filed with the United States District Court Western District of Washington at Seattle and signed on May 22, 2001. The Consent Decree stipulated the draft monitoring plans for the landfill needed to be submitted to the DOE within 45 days of the effective date of the Consent Decree. The CLCG had submitted the draft monitoring plans to the DOE in May of 1999; however, changes to the draft monitoring plans were made in late summer of 1999. A letter was submitted to the DOE on June 12, 2001 requesting acceptance and review of the monitoring plans submitted in June of 1999 along with proposed amendments to the plans.

In July 2002, the CLCG received funding approval for a 75% grant through the DOE to purchase two parcels of land to the north of the landfill, construct a fence, and complete the wetland mitigation report. The CLCG completed all of the projects with the exception of the property purchase of one parcel of land known as the Christian School property. The Christian

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

School board members chose not to accept the CLCG's offer to purchase a portion of their property where the old landfill, which was closed in 1958, lies.

A multi-layer cover system was designed to eliminate infiltration of precipitation into the landfill and direct clean surface runoff into a wetland mitigation area south of the Landfill. In addition to the cover, a permanent gas collection system was installed beneath the cover and a permanent gas flare system was installed adjacent to the Landfill entrance facilities for gas treatment. Perimeter fencing was completed around the Landfill to enclose all of the Final Cover Area and much of the Closed Northend Landfill. Three environmental covenants were recorded for the site to prohibit activities that would result in the release of contaminants.

As required by WAC 173-340-420(2), DOE conducted a 5-year review of the site and held a public comment period for the Periodic Review Draft Report in October 2010. DOE reviews cleanups at least every five years to ensure they protect human health and the environment.

After reviewing this site, DOE has determined that the cleanup actions completed at the site are protective of human health and the environment. DOE will conduct another periodic review in 5 years.

B. Funding Status

The Landfill Closure Fund, which is reflected as a special revenue fund of the City, was established to account for the revenues and expenditures of the closure and post closure care.

In order to maintain sufficient funds to satisfy the purposes of the Landfill Closure Agreement and fund the Landfill Closure Operating Trust Fund, the CLCG contacted the Solid Waste Disposal District No. 1 of Lewis County pursuant to Section 7.3 of the Second Amended Interlocal Agreement Regarding Centralia Landfill Closure and Section 3.B of the Interlocal Agreement Regarding Lewis County Solid Waste Disposal District and Flow Control. Actual revenue requirements for year 2016 were \$113,577 and were funded by available reserves and the Disposal District. At year-end 2016, the reserves amount to \$308,528.

NOTE 15 - OTHER DISCLOSURES

A. Changes to Funds

Funds created during fiscal year 2016 include:

Radio Services Fund 520

Existing funds dissolved effective December 31, 2016:

2011 Debt Service Fund 211

B. Prior Period Adjustments:

The County reported a prior period adjustment in the amount of \$203,296 for property tax payments received in January-February 2016 relating to 2015 taxes.

The County reported a prior period adjustment in the amount of \$396,269 for a loan to the City of Chehalis that was inadvertently classified as an expenditure. The loan is now reported in Notes/Contracts Receivable in the appropriate fund.

The County reported a prior period adjustments related to pensions in the amount of \$634,951. \$609,236 can be attributed to governmental activities and the remaining \$25,715 relates to business-type activities. This prior period adjustment was

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

due to incorrect pension reporting in the implementation year of GASB Statement No. 68. Contributions subsequent to the measurement date for PERS Plan 1 did not include contributions to the Plan 1 UAAL.

The County reported a prior period adjustment in the amount of \$52,671 relating to the implementation of the capital lease reporting requirements provided in GASB Statement No. 62. Due to this change in accounting principle, the Facilities fund recognized a capital asset as well as the corresponding lease obligation, with a net effect of \$0 on net position.

C. Accounting and Reporting Changes:

During the year, the County implemented the capital lease accounting and reporting requirements provided in the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting* and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPSA Pronouncements. This accounting standard requires Lewis County to recognize leases that meet one or more capital lease criteria as an asset and an obligation at the amount equal to the present value of the minimum lease payments during the lease term. The implementation resulted in an increase of \$273,709 to both Machinery & Equipment (net of accumulated depreciation) and Loans Payable in Governmental Activities as of January 1, 2016.

