



Office of the Washington State Auditor
Pat McCarthy

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

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

Published September 28, 2017

Report No. 1019944





Office of the Washington State Auditor
Pat McCarthy

September 28, 2017

Board of Commissioners
Cowlitz County
Kelso, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Cowlitz 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

TABLE OF CONTENTS

Schedule Of Findings And Questioned Costs.....	4
Schedule Of Audit Findings And Responses.....	6
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	9
Independent Auditor’s Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With The Uniform Guidance	12
Independent Auditor’s Report On Financial Statements	15
Financial Section.....	19
Corrective Action Plan For Findings Reported Under Uniform Guidance	118
About The State Auditor’s Office.....	119

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Cowlitz County January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Cowlitz 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, the aggregate discretely presented component units, 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 no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was 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>
20.205	Highway Planning and Construction

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

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Cowlitz County January 1, 2016 through December 31, 2016

2016-001 The County's internal controls were not adequate to ensure accurate financial reporting.

Background

It is the responsibility of the County to design and follow 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

We identified the following deficiencies in internal controls over the County's preparation of its financial statements that represent a material weakness:

- The focus of governmental and proprietary fund financial statements is on major funds and should exclude internal service funds. Under generally accepted accounting practices (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.

The County prepared a calculation to determine its major funds; however, the internal services funds information was inappropriately included.

- A receivable is recorded when the County loans funds to other governments. The County initially records the loan repayments received as revenue and then reclassifies them to a reduction of the receivable via journal entry at year-end.

The County did not identify all loan repayments that required reclassification.

Cause of Condition

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

Effect of Condition

Our audit of the County's financial statements identified the following material errors:

- A major fund was omitted from the proprietary funds financial statements.
- Receivables and miscellaneous revenues in the Capital Improvements Fund were overstated by \$241,387.

The County subsequently corrected these errors in the financial statements.

Recommendation

We recommend the County improve internal controls over financial statement review processes to ensure accurate financial reporting.

County's Response

The County has updated our process logic for financial statement preparation concerning the major funds calculation, with a reminder to exclude internal service funds from the calculation.

The County has also corrected templates for receipting loan payments received from other governments, so that payments are deposited against the correct accounts on the original transactions and prevents the need for reclassifying entries.

Auditor Remarks

We appreciate the County's commitment to resolving this finding. We will review the corrective action taken during our next regular audit. We thank the County for its cooperation and assistance during the audit.

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

- 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

**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**

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

Board of Commissioners
Cowlitz County
Kelso, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz 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 22, 2017. As discussed in Note 11 to the financial statements, during the year ended December 31, 2016, the Country transferred its wastewater operations to another entity.

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 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 material weaknesses.

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 material weaknesses.

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.

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Pat McCarthy

State Auditor

Olympia, WA

September 22, 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**

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

Board of Commissioners
Cowlitz County
Kelso, Washington

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

We have audited the compliance of Cowlitz County, Cowlitz 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.

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 that might be material weaknesses or significant deficiencies. We did not identify any

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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.

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Pat McCarthy

State Auditor

Olympia, WA

September 22, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Commissioners
Cowlitz County
Kelso, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz 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 19.

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz 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 and County Road funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 11 to the financial statements, the County transferred its wastewater operations to another entity. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 32, information on postemployment benefits other than pensions on page 96 and pension plan information on pages 97 through 107 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 22, 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.

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Pat McCarthy

State Auditor

Olympia, WA

September 22, 2017

FINANCIAL SECTION

Cowlitz 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 the Balance Sheet of Governmental Funds to the Statement of Net Position – 2016

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

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

Statement of Revenue, Expenditures and Changes in Fund Balance Compared to Budget (GAAP Basis) and Actual – General Fund – 2016

Statement of Revenue, Expenditures and Changes in Fund Balance Compared to Budget (GAAP Basis) and Actual – County Road Fund – 2016

Statement of Net Position – Proprietary Funds – 2016

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

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Fiduciary Net Position – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Employment Benefit – Schedule of Funding Progress – LEOFF 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2016

Schedule of Proportionate Share of the Net Pension Liability – PSERS – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF 2 – 2016

Schedule of Employer Contributions – PERS 1 – 2016

Schedule of Employer Contributions – PERS 2/3 – 2016
Schedule of Employer Contributions – PSERS – 2016
Schedule of Employer Contributions – LEOFF 1 – 2016
Schedule of Employer Contributions – LEOFF 2 – 2016
Notes to Required Supplemental Information – Pension – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

Management's Discussion and Analysis

Cowlitz County's discussion and analysis are intended to serve as an introduction to and overview of the County's basic financial statements for fiscal year ended December 31, 2016. The discussion emphasizes results for calendar year 2016 with comparison to the prior year. We encourage readers to consider information presented here in conjunction with the County's financial statements, which immediately follow this discussion.

Cowlitz County provides a wide range of services including the safety and security of persons and property, criminal prosecution, adjudication, detention and rehabilitation, public parks and recreation facilities, road construction and maintenance, flood and drainage control, public health care, community planning and developing, zoning and code compliance, sanitary landfill, and water and sewer services. Other services include property assessment, tax collection, elections, issuance of permits and licenses, and other general administrative services.

I. Financial Highlights

- The total assets and deferred outflows of Cowlitz County exceeded its liabilities and deferred inflows by \$200.1 million. Net investment in capital assets (net of depreciation and related debt) accounts for 78% of this amount with a value of \$148.9 million. Of the unrestricted net position, \$19.8 million of governmental activity and \$23.5 million of business-type activity is available to meet the County's ongoing obligations to citizens and creditors, without legal restriction.
- Cowlitz County's total net position decreased \$32.0 million in 2016. The net position of business-type activities decreased by approximately \$29.1 million and total net position of governmental activities decreased \$2.87 million compared to 2015.
- At December 31, 2016, Cowlitz County's governmental funds reported a combined ending fund balance of \$43.3 million, a decrease of \$1.30 million compared to the prior year.
- The General Fund unassigned fund balance at December 31, 2016 was \$10.6 million, an 16% decrease compared to the December 31, 2015 total of \$12.6 million. The December 31, 2016 unassigned fund balance represents 25.1% of 2016 General Fund total liabilities, deferred inflows and fund balance.
- The County Road Fund assigned fund balance at December 31, 2016 totaled \$10.3 million, an increase of 8.7% compared to the December 31, 2015 balance. The ending assigned fund balance represents 88.3% of the 2016 Road Fund total liabilities, deferred inflows and fund balance.
- Cowlitz County's total noncurrent liabilities (without component unit) as of December 31, 2016 totaled \$118.8 million, a net decrease of \$3.50 million from the previous year.
- As of July 1, 2016 Three Rivers Regional Wastewater Authority took over operations of Three Rivers Regional Wastewater plant. The County transferred capital assets in the amount of \$54.5 million, cash balances in the amount of \$6.1 million, inventory and other assets in the amount of \$.4 million and other fund liabilities of \$1.9 million. Additionally, the bonded debt paid for by the Three Rivers enterprise fund that was issued by Cowlitz County, is still the responsibility of the County. It could not legally be transferred from the County. This created a contract

receivable in the amount of \$17,995,000. Additionally, the County is responsible for the PWTF loans issued by the County on behalf of Three Rivers. This created a receivable of \$6,130,130.

- At December 31, 2016 the County's remaining capacity for issuing non-voted debt is \$97.1 million.

II. Overview of the Financial Statements

Cowlitz County's annual report consists of a series of basic financial statements including: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are intended to provide readers with a broad overview of Cowlitz County's finances, in a manner similar to private-sector business. These statements provide information about where resources were allocated and about the activities of the County as a whole.

The *statement of net position* presents information on all of the Cowlitz County's assets and liabilities and deferred inflows of resources, with the difference between these items reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. However, consideration should also be given to non-financial factors such as changes in the property tax base and the condition of roads and other assets to assess the overall health of the County.

The *statement of activities* presents information showing how the County's net position changed during the most recent fiscal year. It separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). It shows to what extent each program has to rely on taxes for funding. 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 special assessments, and unused vacation leave, will be included in the statement of activities as revenues and expenses, even though the cash associated will not be received or paid in 2016.)

Both of the government-wide financial statements (statement of net position and statement of activities) distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (government 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 Cowlitz County include general government, public safety, judicial, physical environment, transportation, economic development, mental and physical health and culture and recreation. The business-type activities of Cowlitz County include water and sewer services to county residences, a regional wastewater facility, operation of a solid waste landfill site, a 911 communication center, maintaining law enforcement records, emergency services for the County, a public shooting range and the exposition center used to host the County fair and other community-wide events.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate entity—the Public Facilities District (PFD) that has a five member board appointed by the Board of County Commissioners that also had some debt issued by the County for its construction project. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found within the Basic Financial Statements section of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The 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 the County can be divided into three categories: governmental funds (general fund, special revenue funds, debt service funds and capital funds), proprietary funds (enterprise funds and internal service funds), and fiduciary funds (trust/agency funds). Fund financial statements explain how services are financed in the short-term as well as what remains available for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds rather than the County as a whole.

Some funds are required to be established by state law and by bond covenants. The Board of Commissioners has established many other funds to help it control and manage money for particular purposes or to show that the County is meeting legal responsibilities for using certain taxes, grants and other resources.

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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using the modified accrual basis of accounting.

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, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Cowlitz County had 47 individual governmental funds at the close of 2016 used for financial reporting purposes. Fund information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The following funds: General Fund, Road Fund, and Capital Improvement Fund, Three Rivers Regional Wastewater (Three Rivers), and Solid Waste Fund are classified as major funds based on criteria established by GASB Statement No. 34 and based on management's discretion. (GASB Statement No. 34 defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise (1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and (2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is

always considered a major fund.) Data from the other 42 governmental and proprietary funds are combined into a single, aggregated presentation.

Cowlitz County adopts a biennial budget comprised of two annual budgets. A budgetary comparison to actual expenditures has been provided in the Basic Financial Statements, for the General Fund and the other major special revenue funds identified in the previous paragraph to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found within the Basic Financial Statement section of this report.

Proprietary Funds. Cowlitz County maintains two different types of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statement, but provide more detail. The proprietary fund financial statements provide separate information for the Solid Waste Landfill, Water Sewer and Three Rivers. The Solid Waste, Water Sewer and Three Rivers funds are identified as major funds. The 911 Communication Center, Public Shooting Range, Law Enforcement Records, Emergency Management for coordinating disaster functions and the Exposition Center that hosts the County Fair and other community-wide events are non-major enterprise funds and are presented on a combined basis in the proprietary fund financial statements.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. Cowlitz County uses internal service funds to account for its fleet of vehicles, management information technology systems, general liability and insurance services, workers' compensation and unemployment compensation costs. The County's internal service funds also account for the provision of telephone, postage, paper supplies, printing services, and elections. Because all of these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide statements.

All Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found within the Basic Financial Statement section of this report.

Fiduciary Funds of Cowlitz County are used to account for assets held by the county on behalf of other governmental entities or held for the benefit of parties outside the government which are classified as agency funds. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to finance County operations. The statements detailing these funds provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the primary government.

The basic fiduciary funds financial statements can be found within the Basic Financial Statement section of this report.

Notes to Financial Statements 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.

III. Condensed Financial Information

Government-wide Financial Analysis. As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. Cowlitz County, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$200.1 million at December 31, 2016 compared to \$228.3 million at December 31, 2015.

Prior to 2002, infrastructure (roads, bridges, drainage systems, etc.) was not included in capital assets reported for Cowlitz County. GASB Statement No. 34 requires that all capital assets including infrastructure be reported. Cowlitz County has elected to use the depreciation method (not the conditional assessment approach) to account for infrastructure assets. Infrastructure at December 31, 2016 net of depreciation totals \$78.2 million of Cowlitz County's investment in capital assets.

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

Cowlitz County's Net Position

	Governmental Activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 93,714,558	\$ 69,763,416	38,140,430	42,567,875	\$ 131,854,988	\$ 112,331,291
Capital assets (net of depreciation.	133,286,963	135,650,387	49,512,777	106,093,168	182,799,740	241,743,555
Total assets	<u>\$ 227,001,521</u>	<u>\$ 205,413,803</u>	<u>\$ 87,653,207</u>	<u>\$ 148,661,043</u>	<u>314,654,728</u>	<u>354,074,846</u>
Total deferred outflows of resources	4,524,008	2,669,346	8,010,689	7,998,183	12,534,697	10,667,529
Noncurrent Liabilities	65,905,654	39,869,597	52,891,971	82,429,433	118,797,625	122,299,030
Other liabilities	5,951,711	6,847,473	1,588,722	3,310,341	7,540,433	10,157,814
Total liabilities	<u>71,857,365</u>	<u>46,717,070</u>	<u>54,480,693</u>	<u>85,739,774</u>	<u>126,338,058</u>	<u>132,456,844</u>
Deferred inflows of resources	830,949	3,208,857	141,359	754,790	972,308	3,963,647
Net Position:						
Net Investment in Capital Assets	131,284,627	133,140,180	17,586,776	45,591,548	148,871,403	178,731,728
Restricted	7,706,160	9,579,589	-	4,363,464	7,706,160	13,943,053
Unrestricted	19,846,428	15,437,453	23,455,068	20,209,650	43,301,496	35,647,103
Total net position	<u>\$ 158,837,215</u>	<u>\$ 158,157,222</u>	<u>\$ 41,041,844</u>	<u>\$ 70,164,662</u>	<u>\$ 199,879,059</u>	<u>\$ 228,321,884</u>

Governmental activities current and other assets increased by 1.8% or \$0.91 million. The largest portion of this classification is made of \$42.7 million in cash, cash equivalents and pooled investments. This decreased \$6.7 million (13.6%) under 2015. This is a result of realizing receivables and timing of accounts payable.

The 65.3% (\$26.0 million) increase in noncurrent liabilities of government activities is a result of recognizing the debt that was previously recognized by Three Rivers Regional Wastewater Authority (TRRWA), offset by an increase in receivables from TRRWA. Additionally, the increase of \$1.9 million in deferred outflows and a decrease of \$2.4 million in deferred inflows are directly related to pensions.

At December 31, 2016 the County had positive balances in the net position of governmental and business-type activities and in total net position. The same situation existed for 2015. Cowlitz County's total net position decreased \$28.2 million in 2016 compared to December 31, 2015 due to operations transfer of TRRWA and the recognition of pension liabilities. The business type activities presents a \$29.1 million decrease. The governmental activities present a increase of \$0.9. See the discussion on the Governmental Activities under the Statement of Changes in Net Position.