NOTE 16 – SUBSEQUENT EVENTS

In 2017, Lewis County and the City of Centralia mutually agreed to name Lewis County Solid Waste Utility as the operating agent of the closed Centralia Landfill. The Solid Waste Disposal District will still provide funding to monitor and operate post closure duties under guidance from the Department of Ecology and Southwest Washington Clean Air Agency. In past years the City of Centralia would issue a demand letter to cover yearly operating expenses, this practice worked very well. However, the City employee responsible for post closure duties has since retired, opening the door for Lewis County to assume these duties.

Lewis County Solid Waste Utility staff has been working toward complete management of the site. The County and City does have an agreement, that binds the City to assist with the monitoring of ground water, gas well sampling, and testing through 2017.

The 2017 operating budget for the Closed Centralia Landfill is projected at \$41,000 for the year. This is approximately \$100,000 less than in the past, due to the County covering the operational duties using existing staff. The existing duties will be divided up amongst the existing Solid Waste Utility staff. There is always the possibility Solid Waste Utility will need to hire part-time employees for grounds maintenance, this would be a minimal increase to the operating budget.

All equipment assets have been transferred to Lewis County regarding monitoring/testing. The Post-Closure funds in the City of Centralia's special revenue fund account are to be transferred to Lewis County for post closure activities.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY – BY PLAN**

Lewis County		
Schedule of Proportionate Share of the Net Pension Liability		
PERS 1		
As of June 30, 2016		
Last 10 Fiscal Years*		
	2016	2015
Lewis County's proportion of the net pension liability (asset)	0.23630%	0.24672%
Lewis County's proportionate share of the net pension liability	\$ 12,690,369	\$ 12,905,646
Lewis County's covered employee payroll	\$ 24,842,285	\$ 24,410,496
Lewis County's proportionate share of the net pension liability as a percentage of covered employee payroll	51.08%	52.87%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%
<i>* This schedule is to be built prospectively until it contains ten years of data.</i>		

Lewis County		
Schedule of Proportionate Share of the Net Pension Liability		
PERS 2/3		
As of June 30, 2016		
Last 10 Fiscal Years*		
	2016	2015
Lewis County's proportion of the net pension liability (asset)	0.25492%	0.26111%
Lewis County's proportionate share of the net pension liability	\$ 12,834,920	\$ 9,329,573
Lewis County's covered employee payroll	\$ 24,003,729	\$ 23,226,185
Lewis County's proportionate share of the net pension liability as a percentage of covered employee payroll	53.47%	40.17%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%
<i>* This schedule is to be built prospectively until it contains ten years of data.</i>		

Lewis County		
Schedule of Proportionate Share of the Net Pension Liability		
PSERS		
As of June 30, 2016		
Last 10 Fiscal Years*		
	2016	2015
Lewis County's proportion of the net pension liability (asset)	0.78234%	0.81239%
Lewis County's proportionate share of the net pension liability (asset)	\$ 332,480	\$ 148,277
Lewis County's covered employee payroll	\$ 2,539,649	2,387,152
Lewis County's proportionate share of the net pension liability as a percentage of covered employee payroll	13.09%	6.21%
Plan fiduciary net position as a percentage of the total pension liability	90.41%	95.08%
<i>* This schedule is to be built prospectively until it contains ten years of data.</i>		

Lewis County		
Schedule of Proportionate Share of the Net Pension Liability		
LEOFF 1		
As of June 30, 2016		
Last 10 Fiscal Years*		
	2016	2015
Lewis County's proportion of the net pension liability (asset)	0.03245%	0.03387%
Lewis County's proportionate share of the net pension liability (asset)	\$ (334,276)	\$ (408,196)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (2,261,037)	\$ (2,761,030)
TOTAL	\$ (2,595,313)	\$ (3,169,226)
Lewis County's covered employee payroll	-	-
Lewis County's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability (asset)	123.74%	127.36%
<i>* This schedule is to be built prospectively until it contains ten years of data.</i>		