Statement of Changes in Net Position. Key elements in the net increase in net position for 2016 along with comparative amounts for 2015 follows:

Cowlitz County –Changes in Net Position

	Governmental Activities		Business-type activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
<i>Program Revenues</i>						
Charges for services	\$ 23,071,503	\$ 19,862,628	\$ 27,369,709	\$ 32,394,511	\$ 50,441,212	\$ 52,257,139
Operating grants & contributions	6,970,858	6,915,714	388,273	330,290	7,359,131	7,246,004
Capital grants and contributions	814,305	1,983,586	7,828	164,567	822,133	2,148,153
<i>General Revenues</i>						
Taxes	45,024,673	45,074,416	1,109,597	942,668	46,134,270	46,017,084
Gain (loss) on sale of assets	1,528,145	1,294,490	-	-	1,528,145	1,294,490
Interest earned on investments	1,310,906	1,141,967	150,809	95,361	1,461,715	1,237,328
Total revenues	78,720,390	76,272,801	29,026,216	33,927,397	107,746,606	110,200,198
Program Expenses						
General Government	13,826,517	12,872,778	-	-	13,826,517	12,872,778
Public Safety	22,521,636	20,916,690	4,818,593	4,413,146	27,340,229	25,329,836
Judicial	5,454,533	5,167,912	-	-	5,454,533	5,167,912
Utilities	199,723	174,813	-	-	199,723	174,813
Transportation	16,470,437	22,745,989	-	-	16,470,437	22,745,989
Economic environment	8,666,584	6,851,790	-	-	8,666,584	6,851,790
Social services	8,808,731	8,802,553	-	-	8,808,731	8,802,553
Culture & recreation	3,701,273	767,868	2,540,929	2,563,776	6,242,202	3,331,644
Sewer	-	-	4,178,766	9,066,611	4,178,766	9,066,611
Solid Waste	-	-	11,302,502	11,360,073	11,302,502	11,360,073
Water/Sewer	-	-	1,543,500	1,874,911	1,543,500	1,874,911
Interest on long-term debt	700,046	594,526	-	-	700,046	594,526
Total Expenses	80,349,480	78,894,919	24,384,290	29,278,517	104,733,770	108,173,436
Excess (deficiency) of revenues over (under) expenses	(1,629,090)	(2,622,118)	4,641,926	4,648,880	3,012,836	2,026,762
Gain on Transfer of Debt Liability	24,125,130					
Special Items	-	-	(59,132,291)	-	(59,132,291)	-
Transfers	(25,367,547)	(148,191)	25,367,547	148,191	-	-
Change in Net Position	(2,871,507)	(2,770,309)	(29,122,818)	4,797,071	(31,994,325)	2,026,762
Net position January 1	158,157,222	180,453,398	70,164,662	70,808,404	228,321,884	251,261,802
Change in Accounting Principle		(18,129,944)		(4,278,577)	-	(22,408,521)
Prior period adjustment	3,551,501	(1,395,923)		(1,162,236)	3,551,501	(2,558,159)
Net position -December 31	\$ 158,837,216	\$ 158,157,222	\$ 41,041,844	\$ 70,164,662	\$ 199,879,060	\$ 228,321,884

Cowlitz County revenue totaled \$107.7 million in 2016. Governmental activities provided \$78.7 million, while business activities provided \$29.0 million. Taxes account for \$46.1 million, 42.8%, of the 2016 primary government revenues compared to \$46.0 million in 2015.

Governmental activities net position of Cowlitz County decreased \$2.87 million in 2016. Capital grants and contributions totaled \$814 thousand in 2016 and \$1.98 million in 2015. Operating grant and contribution totals remained similar between years. Charges for services revenue totaled \$23.3 million in 2016 compared to \$19.9 million in 2015. Tax revenues increased remained flat. This represents a \$900k decrease in property taxes due to decreased valuation and an increase in general levy rate, an increase of \$1.0 million in sales tax, and a decrease of \$230,000 in other taxes.

County governmental activity expenses in 2016 totaled \$80.3 million, a 1.8% (\$1.45 million) increase compared to 2015. This was caused mostly by the transportation decrease of \$6.28 million (27.6%) resulting from decreases in grant income, Public Safety increase of \$1.6 million (7.7%) resulting from jail medical increases and new sheriff equipment, and Culture and Recreation increase of \$2.93 million (382%).

Additionally a prior period adjustment of \$3.6 million was recorded related to capital asset balance corrections.

Business type activities expenses for Cowlitz County in 2016 totaled \$24.4 million compared to \$29.3 million in 2015. Expenses included public safety programs consisting of 911 communications, law enforcement records and emergency management, \$4.82 million; the solid waste landfill \$11.3 million; the water sewer utility \$1.54 million, culture and recreation \$2.54 million, and Three Rivers expenses of \$4.18 million. The 16.7% decrease in total expenses resulted primarily from a half year's operation of the TRRWA which transferred operation in July 2016.

Likewise, revenues decreased \$4.9 million or 14.4%. The decrease is from a half year's operation of the TRRWA which transferred operation in July 2016, which reduced revenues to \$4.80 million (51.1%) in 2016. Charges for services revenues of \$27.5 million accounted for 94.7% of total business revenues. Other business revenues consisted of \$1.11 million in 911 communication taxes. Interest earnings on investments totaled \$151,000 in 2016 compared to \$95,000 in 2015.

Financial Analysis of County Funds. As noted earlier, Cowlitz County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

Governmental Funds Balance Sheet Analysis. The General Fund, the County Road Fund, and the Capital Improvement Fund are the County's major governmental funds. These funds account for 69% of the total governmental funds as of the December 31, 2016 ending fund balance.

	Fund Balance	Percent
General Fund	\$ 11,484,889	25.87%
Road Fund	10,304,208	23.21%
Capital Improvement Fund	8,821,613	19.87%
Other Governmental Funds	13,783,161	31.05%
Total Governmental Fund Balance	\$ 44,393,871	100.00%

Approximately 23.9% of the total governmental fund balance of \$10.6 million constitutes unassigned fund balance. However, the County does have a minimum fund balance policy discussed in Note 1 to the Notes to the Financial Statements. \$26.7 million (60.1%) constitutes

assigned fund balance in the appropriate fund types as shown in Note 1 in the Notes to the Financial Statements. The remainder of fund balance is classified as nonspendable, restricted, or committed to indicate that it is not available for new spending as discussed in the notes.

Governmental Funds Revenue/Expenditure Analysis. The following exhibit and chart shows the revenue and expenditure amounts for the major governmental funds and all other governmental funds in 2016.

	Revenues	Expenditures
General Fund	\$43,816,648	\$39,841,904
County Road	13,682,175	13,028,974
Capital Improvement Fund	2,955,138	1,148,995
Other Governmental Funds	18,922,635	22,038,237

Governmental fund revenues in 2016 totaled \$77.9 million, which is a \$3.1 million increase over 2015 governmental fund revenues of \$74.8 million. This increase is mostly seen in the charges, miscellaneous, and intergovernmental services categories.

The **General Fund** is the chief operating fund of Cowlitz County. At December 31, 2016 the unassigned fund balance of the General Fund was \$10.6 million; this represents 23.9% of the total fund balance for all governmental funds. The General Fund's total fund balance at December 31, 2016 was \$11.5 million compared to \$17.6 million at the end of 2015. This change is a result of expenses exceeding revenues. The General Fund had \$43.6 million in revenues in 2016 compared to \$41.6 million in 2015. Tax revenues totaled \$26.2 million at the end of 2016 compared to \$26.8 million at the end of 2015. General Fund expenditures increased from \$37.7 million in 2015 to \$39.8 million in 2016. The largest increase is in the Public Safety category, and is related to personnel cost increases. Public Safety expenditures in the General Fund of \$20.5 million represent 51.6% of the General Fund expenditures.

The General Fund transfers out in 2016 to support other County funds totaled \$6.57 million compared to \$4.09 million in 2015.

The **County Road Fund** balance increased to \$10.3 million at December 31, 2016. Total revenues in 2016 were \$11.6 million compared to \$15.2 million in 2015. This is due to decreased federal highway grants in 2016. Intergovernmental revenues of \$3.81 million in 2016 represent a \$0.95 million decrease from 2015 intergovernmental revenues. Road Fund total expenditures for 2016 totaled \$13.0 million compared to \$15.8 million in 2015, while construction expenditures in 2016 totaled \$1.85 million compared to \$4.59 million in 2015.

The **Capital Improvements Fund** balance at December 31, 2016 totaled \$8.88 million. This was an increase of \$2.98 million from 2015. Revenues were \$2.96 million in 2016 compared to \$2.50 million in 2015. Expenditures decreased \$1.77 million from 2015 to \$1.15 million in 2016.

Proprietary Funds. Cowlitz County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Cowlitz County has three major enterprise funds, the Solid Waste Fund, Water Sewer Fund and Three Rivers that account for 92% of the \$41.0 million net position for total enterprise funds at December 31, 2016.

The December 31, 2016 unrestricted net position and changes in unrestricted net position of the major enterprise funds were:

	Unrestricted Net Position <u>12/31/2016</u>	Unrestricted Net Position <u>12/31/2015</u>	Increase (decrease) <u>for Year</u>
Solid Waste	21,256,115	17,151,803	4,104,312
Three Rivers	-	1,512,489	(1,512,489)
Water Sewer	1,965,518	1,474,601	490,917

The Solid Waste utility operating revenue of \$15.2 million accounted for 55.9% of the business-type revenues reported in 2016. Solid Waste revenue shows a decrease of \$230,000 under 2015. The Tennant Way landfill closure was finalized of spring 2016. Net position of the Solid Waste Utility totaled \$29.7 million at December 31, 2016, an increase of approximately \$4.3 million from 2015.

Three Rivers charges for service revenues totaled \$4.59 million in 2016 and operations were transferred at July 1, 2016.

The Water Sewer utility operating revenue of \$1.77 million accounted for 6.5% of the business-type revenues reported in 2016. Water Sewer revenue shows an increase of \$118,000 over 2015. Net position of the Water Sewer Utility totaled \$8.28 million at December 31, 2016, an increase of approximately \$293,000 from 2015.

IV. Budget Analysis –General Fund Budgetary Highlights

The net difference between the original General Fund budget total expenditures for 2016 and the final amended budget was a \$1.03 million increase in appropriations over the original budget of \$46.3 million.

V. Capital Assets and Long-Term Debt Administration

Capital Assets. Cowlitz County’s capital assets for its governmental and business-type activities as of December 31, 2016 total \$182.8 million (net of accumulated depreciation). The capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, and bridges and construction in progress.

The total decrease in Cowlitz County’s capital assets net of depreciation was \$63.5 million over 2015. This consisted of a \$6.89 million decrease in governmental activity capital assets and a \$56.6 decrease in business-type activity capital assets.

COWLITZ COUNTY CAPITAL ASSETS

(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 11,989,548	\$ 12,054,302	\$ 4,621,200	\$ 5,207,740	\$ 16,610,748	\$ 17,262,042
Buildings & Syst. Improve other than Buildings	27,275,005	30,082,297	25,417,176	79,894,998	52,692,181	109,977,295
Machinery & Equip.	1,652,126	2,902,581	13,430,047	11,250,928	15,082,173	14,153,509
Intangible Infrastructure	8,059,778	7,575,520	2,626,240	2,568,459	10,686,018	10,143,979
Construction in Progress	3,939,913	1,821,410	1,236,121	1,420,575	5,176,034	3,241,985
	78,200,618	77,632,043	-	-	78,200,618	77,632,043
Total	\$ 133,286,433	\$ 135,650,387	\$ 49,512,778	\$ 106,093,168	\$ 182,799,211	\$ 241,743,555

For more information see note disclosure 4D.

Long-Term Debt. At December 31, 2016 Cowlitz County has \$56.2 million in long-term debt owed from *governmental activities* and \$52.9 million in long-term debt for *business type activities*. The bonded debt balances are as follows:

COWLITZ COUNTY OUTSTANDING DEBT
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 10,695,526	\$ 12,092,798	\$ 29,715,000	\$ 30,925,000	\$ 40,410,526	\$ 43,017,798
Revenue bonds	15,625,000	-	-	18,800,000	15,625,000	18,800,000
Special assessment bonds with Govt. commitment	698,976.00	893,976	-	-	698,976.00	893,976
	\$27,019,502	\$12,986,774	\$29,715,000	\$49,725,000	\$56,734,502	\$62,711,774

For more information see note disclosure 9.

VI. Economic Factors and Budgets

The Board of Commissioners considered many factors when setting the budget, tax rates, and fees to charge for the business-type activities. One of those factors is the economy. Unemployment rates in Cowlitz County are improving slightly compared to one year ago.

These and other factors are considered in preparing the Cowlitz County budget.

- Property taxes account for nearly 50% of unrestricted General Fund Revenues. Increases in taxes are limited to an increase of 1% of the prior year levy (plus taxes on the values of new construction). Expenses, largely outside the control of the Board of Commissioners, are increasing faster than 1% per year. The property tax limitations provide inadequate revenues to meet service demands. In accordance with the County's Financial Management Policy, fees are reviewed annually, generally during the budget review period. In appropriate circumstances, the Commissioners considered fees increases, moving toward a fee-for-service model, where the service provided by the County wholly or substantially benefits a specific constituent.
- Recognized that some of the increases in sales tax receipts are the result of several large local construction projects, rather than a substantially improved local economy, and that these revenues should not be considered on-going revenues increasing the base.
- State and federal mandates and legal requirements including but not limited to, court funding, mental health, state pension funding, risk reserves, etc.
- The need to ensure adequate cash flow (operating) reserves.
- Proper use of restricted funds: criminal justice tax, mental health tax, rural county public facilities tax.
- Labor costs: union contracts, wage freezes and/or reductions, health care costs, work hour adjustments.
- Bond obligations.
- As of January 15, 2016, Three Rivers Regional Wastewater Authority (TRRWA) became its own legal entity. On July 1, 2016, the operations were transferred from the County to TRRWA, resulting in removal of approximately \$33.9 million in net position from the County. Bonds issued related to TRRWA will become governmental activities debt and be offset with a receivable from other governments.
- Assessed value in Cowlitz County (county-wide) increased for the fourth year in a row (2013-2016) following four straight years of decline (2009-2012). The historic levels of property value in Cowlitz County in 2009 were assessed at 9.39 Billion, the 2016 assessed valuation is 9.77 Billion.

Requests for Information

The financial report is designed to provide a general overview of Cowlitz 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 the Auditor's Office, Cowlitz County, 207 4th Avenue No., Kelso, Wa. 98626.

Cowlitz County, Washington
Statement of Net Position
December 31, 2016

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Public Facilities District
ASSETS				
Cash, Cash Equivalents & Pooled Investments	\$ 42,733,071	\$ 13,576,645	\$ 56,309,716	\$ 614,705
Investments	9,855,556	4,799,020	14,654,576	
Receivables (net)	34,830,475	2,570,619	37,401,094	184,554
Internal Balances	647,888	(647,888)	-	-
Inventories	575,184	-	575,184	-
Prepaid Items	39,224	91,678	130,902	21,591
Due From Component Unit	3,930,000	392,736	4,322,736	-
Net Pension Asset	1,070,352	-	1,070,352	-
Restricted Cash, Cash Equivalents & Pooled Investments:				
Customer Deposits	32,808	75,440	108,248	-
Debt Service	-	-	-	719,100
Capital Outlay	-	-	-	-
Closure and Postclosure	-	17,282,180	17,282,180	-
Restricted Investment For Closure and Postclosure	-	-	-	-
<i>Capital Assets:</i>				
Nondepreciable Assets	14,158,994	6,803,194	20,962,188	-
Depreciable Assets (Net)	119,127,969	42,709,583	161,837,552	12,775,235
Total Assets	227,001,521	87,653,207	314,654,728	14,315,185
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Amounts on Refunding	219,025	-	219,025	194,091
Amounts Related to Pensions	4,304,983	540,260	4,845,243	-
Excess Consideration Provided For Acquisition	-	7,470,429	7,470,429	-
Total Deferred Outflows of Resources	4,524,008	8,010,689	12,534,697	194,091
LIABILITIES				
Accounts Payable & Accrued Exp.	3,564,376	1,265,967	4,830,343	1,403
Other Current Liabilities	2,341,442	247,315	2,588,757	55,101
Customer Deposits	45,893	75,440	121,333	-
<i>Noncurrent Liabilities:</i>				
Due Within One Year	6,738,537	1,722,364	8,460,901	172,983
Due Primary Gov. Within One Yr.	-	-	-	300,890
Due In More Than One Year	37,378,799	47,957,675	85,336,474	4,929,743
Due Primary Gov. More Than One Year	-	-	-	4,291,533
Net Pension Liability	21,788,318	3,211,932	25,000,250	-
Total Liabilities	71,857,365	54,480,693	126,338,058	9,751,653
DEFERRED INFLOWS OF RESOURCES				
Deferred amount on refunding of debt	174,887	-	174,887	-
Amounts related to pensions	656,062	141,359	797,421	-
Total deferred inflows of resources	830,949	141,359	972,308	-
NET POSITION				
Net Investment in Capital Assets	131,284,627	17,586,776	148,871,403	3,666,913
<i>Restricted for:</i>				
Economic Environment	2,083,223	-	2,083,223	-
General Government	814,820	-	814,820	-
Public Safety	145,721	-	145,721	-
Judicial	161,934	-	161,934	-
Social Services	2,988,863	-	2,988,863	-
Utilities	880,152	-	880,152	-
Transportation - Roads	600,353	-	600,353	-
Culture & Recreation	31,094	-	31,094	-
Restricted, for Debt Purposes	-	-	-	719,100
Unrestricted	19,846,428	23,455,068	43,301,496	371,610
Total Net Position	\$ 158,837,215	\$ 41,041,844	\$ 199,879,059	\$ 4,757,623

The notes to the financial statements are an integral part of this statement.

Cowlitz County, Washington
Statement of Activities
For the Year Ended December 31, 2016

FUNCTIONS/PROGRAMS	Net (Expense) Revenue and Changes in Net Position						Component Unit
	Program Revenues			Primary Government		Public Facilities District	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
Governmental Activities:							
General Government	\$ 13,826,517	\$ 4,442,896	\$ 3,979,738	110,206	(5,293,677)	-	\$ (5,293,677)
Public Safety	22,521,636	5,451,113	858,514	-	(16,212,009)	-	(16,212,009)
Judicial	5,454,533	2,240,100	180,014	-	(3,034,419)	-	(3,034,419)
Utilities	199,723	399,633	70,462	-	270,372	-	270,372
Transportation	16,470,437	-	-	229,394	(16,241,043)	-	(16,241,043)
Economic Environment	8,666,584	8,130,501	1,226,655	474,705	1,165,277	-	1,165,277
Social Services	8,808,731	1,818,440	655,475	-	(6,334,816)	-	(6,334,816)
Culture & Recreation	3,701,273	10,212	-	-	(3,691,061)	-	(3,691,061)
Interest on Long-Term Debt	700,046	578,608	-	-	(121,438)	-	(121,438)
Total Governmental Activities	80,349,480	23,071,503	6,970,858	814,305	(49,492,814)	-	(49,492,814)
Business-Type Activities:							
Water/Sewer	1,543,500	1,825,873	4,037	-	-	286,410	286,410
Sewer	4,178,766	4,590,704	-	7,828	-	419,766	419,766
Garbage & Solid Waste	11,302,502	15,238,967	221,352	-	-	4,157,817	4,157,817
Public Safety	4,818,593	3,420,073	123,485	-	-	(1,275,035)	(1,275,035)
Culture & Recreation	2,540,929	2,294,092	39,399	-	-	(207,438)	(207,438)
Total Business-Type Activities	24,384,290	27,369,709	388,273	7,828	-	3,381,520	3,381,520
Total Primary Government	\$ 104,733,770	\$ 50,441,212	\$ 7,359,131	\$ 822,133	(49,492,814)	\$ 3,381,520	\$ (46,111,294)
Component Unit							
Public Facilities District	1,199,039	783	3,689	-	-	-	(1,194,567)
Total Component Units	\$ 1,199,039	\$ 783	\$ 3,689	\$ -	\$ -	\$ -	(1,194,567)
GENERAL REVENUES:							
Property Taxes					27,705,291		27,705,291
Sales Taxes					10,834,469		10,834,469
911 Taxes					-	1,109,597	1,109,597
Other Taxes					6,484,913		6,484,913
Investment Earnings					1,310,905	150,809	1,461,714
Gain (Loss) on Sale of Capital Assets					1,528,144	-	1,528,144
Gain on Transfer of Debt Liability					24,125,130	-	24,125,130
SPECIAL ITEM - Transfer of operations TRANSFERS					(25,367,547)	25,367,547	-
Total General Revenues, Special Items & Transfers					46,621,305	(32,504,338)	14,116,967
Change in Net Position					(2,871,509)	(29,122,818)	(31,994,327)
Net Position - January 1					158,157,222	70,164,662	228,321,884
Prior Period Adjustment					3,551,501	-	3,551,501
Net Position - December 31					158,837,214	41,041,844	\$ 199,879,058

The notes to the financial statements are an integral part of this statement.

**Cowlitz County, Washington
Balance Sheet
Governmental Funds
December 31, 2016**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	County Road	Capital Improvements		
ASSETS					
Cash, Cash Equivalents	\$ 3,245,872	\$ 9,378,741	\$ 8,048,336	\$ 11,471,533	\$ 32,144,482
Investments	7,355,556	-	-	500,000	7,855,556
Receivables (Net)	3,012,309	2,132,149	812,505	4,225,995	10,182,958
Due From Other Funds	248,907	159,503	21,450	98,098	527,958
Interfund Loan Receivable	245,000	-	-	-	245,000
Due From Other Govt.	24,106,850	-	-	-	24,106,850
Due From Component Unit	3,930,000	-	-	-	3,930,000
Customer Deposits & Seized	29,113	-	3,695	-	32,808
Total Assets	\$ 42,173,607	\$ 11,670,393	\$ 8,885,986	\$ 16,295,626	\$ 79,025,612
LIABILITIES					
Accounts Payable	\$ 542,045	\$ 168,078	\$ 221,421	\$ 1,891,736	\$ 2,823,280
Payable To Other Governments	89,485	12,077	-	156,085	257,647
Due To Other Funds	100,970	626,465	10,802	183,206	921,443
Interfund Loan Payable	-	-	70,130	-	70,130
Other Current Liabilities	1,399,289	342,472	3,407	254,224	1,999,392
Customer Deposits and Seized Payable	29,113	-	-	16,780	45,893
Total Liabilities	\$ 2,160,902	\$ 1,149,092	\$ 305,760	\$ 2,502,031	\$ 6,117,785
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	1,801,426	217,093	-	10,434	2,028,953
Unavailable Revenue - Grants	-	-	-	-	-
Unavailable Revenue - Court	1,041,260	-	-	-	1,041,260
Unavailable revenue - Other Governments & CU	25,685,130	-	-	-	25,685,130
Total Deferred Inflows of Resources	\$ 28,527,816	\$ 217,093	\$ -	\$ 10,434	\$ 28,755,343
FUND BALANCE					
Nonspendable	245,000	\$ -	\$ 440,934	\$ -	\$ 685,934
Restricted	-	-	988,475	8,660,751	9,649,226
Assigned	636,497	10,304,208	7,150,817	5,122,410	23,213,932
Unassigned	10,603,392	-	-	-	10,603,392
Total Fund Balance	\$ 11,484,889	\$ 10,304,208	\$ 8,580,226	\$ 13,783,161	\$ 44,152,484
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 42,173,607	\$ 11,670,393	\$ 8,885,986	\$ 16,295,626	\$ 79,025,612

The notes to the financial statements are an integral part of this statement.

Cowlitz County, Washington
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2016

Total fund balances as shown on the Governmental Funds Balance Sheet	\$ 44,152,484
Capital assets (net) used in governmental activities are not financial resources and therefore are not reported in the funds (amounts for internal service fund capital assets \$10,302,442 are included as part of reconciling item further down the page).	122,984,521
Internal Service Funds are used to charge the costs of services to individual funds. The assets and liabilities of internal service funds are included in governmental activities on the statement of net position.	20,415,877
Allocation to enterprise funds share of net (income) loss of internal service funds.	85,909
Other long-term items are not available to pay for current-period expenditures and, therefore are not recognized as payable/receivable in the funds	44,138
Accrued interest receivable was less than interest receivable modified accrual	226,016
Other long-term assets not available to pay for current-period expenditures and, therefore are deferred in the funds.	28,755,343
Inventories not recorded in governmental funds are recorded in governmental activities.	218,922
Net Pension Assets and Liability and other items related to Pension activity that are not financial resources or uses therefore, not reported in the funds.	(15,887,348)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet	<u>(42,158,647)</u>
Net position of governmental activities	<u><u>\$ 158,837,215</u></u>

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>County Road</u>	<u>Capital Improvements</u>		
REVENUES					
Taxes	\$ 26,185,057	\$ 9,159,413	\$ 2,591,910	\$ 3,521,785	\$ 41,458,165
Licenses & Permits	47,471	-	-	7,060,102	7,107,573
Intergovernmental	5,183,515	3,811,074	318,454	4,325,874	13,638,917
Charges for Services	6,954,392	634,250	-	2,747,556	10,336,198
Fines & Forfeitures	1,259,911	-	-	78,780	1,338,691
Investment Earnings	984,102	35,393	35,180	44,169	1,098,844
Rents & Leases	264,421	995	8,594	23	274,033
Special Assessments	1,675	-	-	380,826	382,501
Insurance Premiums & Recoveries	-	12,284	-	-	12,284
Miscellaneous Revenues	2,936,104	28,766	1,000	763,520	3,729,390
Total Revenues	43,816,648	13,682,175	2,955,138	18,922,635	79,376,596
EXPENDITURES					
<i>Current:</i>					
General Government	12,682,573	-	231,488	281,229	13,195,290
Public Safety	20,540,642	848	-	22,483	20,563,973
Judicial	4,087,945	-	-	1,548,198	5,636,143
Utilities	163,430	132	-	-	163,562
Natural Economic Environment	988,958	-	361,116	7,356,362	8,706,436
Transportation	76,000	11,110,249	252,966	0	11,439,215
Social Services	743,439	-	-	8,053,351	8,796,790
Culture & Recreation	558,462	-	15,366	81,685	655,513
<i>Debt Service:</i>					
Principal	-	70,000	-	3,992,272	4,062,272
Interest	455	544	1,043	698,968	701,010
Other	-	-	-	3,689	3,689
<i>Capital Outlay</i>	-	1,847,201	287,016	-	2,134,217
Total Expenditures	39,841,904	13,028,974	1,148,995	22,038,237	76,058,110
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,974,744	653,201	1,806,143	(3,115,603)	3,318,486
OTHER FINANCING SOURCES (USES)					
Transfers In	419,438	-	979,437	5,223,537	6,622,412
Transfers Out	(6,571,823)	-	(1,114,400)	(1,013,778)	(8,700,001)
Sale of Capital Assets	220,425	175,490	1,072,011	4,005	1,471,931
Total Other Financing Sources (Uses)	(5,931,960)	175,490	937,048	4,213,764	(605,658)
Net Change In Fund Balance	(1,957,216)	828,691	2,743,191	1,098,162	2,712,828
Fund Balances--Beginning	17,624,105	9,475,517	5,837,035	12,687,719	45,624,376
Prior Period Adjustment	(4,182,000)	-	-	(2,720)	(4,184,720)
Fund Balances--Ending	\$ 11,484,889	\$ 10,304,208	\$ 8,580,226	\$ 13,783,161	\$ 44,152,484

The notes to the financial statements are an integral part of this statement

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2016**

Net change in fund balance as shown on Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance:

Net change in fund balances-total governmental funds	\$ 2,712,828
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those capital outlays that benefit the county are posted as assets and are allocated over their estimated useful lives and reported as depreciation. Also, the disposition of capital assets (net book value) are deducted from the sale of fixed assets. The amount by which capital outlays exceeded depreciation and write off of net book value of assets disposed of in current period.	(7,748,014)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds while the repayment of the principal of the long-term debt consumes the current financial resource of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	438,570
Change in accrual interest earnings versus on modified accrual basis	169,595
Governmental funds report revenue in current period for revenues deferred in prior periods since they were not available financing sources at the time. Government-wide statements record revenues at the time they are earned. This amount accounts for the change in deferred revenues during the year.	(304,413)
Some expenses reported in the statement of activities do not require the use of current financial resources, and accordingly, are not reported as expenditures in governmental funds. This amount represents the change in accrued interest payable, net pension liability, accrued compensation payable for year and deferred outflows of resources.	(216,850)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (loss) of most of these activities is reported within governmental activities.	<u>2,076,778</u>
Change in net position-governmental activities- on the Statement of Activities	<u><u>\$ (2,871,507)</u></u>

The notes to financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenue, Expenditures and
Changes in Fund Balances
Compared to Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2016

	General Fund			
	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Taxes	\$ 26,346,804	\$ 25,975,467	\$ 26,186,732	\$ 211,265
Licenses & Permits	42,210	37,200	47,471	10,271
Intergovernmental	5,073,617	5,070,968	5,183,515	112,547
Charges for Services	6,205,695	6,870,174	6,940,869	70,695
Fines and Forfeits	1,456,700	1,401,311	1,259,911	(141,400)
Interest	876,380	939,805	982,298	42,493
Miscellaneous	615,695	470,014	3,200,497	2,730,483
Total Revenues	40,617,101	40,764,939	43,801,293	3,036,354
Expenditures:				
<i>General government</i>	13,739,803	14,221,176	12,464,762	1,756,414
Public Safety	20,140,102	20,647,300	20,349,956	297,344
Judicial	4,323,760	4,367,455	4,087,945	279,510
Utilities	35,961	35,961	163,430	(127,469)
Economic Environment	1,079,158	1,079,158	988,958	90,200
Transportation	76,250	76,250	76,000	250
Social Services	852,524	852,524	743,439	109,085
Culture & Recreation	691,799	691,799	558,462	133,337
Debt Service - Principal	186,667	186,667	455	186,212
<i>Capital Outlay</i>	61,280	61,280	-	61,280
Total Expenditures	41,187,304	42,219,570	39,433,407	2,786,163
Excess (Deficiency) of Revenues Over Expenditures	(570,203)	(1,454,631)	4,367,886	5,822,517
OTHER FINANCING SOURCES (USES)				
Proceeds-Sale Fixed Assets	-	455,000	220,425	(234,575)
Transfers In	589,360	589,360	419,438	(169,922)
Transfers (Out)	(4,125,548)	(4,125,548)	(7,061,823)	(2,936,275)
Total Other Financing Sources (Uses)	(3,536,188)	(3,081,188)	(6,421,960)	(3,340,772)
Net Change In Fund Balance	(4,106,391)	(4,535,819)	(2,054,074)	2,481,745
Fund Balances--Beginning	7,415,411	7,945,093	17,084,466	9,139,373
Prior Period Adjustment	-	-	(4,182,000)	(4,182,000)
Fund Balances--Ending	\$ 3,309,020	\$ 3,409,274	10,848,392	\$ 7,439,118
Adjustment to GAAP basis:				
GIS Fund			180,074	
Benefits Administration Fund			456,423	
Fund balance - GAAP basis			<u>\$ 11,484,889</u>	