Lewis County		
Schedule of Proportionate Share of the Net Pension Liability		
LEOFF 2		
As of June 30, 2016		
Last 10 Fiscal Years*		
	2016	2015
Lewis County's proportion of the net pension liability (asset)	0.08751%	0.09312%
Lewis County's proportionate share of the net pension liability (asset)	\$ (508,967)	\$ (957,077)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (331,809)	\$ (632,820)
TOTAL	\$ (840,776)	\$ (1,589,897)
Lewis County's covered employee payroll	\$ 2,650,937	\$ 2,691,937
Lewis County's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	-31.72%	-59.06%
Plan fiduciary net position as a percentage of the total pension liability (asset)	106.04%	111.67%
<i>* This schedule is to be built prospectively until it contains ten years of data.</i>		

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS – BY PLAN

Lewis County		
Schedule of Employer Contributions		
PERS 1		
As of December 31, 2016		
Last 10 Fiscal Years*		
	2016	2015
Contractually required contributions	\$ 1,228,795	\$ 1,238,861
Contributions in relation to the contractually required contributions	\$ (1,226,376)	\$ (1,239,579)
Contribution deficiency (excess)	\$ 2,419	\$ (718)
Lewis County's covered employee payroll	\$ 24,809,092	\$ 24,584,887
Contributions as a percentage of covered employee payroll	4.94%	5.04%
<i>* This schedule is to be built prospectively until it contains ten years of data.</i>		

Lewis County		
Schedule of Employer Contributions		
PERS 2/3		
As of December 31, 2016		
Last 10 Fiscal Years*		
	2016	2015
Contractually required contributions	\$ 1,500,205	\$ 1,333,973
Contributions in relation to the contractually required contributions	\$ (1,497,044)	\$ (1,334,914)
Contribution deficiency (excess)	\$ 3,162	\$ (941)
Lewis County's covered employee payroll	\$ 24,080,345	\$ 23,645,796
Contributions as a percentage of covered employee payroll	6.22%	5.65%

** This schedule is to be built prospectively until it contains ten years of data.*

Lewis County		
Schedule of Employer Contributions		
PSERS		
As of December 31, 2016		
Last 10 Fiscal Years*		
	2016	2015
Contractually required contributions	\$ 188,533	\$ 157,654
Contributions in relation to the contractually required contributions	\$ (191,740)	\$ (157,652)
Contribution deficiency (excess)	\$ (3,207)	\$ 3
Lewis County's covered employee payroll	\$ 2,860,902	\$ 2,433,741
Contributions as a percentage of covered employee payroll	6.70%	6.48%

** This schedule is to be built prospectively until it contains ten years of data.*

Lewis County
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2016
Last 10 Fiscal Years*

	2016	2015
Contractually required contributions	\$ 133,400	\$ 133,396
Contributions in relation to the contractually required contributions	\$ (133,400)	\$ (133,397)
Contribution deficiency (excess)	\$ (0)	\$ (1)
Lewis County's covered employee payroll	\$ 2,641,585	\$ 2,641,514
Contributions as a percentage of covered employee payroll	5.05%	5.05%

** This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – RETIREE MEDICAL BENEFITS**

Law Enforcement Officers and Fire Fighters (LEOFF) Plan 1						
Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2014	-	8,361,832	8,361,832	0%	N/A	N/A
12/31/2015	-	9,455,009	9,455,009	0%	N/A	N/A
12/31/2016	-	9,087,422	9,087,422	0%	N/A	N/A

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Child Nutrition Cluster								
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Agriculture)	National School Lunch Program	10.555	N/A	22,677	-	22,677	-	3
Total Child Nutrition Cluster:				22,677	-	22,677	-	
SNAP Cluster								
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Health)	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C17116	500,980	-	500,980	-	
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	C17116	110,746	-	110,746	-	
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	1513-38546	492	-	492	-	
Total SNAP Cluster:				111,238	-	111,238	-	
Food And Nutrition Service, Department Of Agriculture (via Washington State Department of Health)	WIC Farmers' Market Nutrition Program (FMNP)	10.572	C17116	300	-	300	-	
Food And Nutrition Service, Department Of Agriculture (via Lewis-Mason-Thurston Area Agency on Aging)	Senior Farmers Market Nutrition Program	10.576	16-1168-0090- 05 (SFMNP Checks)	18,000	-	18,000	-	4 (a)

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Food And Nutrition Service, Department Of Agriculture (via Lewis-Mason-Thurston Area Agency on Aging)	Senior Farmers Market Nutrition Program	10.576	16-1168-0090- 05	935	-	935	-	
Total CFDA 10.576:				18,935	-	18,935	-	
Forest Service Schools and Roads Cluster								
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	P.L. 114-10 Sec 524 & 1908 Act	-	831,738	831,738	-	
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	12-PA- 11060300-017	-	43,680	43,680	-	5 (a)
Total Forest Service Schools and Roads Cluster:				-	875,418	875,418	-	
Economic Development Administration, Department Of Commerce	Economic Development_ Technical Assistance	11.303	07-06-07189	-	1,362	1,362	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via Washington State Recreation and Conservation Office)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	15-1087P	43,400	-	43,400	-	
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	15-62210-026	78,488	-	78,488	-	
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	15-62210-010	54,750	-	54,750	52,986	

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Washington State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	14-65400-048	16,712	-	16,712	14,388	
			Total CFDA 14.228:	149,950	-	149,950	67,374	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Continuum of Care Program	14.267	WA0091L0T011 508	-	91,599	91,599	90,330	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Continuum of Care Program	14.267	WA0091L0T011 407	-	55,890	55,890	55,039	
			Total CFDA 14.267:	-	147,489	147,489	145,369	
Fish And Wildlife Service, Department Of The Interior	Fish and Wildlife Management Assistance	15.608	F16AC00631	-	19,177	19,177	-	
Drug Enforcement Administration, Department Of Justice (via Washington State Patrol)	Law Enforcement Assistance_Narcotics and Dangerous Drugs Training	16.004	K11085	338	-	338	-	
Office For Victims Of Crime, Department Of Justice (via Washington State Department of Commerce)	Crime Victim Assistance	16.575	S17-31102-519	16,603	-	16,603	-	
Violence Against Women Office, Department Of Justice (via City of Centralia)	Violence Against Women Formula Grants	16.588	F15-31103-051	1,985	-	1,985	-	

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Violence Against Women Office, Department Of Justice (via Washington State Department of Commerce)	Violence Against Women Formula Grants	16.588	F15-31103-050	6,498	-	6,498	2,614	
			Total CFDA 16.588:	8,483	-	8,483	2,614	
Bureau Of Justice Assistance, Department Of Justice	State Criminal Alien Assistance Program	16.606	2016-AP-BX- 0767	-	3,406	3,406	-	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	2016BUBX1608 3301	-	3,946	3,946	-	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	2015BUBX1507 9807	-	825	825	-	
			Total CFDA 16.607:	-	4,771	4,771	-	
National Institute Of Justice, Department Of Justice (via Washington State Patrol)	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	K11470	9,545	-	9,545	-	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	DOT-FA16NIM- 0007	-	1,516,873	1,516,873	-	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	DOT-FA15NIM- 0078	-	168,290	168,290	-	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	DOT-FA15NIM- 0046	-	106,173	106,173	-	
			Total CFDA 20.106:	-	1,791,336	1,791,336	-	

Highway Planning and Construction Cluster

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8987	3,954	-	3,954	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8707	82,245	-	82,245	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8598	93,493	-	93,493	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8113	8,806	-	8,806	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8112	134,615	-	134,615	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8111	880,548	-	880,548	-	
Total Highway Planning and Construction Cluster:				1,203,661	-	1,203,661	-	

Highway Safety Cluster

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	Section 402	3,101	-	3,101	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Association of Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	N/A	6,561	-	6,561	-	3
Total CFDA 20.600:				9,662	-	9,662	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	National Priority Safety Programs	20.616	MAP-21 SECTION 405B&D	4,068	-	4,068	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	3,162	-	3,162	-	3
Total CFDA 20.616:				7,230	-	7,230	-	
Total Highway Safety Cluster:				16,892	-	16,892	-	
U.s. Election Assistance Commission (via Washington State Office of the Secretary of State, Elections Division)	Help America Vote Act Requirements Payments	90.401	G-2846 Amend 4A	3,641	-	3,641	-	
Office Of The Secretary, Department Of Health And Human Services (via National Association of County and City Health Officials)	Medical Reserve Corps Small Grant Program	93.008	MRC 10-1760	2,073	-	2,073	-	