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenue, Expenditures and
Changes in Fund Balances
Compared to Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2016

	County Road			
	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Taxes	\$ 9,676,113	\$ 9,676,113	\$ 9,158,433	\$ (517,680)
Licenses & Permits	-	-	-	-
Intergovernmental	5,223,360	5,223,360	3,811,074	(1,412,286)
Charges for Services	600,050	600,050	634,250	34,200
Fines and Forfeits	-	-	-	-
Interest	9,000	9,000	35,393	26,393
Miscellaneous	41,000	41,000	42,045	1,045
Total Revenues	15,549,523	15,549,523	13,681,195	(1,868,328)
Expenditures:				
<i>General government</i>	-	-	-	-
Public Safety	-	-	-	-
Judicial	-	-	-	-
Utilities	-	-	-	-
Economic Environment	-	-	-	-
Transportation	18,178,488	18,178,488	11,110,249	7,068,239
Social Services	-	-	-	-
Culture & Recreation	-	-	-	-
Debt Service - Principal	319,035	319,035	70,544	248,491
<i>Capital Outlay</i>	5,502,000	5,502,000	1,847,201	3,654,799
Total Expenditures	23,999,523	23,999,523	13,027,994	10,971,529
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,450,000)</u>	<u>(8,450,000)</u>	<u>653,201</u>	<u>9,103,201</u>
OTHER FINANCING SOURCES (USES)				
Proceeds-Sale Fixed Assets	-	-	175,490	175,490
Transfers In	-	-	-	-
Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>175,490</u>	<u>175,490</u>
Net Change In Fund Balance	(8,450,000)	(8,450,000)	828,691	9,278,691
Fund Balances--Beginning	8,600,000	8,600,000	9,475,517	875,517
Prior Period Adjustment	-	-	-	-
Fund Balances--Ending	\$ 150,000	\$ 150,000	\$ 10,304,208	\$ 10,154,208

Adjustment to GAAP basis:
 GIS Fund
 Benefits Administration Fund
Fund balance - GAAP basis

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Fund Net Position
Proprietary Funds
December 31, 2016

ASSETS	Solid Waste	Three Rivers	Water Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Governmental
						Internal Service Funds
ASSETS						
<i>Current Assets:</i>						
Cash & Cash Equivalents	\$ 8,306,396	\$ -	\$ 2,280,561	\$ 2,989,688	\$ 13,576,645	\$ 10,588,589
Investments	4,799,020	-	-	-	\$ 4,799,020	\$ 2,000,000
Receivables (Net)	1,695,015	-	156,631	-	1,851,646	158,084
Interest Receivable	4,370	-	-	-	4,370	-
Due From Other Funds	1,558	-	122	1,168	2,848	1,317,405
Due From Other Governments	311,522	-	8,995	394,086	714,603	156,567
Interfund Loan Receivable - Current	70,130	-	-	-	70,130	-
Inventories	-	-	-	-	-	356,262
Prepaid Items	30,831	-	6,910	53,937	91,678	39,224
Restricted Cash and Cash Equivalents	13,200	-	50,315	11,925	75,440	-
<i>Total Current Assets</i>	<u>15,232,042</u>	<u>-</u>	<u>2,503,534</u>	<u>3,450,804</u>	<u>21,186,380</u>	<u>14,616,131</u>
<i>Noncurrent Assets:</i>						
Restricted Cash, Cash Equivalents & Investments:						
Cash & Equivalents for Closure & Postclosure	17,282,180	-	-	-	17,282,180	-
Investments for Closure & Postclosure	-	-	-	-	-	-
Due From Component Unit	392,736	-	-	-	392,736	-
<i>Capital Assets:</i>						
Land	3,861,992	-	122,635	636,573	4,621,200	20,795
Construction in Progress	1,993,161	-	-	188,833	2,181,994	514,314
Buildings and System	22,181,141	-	14,840,273	555,865	37,577,279	409,717
Improvements and Other Than Bldgs.	25,164,266	-	-	2,240,047	27,404,313	-
Machinery and Equipment	3,884,287	-	-	2,481,073	6,365,360	16,762,922
Intangible	-	-	23,016	2,404,954	2,427,970	4,272,122
Less Accumulated Depreciation and Amortization	(18,178,683)	-	(7,268,972)	(5,617,684)	(31,065,339)	(11,677,428)
Total Net Capital Assets	<u>38,906,164</u>	<u>-</u>	<u>7,716,952</u>	<u>2,889,661</u>	<u>49,512,777</u>	<u>10,302,442</u>
Total Assets	<u>71,813,122</u>	<u>-</u>	<u>10,220,486</u>	<u>6,340,465</u>	<u>88,374,073</u>	<u>24,918,573</u>
DEFERRED OUTFLOWS OF RESOURCES						
Excess Consideration Provided for Acquisition	7,470,429	-	-	-	7,470,429	-
Amounts Related to Pensions	95,920	-	56,112	388,228	540,260	229,651
Total Deferred Outflows of Resources	<u>7,566,349</u>	<u>-</u>	<u>56,112</u>	<u>388,228</u>	<u>8,010,689</u>	<u>229,651</u>
LIABILITIES						
<i>Current Liabilities:</i>						
Accounts Payable	735,613	-	21,004	253,019	1,009,636	396,964
Payable To Other Governments	52,559	-	46,281	54,489	153,329	86,485
Due To Other Funds	298,009	-	79,559	12,389	389,957	536,811
Accrued Interest Payable	103,002	-	-	-	103,002	-
Claims and Judgements	-	-	-	-	-	547,347
Bonds Payable	1,302,804	-	-	-	1,302,804	-
Notes Payable	-	-	155,231	-	155,231	40,129
Landfill Closure and Postclosure Costs	264,329	-	-	-	264,329	-
Other Current Liabilities	34,400	-	25,685	187,230	247,315	87,383
Customer Deposits Payable from Restricted Assets	13,200	-	50,315	11,925	75,440	-
<i>Total Current Liabilities</i>	<u>2,803,916</u>	<u>-</u>	<u>378,075</u>	<u>519,052</u>	<u>3,701,043</u>	<u>1,695,119</u>
<i>Noncurrent Liabilities:</i>						
Compensated Absences	107,768	-	25,323	338,767	471,858	220,375
Net Pension Liability	565,177	-	330,622	2,316,133	3,211,932	1,353,136
Customer Deposits Payable From Restricted Assets	-	-	-	-	-	-
Landfill Closure and Postclosure Costs	17,017,851	-	-	-	17,017,851	-
Claims and Judgements	-	-	-	-	-	1,373,559
Bonds Payable & Net of Unamortized Discount	29,206,011	-	-	-	29,206,011	-
Interfund Loan Payable	-	-	-	245,000	245,000	-
Notes Payable	-	-	1,244,223	17,732	1,261,955	31,946
<i>Total Non Current Liabilities</i>	<u>46,896,807</u>	<u>-</u>	<u>1,600,168</u>	<u>2,917,632</u>	<u>51,414,607</u>	<u>2,979,016</u>
Total Liabilities	<u>49,700,723</u>	<u>-</u>	<u>1,978,243</u>	<u>3,436,684</u>	<u>55,115,650</u>	<u>4,674,135</u>
DEFERRED INFLOWS OF RESOURCES						
Amounts Related to Pensions	25,284	-	15,339	100,736	141,359	58,212
Total Deferred Inflows of Resources	<u>25,284</u>	<u>-</u>	<u>15,339</u>	<u>100,736</u>	<u>141,359</u>	<u>58,212</u>
NET POSITION						
Net Investment in Capital Assets	8,397,349	-	6,317,498	2,871,929	17,586,776	10,230,367
Unrestricted	21,256,115	-	1,965,518	319,344	23,540,977	10,185,510
Total Net Position	<u>\$ 29,653,464</u>	<u>\$ -</u>	<u>\$ 8,283,016</u>	<u>\$ 3,191,273</u>	<u>41,127,753</u>	<u>\$ 20,415,877</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:						(85,909)
Net Position of Business-Type Activities						<u>\$ 41,041,844</u>

The notes to the financial statements are an integral part of this statement

Cowlitz County, Washington
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	Solid Waste	Three Rivers	Water Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	
OPERATING REVENUES						
<i>Charges for Services:</i>						
Water - Sewer	\$ -	\$ -	\$ 1,765,758	\$ -	\$ 1,765,758	\$ -
Sewer	-	4,587,686	-	-	4,587,686	-
Garbage & Solid Waste	15,210,394	-	-	-	15,210,394	-
Public Safety	-	-	-	3,338,608	3,338,608	-
Culture & Recreation	-	-	-	2,310,094	2,310,094	-
Other Services	-	-	-	-	-	8,241,949
Total Operating Revenues	<u>15,210,394</u>	<u>4,587,686</u>	<u>1,765,758</u>	<u>5,648,702</u>	<u>27,212,540</u>	<u>8,241,949</u>
OPERATING EXPENSES						
Maintenance & Operations	7,320,422	2,008,265	1,181,871	6,820,639	17,331,197	7,329,183
Closure & Postclosure Care	(7,819)	-	-	-	(7,819)	-
Depreciation and Amortization	2,594,482	1,826,753	353,083	562,830	5,337,148	1,131,560
Total Operating Expenses	<u>9,907,085</u>	<u>3,835,018</u>	<u>1,534,954</u>	<u>7,383,469</u>	<u>22,660,526</u>	<u>8,460,743</u>
Operating Income (Loss)	<u>5,303,309</u>	<u>752,668</u>	<u>230,804</u>	<u>(1,734,767)</u>	<u>4,552,014</u>	<u>(218,794)</u>
NONOPERATING REVENUES (EXPENSES)						
Taxes	-	-	-	1,109,597	1,109,597	-
Intergovernmental	221,352	-	4,037	162,884	388,273	1,958
Investment Earnings	126,278	8,234	8,256	8,041	150,809	42,463
Interest Expense	(1,265,116)	(343,748)	(10,256)	-	(1,619,120)	(3,671)
Debt issuance costs	(1,450)	-	-	-	(1,450)	-
Gain (Loss) on Disposition of Assets	(135,624)	-	-	-	(135,624)	56,213
Miscellaneous Nonoperating Revenues	28,573	3,018	60,115	65,463	157,169	243,467
Total Nonoperating Income (Expense)	<u>(1,025,987)</u>	<u>(332,496)</u>	<u>62,152</u>	<u>1,345,985</u>	<u>49,654</u>	<u>340,430</u>
Income Before Contributions and Transfers	<u>4,277,322</u>	<u>420,172</u>	<u>292,956</u>	<u>(388,782)</u>	<u>4,601,668</u>	<u>121,636</u>
Capital Contributions	-	7,828	-	-	7,828	110,206
Transfers In	-	25,167,325	-	204,400	25,371,725	1,877,367
(Transfers Out)	(4,178)	-	-	-	(4,178)	-
Special Item - Disposal of Operations	-	(59,132,291)	-	-	(59,132,291)	-
Change in Net Position	<u>4,273,144</u>	<u>(33,536,966)</u>	<u>292,956</u>	<u>(184,382)</u>	<u>(29,155,248)</u>	<u>2,109,209</u>
Net Position--Beginning	<u>25,380,320</u>	<u>33,536,966</u>	<u>7,990,060</u>	<u>3,375,655</u>	<u>18,306,668</u>	<u>18,306,668</u>
Net Position--Ending	<u>\$ 29,653,464</u>	<u>\$ -</u>	<u>\$ 8,283,016</u>	<u>\$ 3,191,273</u>	<u>\$ 20,415,877</u>	<u>\$ 20,415,877</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:

32,430
\$ (29,122,818)

Change in Net Position of Business-Type Activities

The notes to the financial statements are an integral part of this statement.

**Cowlitz County, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016**

	Business-type Activities-Enterprise Funds				Governmental Activities-	
	Solid Waste	Three Rivers	Water Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities						
Cash Received From Customers	\$ 15,290,217	\$ 4,654,931	\$ 1,760,732	\$ 5,737,472	\$ 27,443,352	\$ 7,550,134
Cash Payments for Goods and Services	(6,583,511)	(1,131,174)	(689,250)	(2,998,664)	(11,402,599)	(5,859,108)
Cash Payments To Employees for Services	(1,014,452)	(1,132,277)	(550,973)	(3,540,322)	(6,238,024)	(2,030,787)
Miscellaneous Revenue	239,970	3,018	186,199	(74,726)	354,461	157,094
<i>Net Cash Provided (Used) by Operating Activities</i>	7,932,224	2,394,498	706,708	(876,240)	10,157,190	(182,667)
Cash Flows From Noncapital Financing Activities						
Loans made to other funds	(70,130)	-	-	-	(70,130)	-
Loans Made to Other Governments	-	-	-	26,779	26,779	-
Cash Paid to Other Government	-	(6,185,553)	-	-	(6,185,553)	-
Repayment (Pmt) of Interfund Loan Principal	-	-	-	-	-	101,666
Interest received on interfund loan	-	-	-	-	-	455
Operating Grants Received	-	-	4,037	136,105	140,142	6,836
Receipts From 911 Tax	-	-	-	1,109,597	1,109,597	-
Payments of Claims Liability Recognized Prior Yrs.	-	-	-	-	-	208,594
Transfers In from Other County Fund	-	-	-	204,400	204,400	1,877,367
Transfers Out to Other County Fund	-	-	-	-	-	-
<i>Net Cash Provided by Noncapital Financing Activities</i>	(70,130)	(6,185,553)	4,037	1,476,881	(4,774,765)	2,194,918
Cash Flows From Capital and Related Financing Activities						
System Development Fees & Hookup Fees	-	7,828	-	-	7,828	-
Acquisition and Construction of Capital Assets	(1,488,448)	(1,481,198)	-	(341,795)	(3,311,441)	(1,711,624)
Debt Issue Costs Paid	-	-	-	-	-	-
Principal Paid on Note/Lease	(1,210,000)	-	(155,122)	-	(1,365,122)	(38,035)
Principal Paid on Bonds	(1,325,945)	(1,730,559)	-	-	(3,056,504)	-
Interest Paid on Capital Debt	(1,345,624)	(384,135)	(10,664)	-	(1,740,423)	(2,453)
Capital Grant Received	-	-	-	120,136	120,136	-
Proceeds from sale of capital assets	-	-	-	(20,195)	(20,195)	(121,252)
<i>Net Cash Provided (Used) for Capital and Related Financing Activities</i>	(5,370,017)	(3,588,064)	(165,786)	(241,854)	(9,365,721)	(1,873,364)
Cash Flows From Investing Activities						
Purchase of investments	495	-	-	-	495	(2,000,000)
Interest on Investments	126,275	8,234	8,256	8,043	150,808	42,463
<i>Net Cash Provided (Used) by Investment Activities</i>	126,770	8,234	8,256	8,043	151,303	(1,957,537)
Net Increase (Decrease) in Cash and Cash Equivalents	2,618,847	(7,370,885)	553,215	366,830	(3,831,993)	(1,818,650)
Cash and Cash Equivalents, December 31, 2015	22,988,419	7,370,885	1,777,661	2,641,131	34,778,096	12,406,862

Cash and Cash Equivalents, December 31, 2016

\$ 25,607,266	\$ -	\$ 2,330,876	\$ 3,007,961	\$ 30,946,103	\$ 10,588,212
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Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ 5,303,309	\$ 752,668	\$ 230,804	\$ (1,734,767)	\$ 4,552,014	\$ (218,794)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation	2,594,482	1,826,753	353,083	562,830	5,337,148	1,131,560
(Increase) decrease in accounts receivable	142,623	36,169	(7,557)	81,544	252,779	(23,533)
(Increase) decrease in due from other govts	6,112	31,076	134	(5,080)	32,242	(33,486)
(Increase) decrease in due from other funds	(16,067)	-	125,950	(148,418)	(38,535)	(566,729)
(Increase) decrease in prepaid expense	3,741	-	870	(226)	4,385	(77,111)
Increase(decrease) in accounts payable	-	(90,181)	(3,445)	172,172	78,546	(1,194,495)
Increase(decrease) in due to other funds	-	-	(15,071)	(13,885)	(28,956)	441,708
Increase(decrease) in due to other govt.	-	(60,336)	2,531	11,383	(46,422)	82,689
Increase(decrease) in other accrued liabilities	(177,982)	(104,669)	-	345	(282,306)	(247)
Increase(decrease) in employee leave benefits	8,308	-	(8,758)	39,219	38,769	14,821
Increase(decrease) in customer deposits	(62,800)	-	-	7,219	(55,581)	-
Increase(decrease) in pension items	11,423	-	(31,948)	85,961	65,436	84,276
Miscellaneous revenue	249,926	3,018	60,115	65,463	378,522	241,417
(Increase) decrease in inventory	-	-	-	-	-	2,945
Provision for closure & postclosure care costs	(130,851)	-	-	-	(130,851)	(67,688)
Total Adjustments	2,628,915	1,641,830	475,904	858,527	5,605,176	36,127
Net Cash Provided by Operating Activities	\$ 7,932,224	\$ 2,394,498	\$ 706,708	\$ (876,240)	\$ 10,157,190	\$ (182,667)

Noncash Investing, Capital and Financing Activities

Capital Assets Financed by Accounts Payable	-	-	-	-	(1,368,007)	-
Contributions from Other Funds	-	-	-	-	-	-
Debt Issued to defease binds	-	24,125,130	-	-	24,125,130	-
Capital Assis transferred to another Government	-	(54,547,028)	-	-	(54,547,028)	-
Bond Issue Cost Paid by Trustee	-	-	-	-	-	-

The notes to financial statements are an integral part of this statement

**Cowlitz County, Washington
Statement of Fiduciary Net Position
December 31, 2016**

Assets	<u>Agency Funds</u>
Cash, Cash Equivalents & Pooled Investments	\$ 156,029,221
Taxes Receivable	3,736,487
Accounts Receivable	<u>202,722</u>
Total Assets	<u><u>\$ 159,968,429</u></u>
Liabilities	
Due To Other Governments	\$ 150,607,809
Warrants Payable	<u>9,360,621</u>
Total Liabilities	<u><u>\$ 159,968,429</u></u>

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cowlitz County conform 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 government accounting and financial reporting principles. The significant accounting policies are described below.

A. REPORTING ENTITY

Cowlitz County was incorporated on April 21, 1854. It operates under State of Washington laws applicable to second-class counties with a commissioner form of government.

Cowlitz County provides public safety, judicial services, roads, health and social services, parks, and general administrative services. It operates and owns water, sewer and solid waste facilities.

The county's combined financial statements include the assets and liabilities of all funds for which the county has a custodial or trust responsibility. The county has one discretely presented component unit.

Discretely presented component unit:

The **Public Facilities District** has a five-member board appointed by the Cowlitz County Commissioners. The members are volunteers and serve four-year terms. The district was formed in 1999 to plan, construct and design a regional conference/special events center. Because the County has issued significant debt and appoints board members, the Public Facility District is presented as a discretely presented component unit of the County. Separate financial statements are available from Cowlitz County Auditor's Office at 207 Fourth Avenue North, Kelso, Washington 98626.

B. GOVERNMENT-WIDE

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary activities of the primary government and its component units. 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. Likewise, the primary government is reported separately from the legally separate component unit. The government-wide focus is on the county as a whole.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with 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 or segment.

Taxes and other items not properly included among program revenues are reported as *general revenues*.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements of 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 90 days of the end of the current fiscal period. Expenditures generally are recorded when the 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.

Revenues susceptible to accrual are interest earnings, and sales tax. Intergovernmental revenues such as grants are recognized as revenues when grant expenditures are incurred and grant requirements have been met. All other items are considered to be measurable and available only when the County receives cash.

Cowlitz County reports the following major governmental funds:

- *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except the other funds required to be accounted for and reported separately.
- *County Road Fund* accounts for the restricted resources accumulated for the design, construction and maintenance of county roads and bridges.
- *Capital Improvement Fund* accounts for funds used to finance major county projects, such as land acquisition, capital construction and equipment, except those paid from proprietary funds.

Cowlitz County reports the following major proprietary funds:

- *Solid Waste Fund* accounts for operations of the solid waste landfill sites and the maintenance of the closed portions of landfills.
- *Three Rivers Regional Wastewater Authority* accounts for operations of wastewater treatment.
- *Water Sewer Fund* accounts for operations of water and sewer operations and maintenance.

Additionally, Cowlitz County reports the following fund types:

- *Special revenue funds* are governmental funds that account for and report specific revenue sources that are legally restricted or committed to expenditures for specific purposes other than debt service or capital projects.
- *Debt service funds* account for and report restricted, committed or assigned resources accumulated for principal and interest on long-term general obligation debt of governmental funds.

- *Non-major enterprise funds* which provide services to customers and other agencies in the form of 911 communication services, law enforcement records, exposition center, emergency management and a public shooting range.
- *Internal service funds* account for data processing, fleet equipment of the county, elections, and self-insurance for liability, workers industrial accident compensation, and unemployment. Also, purchasing of telephone, postage and some printing services including the supplying of paper to the departments.
- *Agency funds* are used to account for monies held by Cowlitz County in a custodial capacity for independent districts that are required by state statute to deposit all monies with the county treasurer who serves as a public depository.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments for water, sewer, garbage, law enforcement records and 911 communications. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions.

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 water-sewer, solid waste, law enforcement records, 911 communications and emergency management are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the cost of personal services, supplies, contractual services and other expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County implemented GASB 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and requires the application of fair value to certain investments, in order to promote comparability of government financial statements. The standard expands the level of disclosure for fair value methodology in the notes to the financial statements. The standard also changes the recorded value of contributed capital assets from fair value to acquisition value.

The County implemented GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the hierarchy of generally accepted accounting principles for governmental financial reporting and establishes the framework for selecting those principles.

The County implemented GASB 77, *Tax Abatement Disclosures*. This statement requires disclosure of tax abatement information about the County's own tax abatement agreements or those entered into by other governments that reduce the County's tax revenues. The purpose of the standard is to better inform users how the tax abatements affect the government's future ability to raise resources and meet financial obligations.

The County implemented GASB 79, *Certain External Investment Pools and Pool Participants*. This statement provides criteria for an external investment pool to qualify for making an election to measure all of its investments at amortized cost for financial reporting purposes, and requires pool participants to report using the same criteria. This standard adds note disclosure requirements for the County with regard to pool investments.

The County implemented GASB 82, *Pension Issues*. This statement amends GASB statements No. 67, No. 68 and No. 73 to enhance consistency in the application of financial reporting requirements related to certain pension issues. This standard made changes to how the County reported covered payroll in Required Supplementary Information.

D. ASSETS, LIABILITIES, AND NET POSTION OR FUND BALANCE

1. Cash and Cash Equivalents and Pooled Investments

The county's cash and cash equivalents for proprietary and governmental funds are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statute authorizes the county to invest in obligations of the U.S. Treasury, U.S. Agencies, the State Treasurer's Investment Pool, and public funds investment pools. Investments for the county, as well as for its component units, are reported at fair value. (See Note 4a)

2. Receivables and payables

Taxes receivable consist of property taxes and related interest and penalties. See (Note 4b Property Taxes)

Accrued interest consists of amounts earned on investments and notes.

Activity between funds that are representative of lending/borrowing arrangements are classified as "advances 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".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Customer accounts receivable consist of amounts owing from private individuals or companies for goods and services including amounts owed for which billings have not been prepared.

3. Inventories and prepaid items.

Inventories in proprietary funds are valued using the first in first out method (FIFO), which approximates the market value. The cost of governmental fund type inventories unless significant are recorded as expenditures when purchased.

Payment for insurance and similar services extending to future accounting periods are recorded in proprietary funds as prepaid items and as expenditures in governmental type funds.

4. Deferred outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense or expenditure) until then. The County currently reports three items as a deferred outflow of resources. These items are the deferred charge on refunding, amounts related to pensions and the excess consideration provided for acquisition of the Headquarters Landfill, which is reported on the Statement of Net Position.

5. Restricted net position

Additional detail for the Statement of Net Position - Governmental Activities restricted net position, is as follows:

Promotion of Tourism	201,031
Building and planning as restricted by RCW 82.02.020	754,636
Housing and Essential need grants	139,082
Sales tax to be used for public facilities as defined by state law codified in RCW 82.14.370, which facilitates the creation or retention of businesses and jobs in the County	988,474
Total Economic Environment	<u>2,083,223</u>
Treasurer's Operation and Maintenance	330,530
Auditor's Operation and Maintenance	484,290
Total General Government	<u>814,820</u>
Boat Safety purposes	18,836
Eradication of drug trafficking	126,885
Total Public Safety	<u>145,721</u>
Judicial - Superior court law library	161,934
Road Fund Activity	187,448
Future Paths and Trails	412,905
Total Transportation	<u>600,353</u>
Emergency financial assistance to veterans and their surviving spouses	183,270
Community mental health	2,795,159
RCW 36.22.17 and 36.22.178 for housing projects or units with housing projects for low income, operating costs for emergency shelters and rental assistance	10,434
Total social services	<u>2,988,863</u>
Culture and Recreation for the convention Center	
Cumulative Reserve	31,094
Total culture and recreation	<u>31,094</u>
Storm Water	628,425
Noxious Weed Program	251,727
Capital Improvement programs	-
Total Utilities	<u>880,152</u>
Total Restricted Net Position	<u>7,706,160</u>

6. Capital Assets

Capital assets include land, land improvements, buildings, building improvements, infrastructure, vehicles, software and equipment. Vehicles and equipment are capitalized if the individual cost is \$5,000 or more and estimated useful life in excess of one year. Capital assets are recorded at

historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

Improvements to capital assets that materially add to the value or extend the life of the asset are capitalized. Other normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of capital assets of business type activities is included as part of the capitalized value of the assets constructed. Construction in progress is transferred to the appropriate capital asset category when the project is substantially complete and in use.

Building, equipment and improvements are depreciated using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 60 years
Building Improvements	10 - 30 years
Light Vehicles	4 - 7 years
Heavy Duty Vehicles	7 - 15 years
Office equipment	5 - 10 years
Infrastructure	15-100 years
Intangible Assets	3-10 years

7. Deferred inflows of Resources

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until then. The County reports the following types of deferred inflows of resources: 1) amounts related to pensions, 2) deferred amount on refunding of debt and 3) unavailable revenue, which qualifies for reporting in this category, under a modified accrual basis of accounting. Accordingly, unavailable revenue is recorded only in the governmental funds balance sheets. The unavailable revenue arises from three sources: property taxes, grants and court fees. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

8. Compensated Absences

County employees may accumulate up to 248 hours of vacation pay. Accumulated unpaid employee vacation pay is payable upon resignation, termination, retirement or death. Sick Leave may accumulate up to 1,200 hours. Fifty percent of accumulated sick leave is payable upon resignation, termination, death or retirement up to a maximum of 360 hours.

Sick leave to the extent it results in termination payments, and unused vacation as of year-end, are reported along with related benefits such as social security, Medicare and pension payments where applicable in the proprietary funds and in the government wide financial statements.

9. Other Current Liabilities

Accrued interest payable, wages payable, payroll taxes and benefits payable make up the other current liabilities.

10. Long-term Obligations

Revenue bonds and other long-term liabilities directly related to and financed from proprietary funds are accounted for in the respective proprietary funds. All other long-term debt of the County is reported in the governmental column of the government wide statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are expensed in the period of issuance.

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 are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from debt proceeds received, are reported as debt service expenditures.

The County fund balances are classified into five categories in accordance with Statement 54 from the Governmental Accounting Standards Board: non-spendable, restricted, committed, assigned, and unassigned. Committed, assigned, and unassigned categories are considered to be “unrestricted.”

When expenditures are incurred that could be paid from either restricted, committed, assigned, or unassigned resources, the County uses restricted resources first, committed resources second, assigned resources third, and unassigned resources last.

The fund balance would be committed if the Board of County Commissioners committed a revenue source to a specific purpose by formal resolution. There is currently no committed fund balance. The fund balance is assigned when the Board of County Commissioners or an official designated for that purpose, approve in writing, other than formal resolution, an intended use for a revenue source. The approved budget does not create committed or assigned amounts.

The County considers revenue for special revenue funds, debt service funds and the capital improvement fund to be assigned if not already non-spendable, restricted or committed.

11. 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.

12. Minimum Fund Balance Policy

The County shall strive to maintain a General Fund balance of no less than 8.3% of projected revenues in order to provide sufficient cash flow.

13. Detailed Fund Balance Constraints

Fund Balances:	General	County Road	Capital Improve- ments	Nonmajor Gov'tal Funds	Total
Nonspendable for:					
Long Term Receivable	245,000	\$ -	\$ 440,934	\$ -	\$ 685,934
Restricted for:					
Transportation				412,905	412,905
Debt Service	-			2,140,961	2,140,961
REET Technology				-	-
Utilities				880,152	880,152
Economic Environment			988,475	1,094,745	2,083,220
Culture & Recreation				31,094	31,094
Judicial				161,934	161,934
Treasurer's O&M				330,530	330,530
Auditor's O&M				484,291	484,291
Social Services				2,978,429	2,978,429
Public Safety				145,721	145,721
Assigned to:					
General Government	180,071			419,077	599,148
Economic Environment				124,657	124,657
Judicial				-	-
Transportation		10,304,208		1,622	10,305,830
Capital Improvements			7,150,817	-	7,150,817
Utilities & Environment				587,092	587,092
Culture & Recreation				197,934	197,934
Social Services				3,181,314	3,181,314
P.A. Victim-Witness				85,734	85,734
Public Safety	456,422			524,972	981,394
Unassigned	10,603,393		-		10,603,393
	\$ 11,484,886	\$ 10,304,208	\$ 8,580,226	\$ 13,783,164	\$ 44,152,484

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 reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

General Obligation Bonds payable	\$	10,695,526
Add: Deferred amounts for premiums		606,798
Special assessment bonds payable		668,976
Due to other governments		6,130,130
Revenue Bonds Payable		15,625,000
Add: Deferred amounts for premiums		833,290
Compensated absences		3,058,513
OPEB Liability		3,879,990
Notes Payable		87,500
Capital Lease Payable		318,257
Accrued interest payable		254,667
Net adjustment to reduce <i>fund balance governmental funds</i> to Arrive at net position-governmental activities	\$	<u>42,158,647</u>

Another element of this reconciliation – net pension assets and liability and other items related to pension activity that are not financial resources or uses, therefore, not reported in the funds is detailed as follows:

Net pension liability	\$	(21,788,318)
Net pension asset		1,070,352
Deferred outflows related to pension		4,304,983
Deferred inflows related to pension		(656,062)
Less Internal Service fund amounts		<u>1,181,697</u>
Net adjustment to reduce <i>fund balance governmental funds</i> to Arrive at net position-governmental activities	\$	<u>(15,887,348)</u>

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 of 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. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense”.

The details of the difference are as follows:

Capital Outlays (Net of amounts transferred to Internal Svc. Funds)	(2,134,217)
Disposal of capital equipment	2,300,459
Depreciation expense	<u>7,581,772</u>
Net adjustment to increase <i>net changes in fund balances- total Governmental funds to arrive at change governmental activities</i>	\$ <u><u>7,748,014</u></u>

Another element of the reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds". Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized on the statement of activities. The details of the difference are as follows:

Debt Transferred from TRRWA	\$ (24,125,130)
Premium and deferred amounts on refunding from TRRWA	(1,042,195)
Remove revenue recognized from PFD and TRRWA Debt payments	(2,630,000)
Recognize gain on Assumption of Liability	24,125,130
Principal receipts	
Principal repayments:	
General obligation bonds	1,397,272
Special revenue bonds	2,370,000
Note Payable	70,000
Lease Payment	48,493
Special assessment bonds	<u>225,000</u>
Net adjustments to increase <i>fund balances-total governmental funds</i> To arrive at changes in net position of governmental activities	\$ <u><u>438,570</u></u>
Interest payable	\$ (153,630)
OPEB expense	(759,317)
Net pension expense	639,324
Inventory	62,938
Amortization of charges for discount and premium	161,149
Amortization of amount on refunding	805
Compensated absences	<u>(168,119)</u>
<i>Net adjustment to decrease net changes in fund balances-total Governmental funds to arrive at changes in net position of governmental activities</i>	\$ <u><u>(216,850)</u></u>

NOTE 3– STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions and expenditures have not exceeded legal appropriations in any funds of the County.

BUDGETARY INFORMATION

The annual budget for Cowlitz County is adopted in accordance with state statute, codified in Revised Code of Washington, Chapter 36.40, on a basis consistent with generally accepted accounting principles, with one exception. The County budgets the GIS Fund and Benefits Administration Fund activity as if they were special revenue funds. However, GAAP requires this activity to be reported with the General Fund, as it does not have significant streams of restricted resources. From a budgetary perspective, the County budgets activity within the GIS Fund and Benefits Administration Fund separately from the General Fund. From a GAAP perspective, the General Fund column of the fund statements contains General Fund and GIS Fund and Benefits Administration Fund activity. The Board of County Commissioners adopts the annual budgets for the general, special revenue and capital project funds. Budgetary constraints for debt services funds are determined by the terms of the debt instruments or enabling legislation.

The steps in the budgetary process are as follows:

- a. Prior to the first Tuesday in September the County Auditor and Budget Director submit a proposed budget to the County Commission. This budget is based on priorities established by the Commission and estimates provided by county departments during the preceding months, and offset with revenue estimates provided by county departments during the preceding months, and offset with revenue estimates made by the County Auditor and Budget Director.
- b. The Commission conducts workshops and public hearings on the proposed budget in October, November, and December.
- c. The Commission makes its adjustments to the proposed budget and adopts by resolution a final balanced budget no later than December 31.
- d. Amendments to the budget require either supplemental appropriation or emergency resolutions approved by the Board of County Commissioners at a public meeting following appropriate public notice. Any revisions that alter total expenditures of a fund or that affect the number of permanent employee positions, or other conditions of employment must be approved by the Commission.

The Board of County Commissioners at the fund level adopts annual appropriations, except in the General Fund where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Also, total direct labor and benefits by department are controlled by the adopted budgetary amounts.

Budgets are amended during the year for increases or decreases to appropriations by resolutions, which are approved by a majority vote of the Commission after holding a public hearing. Budget amendments resulted in a net increase in the General Fund budgeted appropriations for expenditures by \$1,032,266. The amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at fiscal year-end.

NOTE 4. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

As of December 31, 2016, the County cash, cash equivalents, and investments as reported on the Statement of Net Position are as follows:

Cash on hand	\$	13,329,031
State Treasurer's Investment Pool		60,371,113
US Government Agencies		14,654,576
Total cash and investments	\$	<u>88,354,720</u>

The County as of December 31, 2016 had investments of \$60,371,113 in the Washington State Local Government Investment Pool which are classified as cash equivalents. Additional cash & cash equivalents consist of \$13,329,031 held in interest bearing bank accounts, certificates of deposit, petty cash, and cash change drawers.

Deposits:

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The County has an adopted policy that addresses deposit custodial risk; however, the County's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the County's deposits would be satisfied by the FDIC..

Investments

Statutes authorize the County to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, county investment pool and the state treasurer's investment pool. The County is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2016.

The County is currently invested in one public funds investment pools, Washington State Local Government Investment Pool (LGIP), which is reported at amortized cost. Otherwise, investments for the County are reported at fair value.

The LGIP in accordance with appropriate state laws and regulations. The LGIP transacts with its participants at a stable net asset value per share and meets the portfolio maturity, quality, diversification, liquidity and shadow pricing requirements that allows it to report at amortized costs. Further, The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission

The weighted average maturities of the LGIP are less than three (3) months, with cash available to the County on demand. The on demand availability of this funds defines them as cash equivalent liquid investments. Cash investments are not subject to interest rate risk or any market value reporting requirements. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third

party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor’s Office and regulated by Washington RCWs and the LGIP Advisory Committee

Investments Measured at Amortized Cost

As of December 31, 2016, the County had the following investments at amortized cost.

Investment	Maturities	County's own investments	Investment held by County as an agent for other local governments, individuals or private organizations	Total
State Investment Pool	N/A	60,371,113	140,561,235	200,932,348
Total		60,371,113	140,561,235	200,932,348

These are reported at amortized cost because the State Pool has elected to measure in this manner. The only restriction on withdrawals from the State Investment Pool is when a deposit is received by ACH. In this case, a five day waiting period exists.

Investments Measured at Fair Value

The County measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: 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, to the extent observable inputs are not available

As of December 31, 2016, the County had the following recurring fair value measurements.

Investments by fair value level	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
Federal Farm Credit Bank	\$ 3,343,717	\$	\$ 3,343,717	\$ -
Federal Home Loan Bank	3,506,942		3,506,942	
Federal Home Loan Mtg Corp	986,873		986,873	
Federal National Mtg Assn.	1,999,057		1,999,057	
Stripped Cpn off Tnote	37,568		37,568	
FICO Strip	4,780,418		4,780,418	
Total Debt Securities	14,654,576	-	14,654,576	-
Total Investments by Fair Value Level	\$ 14,654,576	\$ -	\$ 14,654,576	\$ -

As of December 31, 2016, the County held the following recurring fair value measurements in a fiduciary manner.

Investments by fair value level	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
Federal Farm Credit Bank	\$ 5,684,197	\$	\$ 5,684,197	\$ -
Federal Home Loan Bank	1,685,073		1,685,073	
Federal National Mtg Assn.	5,015,083		5,015,083	
Federal Natl Mtg Assn	502,383		502,383	
Stripped Cpn off Tnote	363,248		363,248	
Total Debt Securities	13,249,984	-	13,249,984	-
Total Investments by Fair Value Level	\$ 13,249,984	\$ -	\$ 13,249,984	\$ -

Interest rate risk. County Council policy limits investment maturities as a means to manage its exposure to fair value losses arising from increasing interest rates. The County's intent is to purchase investments that may be held until maturity. This risk is measured using the weighted average to maturity method. Investment maturities at December 31, 2016 is as follows:

Investment Type	<u>Weighted Average (Months)</u>
Federal Farm Credit Bank	3.43
Federal Home Loan Bank	3.45
Federal Home Loan Mtg Corp	5.82
Federal National Mtg Assn.	33.53
Stripped Cpn off Tnote	27.12
FICO Strip	1.51
	<u>18.63</u>

Credit risk. Credit risk is the risk that an issuer or related party will not fulfill its obligations. The County has a formal investment policy that limits its investment and diversification by investment type and issuer beyond the limits imposed by State law. As required by state law, all investments of the County's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, investments in the State Treasurer's Investment Pool, bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions. The County invests in Federal Home Loan Bank notes.

Concentration of credit risk. Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County has an adopted policy limiting the amount the County may invest in any one issuer. The investments held at year-end are listed below along with their percentage of the government's total investment:

Investment Type	<u>12/31/2016</u>	
	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
<i>U.S. Government Agency Securities:</i>		
Federal Farm Credit Bank	\$ 3,343,717	22.8%
Federal Home Loan Bank	3,506,942	23.9%
Federal Home Loan Mtg Corp	986,873	6.7%
Federal National Mtg Assn.	1,999,057	13.6%
Stripped Cpn off Tnote	37,568	0.3%
FICO Strip	4,780,418	32.6%
	<u>\$ 14,654,576</u>	<u>100%</u>

Custodial credit risk (investments). Custodial risk is the risk that, in the event of a failure of the counterparty, the government will not be able to recover its investments that are in the possession of an outside party. The County uses Piper Jaffrey and US Bank as the custodial agent for safekeeping of the County's investments. Piper Jaffrey and US Bank provide monthly reports on the County's securities, all of which are held in the County's name. The investments held by the County at year-end are all book-entry, registered securities.

Total cash and investments are stated at \$245,717,745. This includes cash held in a fiduciary capacity. There is additional cash held in County accounts due to "float" of outstanding checks, which have not cleared the bank as of December 31, 2016. The County invests all temporarily idle funds.

B. PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

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 installments is due
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due.

Property taxes are recorded as a receivable in the year levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. 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.

Maximum Rate Limitation. A county may levy taxes at a maximum rate of \$1.80 per \$1,000 of assessed value against all the real and personal property in the county subject to taxation for general county purposes, including the payment of principal of and interest on bonds issued by the county without a vote of the people. This rate, however, may be increased to a rate not to exceed \$2.475 per \$1,000 of assessed value for general county purposes if the total levies for both the county and any road district within the county do not exceed \$4.050 per \$1,000 of assessed value and no other taxing district has its levy reduced as a result of the increased county levy.

The One Percent Aggregate Regular Levy Limitation. Article VII, Section 2 of the State Constitution, as amended in 1973, limits aggregate regular property tax levies by the State and all taxing districts, except port districts and public utility districts, to one percent of the true and fair value of property. RCW 84.52.050 provides the same limitation by statute.

\$5.90/\$1,000 Aggregate Regular Levy Limitation. Within the one percent limitation described above, RCW 84.52.043(2) imposes an aggregate limitation on regular tax levies by all taxing districts, other than the State, of \$5.90 per \$1,000 of assessed value, except levies for any port or public utility district; excess levies authorized in Article VII, Section 2 of the State Constitution; certain levies for acquiring conservation futures, for emergency medical services or care, and to finance affordable housing; certain metropolitan park district levies; ferry district levies; transit levies by certain counties; the protected portion of levies by flood control zone districts in certain counties; and the portions of levies by fire protection districts that are protected under RCW 84.52.125.

Uniformity Requirement. Article VII, Section 1 of the State Constitution requires that property taxes be levied at a uniform rate upon the same class of property within the territorial limits of a taxing district levying such taxes. The State Constitution provides that with only limited exceptions, all real estate constitutes one class of property. It is possible that due to different overlapping taxing districts in different areas of the County, the maximum permissible levy might vary within the County. In that event, to comply with the constitutional requirement for uniformity of taxation, the lowest permissible rate for a taxing district for any part of the taxing district would be applied to the entire taxing district.

Prioritization of Levies. RCW 84.52.010 provides that if aggregate levies certified by all taxing districts exceed the aggregate levy limitations described above, levies certified by junior taxing

districts are reduced or eliminated in order to bring the aggregate levy into compliance with the statutory maximum prescribed by RCW 84.52.050 and 84.52.043. RCW 84.52.043 defines “junior taxing districts” as all taxing districts other than the state, counties, road districts, cities, towns, port districts, and public utility districts. The County is not a “junior taxing district” that would be affected under this provision.

The Levy Limitation. The regular property tax increase limitation (chapter 84.55 RCW) limits the total dollar amount of regular property taxes levied by an individual local taxing district such as the County to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, annexations, improvements and State-assessed property at the previous year's rate. The limit factor is the lesser of 101 percent of the highest levy in the three previous years (excluding new construction, improvements, and State-assessed property) or 100 percent plus inflation, unless a greater amount is approved by a simple majority of the voters. With a supermajority vote of the Board, the limit factor is a flat 101 percent.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as “banked” levy capacity. The County has no banked levy capacity at December 31, 2015.

With a majority vote of its electors, a taxing district may levy, within the rate limitations described above, more than what otherwise would be allowed by the tax increase limitation indefinitely or for a limited period or to satisfy a limited purpose, as allowed by RCW 84.55.050. This is known as a “levy lid lift.” A newly created taxing district can initiate its levy at the maximum permitted statutory levy rate, unless that rate would exceed any of the limitations described above.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction, improvements and State-assessed property) which exceed the rate of growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy or the taxing district uses banked levy capacity. Decreases in the assessed value of all property in the taxing district (including new construction, improvements and State-assessed property) or increases in such assessed value that are less than the rate of growth in taxes imposed, among other events, may result in increased regular tax levy rates.

Special excess levies approved by a 60 percent majority of the voters and meeting minimum voter turnout requirements are not subject to the rate or amount limitations on regular levies described above.

The County assessed valuation, levy and taxes for 2016 were:

<u>Purpose</u>	<u>Assessed Valuation</u>	<u>2016 Levy Rate Per \$1,000</u>	<u>Property Taxes 2016</u>
General Fund	\$ 9,771,460,436	\$1.938	\$ 18,932,928
Human Svcs/Mental Hlth	\$ 9,771,460,436	\$0.024	\$ 237,300
Veterans Relief	\$ 9,771,460,436	\$0.011	\$ 106,783
County Roads	\$ 5,473,035,351	\$1.543	\$ 8,442,661

Maximum Levy subject to limitations mentioned in a. and b. above.

C. RECEIVABLES

Notes receivable owed to the Capital Improvements Fund (rural county public facilities department) of \$440,934 at December 31, 2016. These notes receivable are long-term and consist of the following:

Capital Improvement Fund - Notes Receivable				12/31/2016
	<u>Int. rate</u>	<u>Qtrly/Annual</u>		
		<u>Pmts</u>	<u>Final Pmt.</u>	Balance
Port of Woodland	3.02%	\$ 6,250.50	3/31/2026	\$222,505
Port of Longview	3.00%	22,954.79	7/1/2024	162,271
City of Kalama	1.00%	7,602.15	1/31/2031	40,543
City of Castle Rock	1.00%	5,309.60	1/31/2019	15,615
Total Notes Receivable				<u>\$440,934</u>

The Due from Component unit of \$4,322,736 represents a receivable of \$3,930,000 for bonds issued by Cowlitz County and an interfund loan of \$392,736 from a Major Enterprise fund. The Bonds were issued on behalf of the Public Facilities District which received the proceeds and has agreed to pay the principal and interest on the debt service as it becomes due from proceeds of a 0.033% Retained Sales Tax collected by the District pursuant to RCW 82.14.390 as well as lodging taxes collected by the District pursuant to RCW 36.100.040 and authorized by voters on September 16, 2003. The interfund loan has no payment schedule, but must be paid by July 1, 2033.

The Due from Other Government of \$24,106,850 represents a receivable of \$23,685,000 from TRRWA. When TRRWA took over operations, they assumed liability for the debt issued to them while operating under the County. This also consists of \$421,850 due from various other government agencies through the normal course of business.

D. CAPITAL ASSETS

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

Primary Government	Restated	Increases	Decreases	Ending Balance
	Beginning Balance 12/31/15			
Governmental Activities:				
Land	12,054,302	218,660	283,414	11,989,548
Construction in progress	3,582,234	2,647,401	4,060,190	2,169,445
Total capital assets, not being depreciated	15,636,536	2,866,061	4,343,604	14,158,993
Capital Assets, being depreciated				
Buildings	52,008,949	57,058	2,975,756	49,090,251
Improvements other than buildings	7,159,339	-	3,636,439	3,522,900
Machinery and equipment	20,391,276	1,806,187	846,978	21,350,486
Intangible	2,391,628	2,416,769	-	4,808,397
Infrastructure	148,732,626	1,829,020	202,900	150,358,746
Total capital assets being depreciated	230,683,818	6,109,034	7,662,073	229,130,779
Less accumulated depreciation for:				
Buildings	21,926,651	1,304,399	1,415,804	21,815,246
Improvements other than buildings	4,256,756	188,495	2,574,477	1,870,774
Machinery and equipment	12,772,674	1,273,077	755,043	13,290,707
Intangible	613,299	255,185	-	868,484
Infrastructure	66,576,485	5,692,683	111,040	72,158,128
Total accumulated depreciation	106,145,865	8,713,838	4,856,364	110,003,340
Total capital assets being depreciated, net	124,537,953	(2,604,804)	2,805,709	119,127,439
Governmental capital assets, net	140,174,489	261,257	7,149,313	133,286,433

Primary Government Infrastructure was restated at 12/31/15 to \$66,576,485. This is a Reduction of \$4,524,101 due to the over depreciation in 2015.

Business-type activities:	Beginning Balance 12/31/15	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	5,207,740	-	586,540	4,621,200
Construction in progress	5,750,468	2,727,004	6,295,478	2,181,994
Total capital assets, not being depreciated	10,958,208	2,727,004	6,882,018	6,803,194
Capital assets, being depreciated:				
Buildings and system	133,903,197	-	96,325,918	37,577,279
Improvements other than building	22,935,336	4,476,274	7,297	27,404,313
Machinery and equipment	7,248,084	813,665	1,696,389	6,365,360
Intangible	3,126,453	-	698,483	2,427,970
Total capital assets, being depreciated	167,213,070	5,289,939	98,728,087	73,774,922
Less accumulated depreciation for:				
Buildings and system	54,008,199	2,375,338	44,223,434	12,160,103
Improvements other than buildings	11,684,408	2,297,155	7,297	13,974,266
Machinery and equipment	4,679,625	465,297	1,405,802	3,739,120
Intangible	1,705,877	184,455	698,483	1,191,849
Total accumulated depreciation	72,078,109	5,322,246	46,335,016	31,065,339
Total capital assets, being depreciated, net	95,134,961	(32,307)	52,393,071	42,709,583
Business-type activities capital assets, net	106,093,169	2,694,697	59,275,089	49,512,777

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:

General Government	\$ 226,871
Public Safety	1,112,640
Judicial	160,274
Transportation	5,830,305
Physical Environment	9,978
Economic Environment	9,619
Health	96,766
Culture & Recreation	135,319
Capital assets held by the government's Internal Service funds are charged to the various functions based on their usage of the assets	1,132,067
	<u>\$ 8,713,838</u>

Business-type activities:

Water/Sewer	\$ 353,083
Three Rivers	1,826,753
Solid Waste-Landfill	2,594,482
Public Safety	536,015
Expo Center	26,814
Total depreciation expense-business-type activities	<u>\$ 5,337,147</u>

Commitments:

At the end of December 31, 2016, the Solid Waste Fund had construction projects in process. Project costs totaled \$1,993,161 in progress as of year-end. Headquarters Landfill had one major construction in process, Gas System Collection Updates with \$1,344,348 spent to date. This has been an ongoing project for many years.

Discretely Presented Component Unit – Public Facilities District

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

	1/1/2016	Increases	Decreases	12/31/2016
Capital Assets being depreciated:				
Buildings	\$ 6,068,006	\$ -	\$ -	\$ 6,068,006
Leasehold improvements	11,167,291	-	-	11,167,291
Improvements other than buildings	566,565	-	-	566,565
Machinery and equipment	662,587	-	-	662,587
Total capital assets being depreciated	<u>18,464,449</u>	<u>-</u>	<u>-</u>	<u>18,464,449</u>
Less: accumulated depreciation for:				
Buildings	1,280,073	130,527	-	1,410,600
Leasehold improvements	2,919,926	507,605	-	3,427,531
Improvements other than buildings	361,393	16,701	-	378,094
Machinery and equipment	450,683	22,306	-	472,989
Total accumulated depreciation	<u>5,012,075</u>	<u>677,139</u>	<u>-</u>	<u>5,689,214</u>
Total capital assets, being depreciated net	<u>\$ 13,452,374</u>	<u>\$ (677,139)</u>	<u>\$ -</u>	<u>\$ 12,775,235</u>
Total capital assets, net	<u>\$ 13,452,374</u>	<u>\$ (677,139)</u>	<u>\$ -</u>	<u>\$ 12,775,235</u>

E. TRANSFERS, INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers are funds provided to support other funds with no obligation for repayment and consisted of the following for 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 419,438	\$ 6,571,824
Capital Improvement	979,437	1,114,400
Nonmajor Governmental	5,223,538	1,013,778
Enterprise Funds	25,371,725	4,178
Internal Service Funds	1,877,367	-
Total Transfers	<u>\$ 33,871,505</u>	<u>\$ 8,704,180</u>

Transfers in and transfer out do not balance at the fund level by \$25,167,325. This represents a transfer in to the TRRWA fund to offset debt transferred to general governmental activities. Because governmental funds do not show long-term debt there is no offsetting transfer in the governmental fund statements.

Interfund receivables and payables consisted of the following as of December 31, 2016:

<u>Fund</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	100,970	248,907
Road Fund	626,465	159,503
Capital Improvement	10,802	21,450
Nonmajor Gov't	183,206	98,098
Solid Waste	298,009	1,558
Nonmajor-Enterprise	91,948	1,290
Internal Service	536,811	1,317,405
Total	1,848,211	1,848,211

Additionally, the Solid Waste fund provided a loan of \$245,000 to the Public Shooting Range for capital purposes and start-up costs. This loan is now owed to the General Fund which paid the outstanding balance to the Solid Waste Fund in 2015. Total interfund loans outstanding at December 31, 2016 are \$245,000.

NOTE 5-INTERGOVERNMENTAL GRANTS AND ENTITLEMENTS

The accompanying Schedules of Financial Assistance provide a listing of all federal assistance programs in which the county participates.

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	\$ (25,000,250)
Pension assets	\$ 1,070,352
Deferred outflows of resource	\$ 4,845,243
Deferred inflows of resources	\$ (797,421)
Pension expense/expenditure	\$ 2,523,598

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%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

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

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 \$1,081,393 to PERS Plan 1 and \$1,412,392 to PERS Plan 2/3 for the year ended 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

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 \$284,435 to PSERS Plan 2 and \$206,171 to PERS Plan 1 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-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 \$172,782 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 \$111,265.

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.

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%	

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 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	14,874,128.31	12,334,468.16	10,148,934.67
PERS 2/3	22,331,436.25	12,128,872.94	(6,313,778.45)
PSERS 2	2,331,343.79	536,909.11	(741,272.65)
LEOFF 1	(250,376.17)	(421,479.70)	(567,735.10)
LEOFF 2	1,819,616.81	(648,872.24)	(2,509,396.24)

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 \$23,929,898 for its proportionate share of the net pension liabilities as follows:

Plan	Liability or Asset
PERS 1	12,334,468
PERS 2/3	12,128,873
PSERS	536,909
LEOFF 1	(421,480)
LEOFF 2	(648,872)

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
LEOFF 1 - employer's proportionate share	(421,480)	(648,872)
LEOFF 1 - State's proportionate share of the net pension asset associated with the employer	(2,850,878)	(423,018)
TOTAL	(3,272,358)	(1,071,890)

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

Plan	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.236004%	0.229672%	-0.006332%
PERS 2/3	0.247671%	0.240895%	-0.006776%
PSERS	1.307756%	1.263375%	-0.044381%
LEOFF 1	0.040473%	0.040909%	0.000436%
LEOFF 2	0.111898%	0.111561%	-0.000337%

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	360,685
PERS 2/3	1,613,251
PSERS	393,010
LEOFF 1	(58,882)
LEOFF 2	215,534
TOTAL	2,523,598

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:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	310,562	-
Contributions subsequent to the measurement date	\$670,873	
TOTAL	\$981,436	\$0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$645,854	(\$400,394)
Net difference between projected and actual investment earnings on pension plan investments	\$1,484,224	-
Changes of assumptions	\$125,362	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	(373,746)
Contributions subsequent to the measurement date	\$704,714	
TOTAL	\$2,960,154	(\$774,140)

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$182,886	-
Net difference between projected and actual investment earnings on pension plan investments	\$110,735	-
Changes of assumptions	\$2,085	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	(9,270)
Contributions subsequent to the measurement date	\$149,885	
TOTAL	\$445,590	(\$9,270)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$42,843	-
TOTAL	\$42,843	\$0

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$88,913	-
Net difference between projected and actual investment earnings on pension plan investments	\$233,166	-
Changes of assumptions	\$2,447	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(\$11,739)
Contributions subsequent to the measurement date	\$88,423	
TOTAL	\$412,948	(\$11,739)

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	PERS 2/3	PSERS	LEOFF 1	LEOFF 2
2017	(76,467)	(125,078)	34,359	(8,854)	(6,047)
2018	(76,467)	(125,078)	34,359	(8,854)	(6,047)
2019	285,218	1,041,386	102,581	37,105	189,783
2020	178,278	690,070	80,004	23,445	129,767
2021	-	-	35,142	-	5,330
Thereafter	-	-	(9)	-	-

NOTE 7 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

LEOFF I OPEB

Plan Description

The County provides all health insurance benefits for retired public safety employees who are vested in LEOFF I under a single-employer defined benefit plan. All County LEOFF I employees may become eligible for these benefits if they reach normal retirement age while working for the County.

There are 22 participants eligible to receive these benefits. There are no LEOFF I members employed at the County who have not yet retired. The benefits are 100 percent provided by the County in order to meet State statutory requirements under the LEOFF I system, whereby the County pays their medical and dental premiums and out-of-pocket medical costs for life.

The County does not issue a stand-alone financial report nor is the plan included in the report of another entity.

Funding Policy and Funding Status

The County has the authority to establish and amend contribution requirements. Plan members are not required to contribute to the plan.

This plan is not currently funded. The County was required to contribute \$999,558 but only contributed \$148,174 at December 31, 2016. The amount contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go-basis. Since the County's healthcare plan is experience rated, the annual required contributions can fluctuate. The difference between the OPEB costs and the required contribution is called the Net OPEB Obligation (NOO).

As of December 31, 2015, the most recent valuation date, the liability for benefits was \$11,113,478.

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the current year and the three preceding years were as follows:

Year Ending December 31	Annual OPEB Cost	Contribution	Percentage of Annual OPEB	
			Cost Contributed	Net OPEB Obligation
2016	\$ 907,491	\$ 148,174	16.33%	\$ 3,879,990
2015	879,124	169,961	19.33%	3,120,673
2014	447,603	242,712	54.22%	2,411,509

Annual OPEB Cost and Net OPEB Obligation

The County’s annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance within the parameters of GASB 45 using the alternative method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period of thirty years. The following table shows the components of the County’s annual OPEB cost for the fiscal year ending December 31, 2016, the amount actually contributed to the plans, and changes in the County’s net OPEB obligation:

Annual required contribution	\$ 999,558
Interest on net OPEB obligation	124,827
Adjustments to the annual required contribution	(216,894)
Annual OPEB cost (expense)	907,491
Employer Contributions made	148,174
Increase in the net OPEB obligation	759,317
Net OPEB obligation, beginning of year	3,120,673
Net OPEB obligation, end of year	\$ 3,879,990

Methods and Assumptions

The County has used the alternative measurement method permitted under GASB Statement No. 45 to calculate the annual required contribution of the employer. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/15
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	4.00%
Inflation Rate	3.00%
Projected Payroll Growth	N/A
Investment Return	N/A
Amortization Method	Open
Amortization Period - Open	15

Additionally, a single retirement age of 55.3 was assumed for all active members to determine the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality 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. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 8 - RISK FINANCING

A. WASHINGTON COUNTIES RISK POOL

Cowlitz 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.

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, Cowlitz 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, Cowlitz 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.

Cowlitz 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.

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.

B. SELF-INSURANCE

The County maintains insurance against most normal hazards. For general liability, the County retains the risk for general liability up to \$100,000 per claim (our “deductible” or “self-retention”). For workers compensation the County has elected to retain losses up to \$500,000 for all employees, per occurrence. Excess insurance has been purchased to cover claims above the deductible and self-retention. The County Risk Manager and independent claims managers process claims. Based on the claims manager’s estimates, the estimated ultimate loss report for general liability prepared by the Risk Pool and with management’s judgment. Estimated Claims at December 31, 2016 were \$1,442,466 for general liability and \$478,441 for workers compensation.

The County’s changes in aggregate liability were as follows:

	Risk Management	Industrial Insurance	Total
Claims Payable 12-31-14	\$ 1,267,100	\$ 625,000	\$ 1,892,100
Provision for 2015	315,000	136,058	451,058
Increase (Decrease) in Provision for Prior Years	141,094	(298,409)	(157,315)
Less:			
Payment of Claims in Current Yr. Events	10,689	80,228	90,917
Payment of Claims in Prior Yr. Events	294,505	20,421	314,926
Claims Payable 12-31-15	<u>1,418,000</u>	<u>362,000</u>	<u>1,780,000</u>
Provision for 2016	264,348	172,981	437,329
Increase (Decrease) in Provision for Prior Years	58,422	6,994	65,416
Less:			
Payment of Claims in Current Yr. Events	-	49,093	49,093
Payment of Claims in Prior Yr. Events	298,304	14,441	312,745
Claims Payable 12-31-16	<u>\$ 1,442,466</u>	<u>\$ 478,441</u>	<u>\$ 1,920,907</u>

Since 1988, when Cowlitz County joined the risk pool, settlements by the County have not exceeded the annual insurance coverage.

The County is required by the State to set aside a minimum of \$100,000 for protection of the Workers Compensation Fund. The Industrial Insurance Fund has cash and cash equivalents in the amount of \$410,368 at December 31, 2016 available to meet the projected future estimate of claims to be paid out of \$464,000. This results in a December 31, 2016 total net position of (\$85,670).

The Risk Management Fund has \$801,181 at December 31, 2016 in net cash and investments to meet actual and projected claims to be paid of \$1,442,466. This results in a December 31, 2016 total net position of (\$671,596).

Claims settlements and loss expenses are accrued in the Risk Management Fund for the estimated settlement value of both reported and unreported claims (up to the aggregate stop-loss). This fund is responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements and for purchasing certain insurance policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Also the county self-insures the Unemployment Compensation Fund. At December 31, 2016 the fund has a total net position balance of \$349,728 compared to total net position of \$341,873 at December 31, 2015.

NOTE 9 – LONG-TERM DEBT AND CAPITAL LEASES

A. LONG-TERM DEBT

Note 9 summarizes long-term debt as follows: 1) Description of primary government individual debt issues and related debt service requirements to maturity on general obligation bonds and notes 2) Debt Service Requirements to Maturity 3) Discretely Presented Component Unit – Public Facilities District and its long-term debt, 4) summary of changes in long-term debt, 5) presents the County's legal debt margin, and 6) Debt service Coverage requirements.

1. Description of Primary Government Individual Long-term Liabilities

<i>Bonds and Other Long Term Liabilities – Governmental Activities</i>	<i>Debt Outstanding</i>
\$7,000,000 1999 TRRWA Public Works Trust Fund Loan from State of Washington - \$6,300,000 issued August 23, 1999 and \$700,000 issued May 12, 2004 for improvements to the sewer facilities. Interest is 1% per annum with \$375,329 future annual principal payments on June 30, 2005 through June 30, 2019.	\$ 1,125,987
\$3,000,000 2001 TRRWA Public Works Trust Fund Loan from State of Washington \$2,850,000 issued May 26, 2001 and \$150,000 issued May 10, 2004 for improvements to treatment plant. Interest is .05% per annum with \$158,333 future annual principal payments on June 30, 2005 through June 30 2021.	\$ 791,667
\$35,400,000 2002 Special Revenue Refunding Bonds- issued September 5, 2002 to pay the costs of the Central Sewer's (Three Rivers) portion of the County's outstanding Limited Tax General Obligation Bonds-1999. Interest varies from 2.5% to 5.5% on principal installments of \$1.6 million to \$2.79 million through November 1, 2019. Revenues from user fees collected by the Cities of Kelso, Longview and Beacon Hill Sewer District will service the debt on this issue. Up front money provided by the Central Sewer has paid for an insurance policy to fund the debt in case of default by the users.	\$ 7,935,000
\$700,000 Public Work Building Note Payable issued on May 15, 2008 for the purchase of the new Public Works facility. Principal payments are \$17,500 quarterly. Interest is equal to the published Monthly Net Earnings Rate of the Washington State Local Government Investment Pool for the month proceeding such calendar quarter.	\$87,500
\$6,630,750 2008 TRRWA Public Works Trust Fund Loan from State of Washington by TRRWA to replace two clarifiers and associated piping. Interest is 0.5% per annum with annual principal payments of \$351,040 beginning July 1, 2009 through July 1, 2028.	\$4,212,477
\$2,500,000 2011 Limited Tax General Obligation Bond issued October 18, 2011 to provide to provide upgrades to certain heating and cooling facilities of the County and pay the administrative costs of issuing the bonds. Funds from this bond are drawn down as needed. The interest rate on the outstanding principal is 3.4% through November 30, 2016. On December 1, 2016, the bond has an interest	\$1,535,526

rate of 4.55% on principal installments. Semiannual principal payments beginning December 1, 2013 through December 1, 2021.	
\$3,690,000 2012A Limited Tax General Refunding Bond issued May 30, 2012 to refinance the 2002 Limited General Obligation bonds. The debt is serviced from the state sales tax authorized for distressed counties. Also, the County pledged its resources to the payment of the bonds to obtain a more favorable rate of interest. The interest rate on the outstanding principal ranges from 2% to 4%. Annual principal payments beginning April 1, 2013 through April 1, 2024.	\$2,665,000
\$4,880,000 2012B Limited Tax General Refunding Bond issued May 30, 2012 to refinance the 2003 Limited General Obligation bonds. The debt is serviced from the sales and hotel taxes received by the Cowlitz County Public Facilities District, a component unit of Cowlitz County. The interest rate on the outstanding principal ranges from 2% to 4%. Annual principal payments beginning April 1, 2013 through April 1, 2027.	\$3,930,000
\$3,145,000 of the \$4,055,000 2015 Limited Tax General Obligation Refunding Bonds issued September 15, 2015 to refund the 2005 LTGO bonds and pay the administrative costs of refunding, issuance and sale of bonds. The interest rate on the outstanding principal ranges from 2% to 4%. Annual principal payments begin November 1, 2015 with the final payment on 11/1/2023. The remaining are special assessment bonds, to be paid by special assessment.	\$2,565,000
\$8,495,000 2015 TRRWA Special Revenue Bonds . Issued December 15, 2015 to refund the 2006 portion of the County’s outstanding Limited Tax General Obligation. Interest varies from 2.0% to 4.0% on principal installments of \$805,000 to \$970,000 through March 1, 2025. Revenues from user fees collected by the Cities of Kelso, Longview and Beacon Hill Sewer District will service the debt on this issue.	\$7,690,000

<i>Special Assessment Debt</i>	<i>Debt Outstanding</i>
\$172,038 Road Improvement District Special Assessment Bond issued October 23, 2009 to finance road improvement. The interest rate on the bonds is 4.5%, with the entire principal payment due on October 1, 2021. The debt is paid from assessments collected from benefitted property owners; principal payments can be made annually on October 1, without pre-payment penalty, if assessments are collected. This County is required to establish a reserve to cover defaults by property owners.	\$18,978
\$845,000 of the \$4,055,000 2015 Limited GO Refunding Bonds issued September 15, 2015 to refund the 2005 LTGO bonds and pay the administrative costs of refunding, issuance and sale of bonds. The interest rate on the outstanding principal ranges from 2% to 4%. Annual principal payments begin November 1, 2015 with the final payment on 11/1/2023. The remaining of this issue is classified as general obligation bonds.	\$650,000

<i>Revenue Debt – Business Type Activity</i>	<i>Debt Outstanding</i>
\$653,050 2002 Water Sewer Washington State Department of Community Development Public Works Trust Fund (PWTF) Loan . The funds were for improvements to the Toutle Wastewater Treatment Facility. Interest is 2 percent per annum through June 30, 2003, and 1% per annum thereafter with annual principal payments through June 30, 2020 of \$34,623.	\$138,490

\$1,084,158 2005 Water Sewer PWTF Loan. The funds were for improvements to the Ryderwood Water Treatment Plant. The loan has a 1% interest rate. Eighteen equal annual principal payments of \$60,231 are due beginning October 1, 2006 with final maturity October 1, 2023.	\$421,617
\$322,035 2008 Water-Sewer PWTF Loan. The funds were for County Water Systems Reservoir Coating The loan has an interest rate of .50% with annual principal payments of \$18,006 through July 1, 2027.	\$198,065
\$595,000 2012 Water-Sewer PWTF Loan. The funds are being used for the Toutle Sewer Lift Station Rehabilitation Project. The loan has a .5% percent interest rate. Principal payments are due annually in the amount of \$31,490. The term of the loan is 20 years.	\$472,347
\$211,719 2010 Water-Sewer DOE Loan. The funds are being used for the Ryderwood Infiltration and Inflow Removal. The loan has a 1% percent interest rate. Payments are due bi-annually in the amount of \$6,273.50. The term of the loan is 20 years. As of December 31, 2012, \$211,719 has been drawn from the \$223,157 available.	\$168,935
\$34,040,000 2014 A and B General Obligation Bonds. The funds are being used for the Headquarters Landfill purchase and improvements. The bonds have 3% to 5% percent interest rate. Principal payments are due annually on December 1 ranging in amounts from \$1,175,000 to \$2,365,000. Interest payments are due semiannually on June 1 st and December 1 st . The final payment is due December 1, 2033.	\$29,715,000

The County issued no new debt during 2016.

2. DEBT SERVICE REQUIREMENTS TO MATURITY

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

<u>Year Ending</u> <u>December 31</u>	Governmental Activities		Business Type Activities Solid Waste	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	1,430,110	388,691	1,245,000	1,236,019
2018	1,463,000	342,651	1,295,000	1,186,219
2019	1,536,483	285,618	1,350,000	1,134,419
2020	1,155,587	224,089	1,400,000	1,080,419
2021	1,220,346	180,312	1,470,000	1,010,419
2022-2026	3,650,000	355,113	8,225,000	4,184,606
2027-2031	240,000	4,800	10,095,000	2,312,144
2032-2033	-	-	4,635,000	327,300
Total	\$ 10,695,526	\$ 1,781,273	\$ 29,715,000	\$ 12,471,544

Annual debt service requirements for notes payables are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	70,000	131	70,131
2018	17,500	26	17,526
	<u>\$ 87,500</u>	<u>\$ 157</u>	<u>\$ 87,657</u>

Annual debt service requirements for **Special Assessments Bonds** are as follows:

Special Assessment Debt		
Year Ending		
December 31	Principal	Interest
2017	205,000	34,979
2018	215,000	24,217
2019	230,000	12,929
2020	-	854
2021	18,978	854
Total	<u>\$ 668,978</u>	<u>\$ 73,833</u>

Annual debt service requirements for the **Special Sewer Revenue Bonds**, which were assumed by the County when operations were transferred, are as follows:

Special Sewer Revenue Bonds		
Year Ending		
December 31	Principal	Interest
2017	3,260,000	674,850
2018	3,420,000	514,050
2019	3,590,000	345,150
2020	825,000	167,325
2021	850,000	142,200
2022-2026	3,680,000	282,925
Total	<u>\$ 15,625,000</u>	<u>\$ 2,126,500</u>

Annual debt service requirements payable to the other governments for business type activities are as follows:

Intergovernmental Loans				
Year Ending	Governmental Activities		Business Type Activities	
December 31	Principal	Interest	Principal	Interest
2017	884,702	36,281	155,231	9,438
2018	884,702	29,980	155,340	8,211
2019	884,702	23,680	155,451	6,983
2020	509,373	17,380	155,562	5,754
2021	509,373	2,193	121,052	4,525
2022-2026	1,755,199	43,880	426,296	11,135
2027-2031	702,079	5,266	230,527	2,660
Total	<u>\$ 6,130,130</u>	<u>\$ 158,660</u>	<u>\$ 1,399,458</u>	<u>\$ 48,706</u>

3. Discretely Presented Component Unit – Public Facilities District

The PFD is responsible for a portion of the bonds that were issued by other governments to finance the construction and improvements to the Regional Convention Center and the Columbia Theater for the Performing Arts in the City of Longview. Additionally, the PFD is liable for operating loans used to cover tax shortfalls.

Public Facilities Dist. – Due to Primary Government (Cowlitz County)	Debt Outstanding December 31, 2016
Up to \$810,000 from Cowlitz County Solid Waste fund to cover shortfalls in retained sales tax receipts. Loan is to be paid back when funds are not restricted for other debt, but must be repaid by July 1, 2033. No scheduled payments, but interest accrues monthly at the Washington State Local Government Investment Pool rate. Interest payments are made annually.	\$392,736
\$4,880,000 from Cowlitz County – issued 2012B Limited Tax General Refunding Bond May 30, 2012 to refinance the 2003 Limited General Obligation bonds. The debt is serviced from the Retained Sales Tax of .033 percent, authorized by RCW 82.14.390, imposed by PFD Resolution 02-01 on March 20, 2002 and lodging taxes in the amount of 1% approved by the voters on September 16, 2003. The interest rate on the outstanding principal ranges from 2% to 4%. Annual principal payments are due April 1, 2013 through April 1, 2027	\$3,930,000

Public Facilities Dist. - Notes Payable due to City of Longview	Debt Outstanding December 31, 2016
\$6,130,000 from City of Longview, that issued bonds on December 27, 2007 to provide funding for improvements to Columbia Theatre for the Performing Arts in Longview received by the District January 8, 2008. Sales and use tax received pursuant to RCW 82.14.390 in the amount of .020%, imposed by the PFD pursuant to Resolution # 07-02 dated July 23, 2007 are received to repay this loan. Interest varies from 4.0% to 5.0% with annual principal payments of \$145,000 to \$510,000 beginning December 1, 2008 through June 1, 2032.	\$5,135,000

At December 31, 2015, annual debt service for debt categorized as Due to Primary Government (Cowlitz County) for the Public Facilities District follows:

Due to Primary Government - Cowlitz County

	Principal	Interest	Total
2017	275,000	140,425	415,425
2018	295,000	131,875	426,875
2019	310,000	122,025	432,025
2020	330,000	110,825	440,825
2021	350,000	98,050	448,050
2022-2026	2,130,000	269,525	2,399,525
2027-2031	240,000	4,800	244,800
2032-2034	392,736		392,736
	<u>\$ 4,322,736</u>	<u>\$ 877,525</u>	<u>\$ 5,200,261</u>

Annual debt service requirements payable to the City of Longview are as follows:

Public Facilities District Due to City of Longview			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 175,000	\$ 213,800	\$ 388,800
2018	190,000	205,625	395,625
2019	205,000	197,725	402,725
2020	220,000	189,225	409,225
2021	240,000	180,025	420,025
2022-2026	1,490,000	733,768	2,223,768
2027-2031	2,105,000	356,145	2,461,145
2032	510,000	11,220	521,220
	<u>\$ 5,135,000</u>	<u>\$ 2,087,533</u>	<u>\$ 7,222,533</u>

The PFD’s bond covenants require the district to maintain a rate stabilization fund and depreciation reserve account for the regional events center, and a revenue stabilization account for the Columbia Theater Project. At December 31, 2016, these funds were as follows:

<u>Purpose</u>	<u>Amount</u>
Regional Events Center Rate Stabilization	\$ 344,182
Columbia Theater Revenue Stabilization	83,747
Columbia Theater Depreciation Reserve	291,171
	<u>\$ 719,100</u>

4. CHANGES IN LONG-TERM DEBT

	<u>Changes in Governmental Activities General Long Term Debt</u>			<u>Balance 12/31/2016</u>	<u>Due Within One Year</u>
	<u>Balance 1/1/2016</u>	<u>Additions</u>	<u>Reductions</u>		
General Obligation Bonds	\$ 12,092,