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Aging Cluster								
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	121,522	-	121,522	-	
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	21,736	-	21,736	-	
Total Aging Cluster:				143,258	-	143,258	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Public Health Emergency Preparedness	93.069	C17116	72,068	-	72,068	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1563-42483	36,425	-	36,425	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Immunization Cooperative Agreements	93.268	C17116	24,524	-	24,524	-	
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	50,333	-	50,333	-	4 (b)

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
			Total CFDA 93.268:	74,857	-	74,857		
Administration For Children And Families, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	Child Support Enforcement	93.563	0763-15018	10,848	-	10,848	-	5 (b)
Administration For Children And Families, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	Child Support Enforcement	93.563	1663-67383	10,503	-	10,503	-	5 (b)
Administration For Children And Families, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	Child Support Enforcement	93.563	2110-81382	463,415	-	463,415	-	5 (b)
			Total CFDA 93.563:	484,766	-	484,766		
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health)	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	93.733	C-17116	2,388	-	2,388	-	
Medicaid Cluster								
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via Washington State Health Care Authority)	Medical Assistance Program	93.778	1166-35255	58,623	-	58,623	-	6

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via Washington State Health Care Authority)	Medical Assistance Program	93.778	K1409	40,662	-	40,662	-	6
Total Medicaid Cluster:				99,285	-	99,285	-	
Office Of The Secretary, Department Of Health And Human Services (via Washington State Department of Health)	National Bioterrorism Hospital Preparedness Program	93.889	N/A	2,121	-	2,121	-	3
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1563-42483	41,902	-	41,902	3,213	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Washington State Department of Social & Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1563-43866	8,220	-	8,220	8,147	
Total CFDA 93,959:				50,122	-	50,122	11,360	
Health Resources And Services Administration, Department Of Health And Human Services (via Washington State Department of Health)	Maternal and Child Health Services Block Grant to the States	93.994	C17116	106,418	-	106,418	-	
Executive Office Of The President (via Educational Service District 105)	High Intensity Drug Trafficking Areas Program	95.001	9003000078	910	-	910	-	

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
United States Coast Guard (uscg), Department Of Homeland Security (via Washington State Parks and Recreation Commission)	Boating Safety Financial Assistance	97.012	3316FAS16015 3	15,385	-	15,385	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Lewis County United Way)	Emergency Food and Shelter National Board Program	97.024	33-8902-00	915	-	915	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-603 (4249- DR-WA)	14,738	-	14,738	-	7 (a)
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-706 (4253- DR-WA)	447,472	-	447,472	-	7 (b)
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	E07-717 (1671- DR-WA)	327,663	-	327,663	-	7 (c)
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	E08-731 (1734- DR-WA)	3,248,045	-	3,248,045	-	7 (d)
			Total CFDA 97.036:	4,037,918	-	4,037,918	-	

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Emergency Management Performance Grants	97.042	E16-146	21,785	-	21,785	-	8
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Emergency Management Performance Grants	97.042	E17-161	12,515	-	12,515	-	
Total CFDA 97.042:				34,300	-	34,300	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Homeland Security Grant Program	97.067	E15-078	32,015	-	32,015	-	
Total Federal Awards Expended:				7,301,867	2,842,959	10,144,826	226,717	

The accompanying notes are an integral part of this schedule.

LEWIS COUNTY, WASHINGTON **1 of 2**
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2016

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. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - NOT AVAILABLE (N/A)

The county was unable to obtain another identification number.

NOTE 4 - 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 5 - INDIRECT COST RATE

The county has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

- (a) The amount expended for "Schools and Roads Grants to States (CFDA 10.665) includes \$3,462 from Contract Number 12-PA11060300-017 claimed as an indirect cost recovery using the de minimis indirect cost rate.
- (b) The amount expended for "Child Support Enforcement" (CFDA 93.563) includes \$983 from Contract Number 0763-15018, \$951 from Contract Number 1663-67383, and \$41,796 from Contract Number 2110-81382 claimed as an indirect cost recovery using the de minimis indirect cost rate.

NOTE 6 - MEDICAL ASSISTANCE PROGRAM

Reimbursement provided by contract #1166-35255 & # K1409 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 2016 Schedule of Expenditures of Federal Awards for contract #1166-35255 is based on data occurring from the third quarter of 2013 to the first quarter of 2015. The amount reported on the 2016 Schedule of Expenditures of Federal Awards for

LEWIS COUNTY, WASHINGTON **2 of 2**
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2016

contract #K1409 is based on data occurring from the second quarter of 2015 to the fourth quarter of 2015. Due to the length of time needed to prepare the billing information, the amount of expenditures associated with prior years was not determined in time to be included in the Financial Statements for each of those years.

NOTE 7 – FEMA PROJECTS

Some of the expenditures reported under CFDA #97.036 “Disaster Grants - Public Assistance (Presidentially Declared Disasters)” on the 2016 Schedule of Expenditures of Federal Awards were incurred in prior years. Due to the uncertainty of funding status in the prior years, the expenditures were not reported on the Schedule of Expenditures of Federal Awards in the years in which they were incurred.

- (a) Contract Number D16-603 (4249-DR-WA): \$14,738 from 2015 expenditures became eligible for reimbursement after the project worksheet was approved in 2016.
- (b) Contract Number D16-706 (4253-DR-WA): \$26,773 from 2015 expenditures became eligible for reimbursement after the project worksheet was approved in 2016.
- (c) Contract Number E07-717 (1671-DR-WA): \$216,761 from 2015 and 2014 expenditures became eligible for reimbursement after funding between two project worksheets was reallocated. Additional costs from this project may become eligible for reimbursement once the final review has been completed.
- (d) Contract Number E08-731 (1734-DR-WA): \$2,855,143 was reimbursed for costs originally incurred during 2008 through 2014. \$622,328 of those costs became eligible for reimbursement at construction completion when the remaining award for construction costs was reallocated to preliminary engineering. The remaining \$2,232,815 was identified as reimbursed prior year costs after the amount of 2016 expenditures had been determined due to total project costs exceeding the award amount. Additional costs from this project may become eligible for reimbursement once the final review has been completed.

NOTE 8 – UNDER-REPORTED 2015 EXPENDITURES

An amount of \$2,452, which was expended in 2015 under CFDA 97.042 “Emergency Management Performance Grants” Contract Number E16-146, was erroneously omitted from the 2015 Schedule of Expenditures of Federal Awards.

The 2015 expenditures have been included in the expenditure amounts reported on the 2016 Schedule of Expenditures of Federal Awards.

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

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

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the Lewis County.

Finding ref number: 2016-001	Finding caption: The County lacks adequate internal controls over its calculation for determining major funds to be presented in its financial statements.
Name, address, and telephone of auditee contact person: Suzette Smith, Chief Accountant 351 N.W. North Street Chehalis, WA 98532	
Corrective action the auditee plans to take in response to the finding: <i>The County has enhanced the process for reviewing the calculations for determining Major Funds.</i>	
Anticipated date to complete the corrective action: Fiscal year 2017 financial statements.	

Finding ref number: 2016-002	Finding caption: The County did not have adequate internal controls to ensure compliance with Davis Bacon Act (prevailing wage) requirements.
Name, address, and telephone of auditee contact person: Suzette Smith, Chief Accountant 351 N.W. North Street Chehalis, WA 98532	
Corrective action the auditee plans to take in response to the finding: <i>Lewis County will implement a procedure that will ensure that all certified payrolls are received from the contractors and subcontractors according to the schedule per the Davis-Bacon Act. Once received, these will be reviewed prior to payment to the contractor.</i> <i>The Community Development Office Manager has enrolled in a grant training class in November titled "Federal Grants Requirements and Management" which is conducted by the Washington Finance Officers Association. The class will cover the federal compliance</i>	

requirements under the Uniform Administration Requirements, cost principals, and audit requirements for federal awards and 2 CFR 200. Outreach has been made to WFOA, and it was confirmed the Davis-Bacon Act will be a subject of conversation. Additional classes and trainings will be looked into in the upcoming months and years.

Anticipated date to complete the corrective action:

Implementation of the new procedures will be immediate.

The grant training class is November 14, 2017 with possible additional trainings and classes to follow.

ABOUT THE STATE AUDITOR'S OFFICE

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Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov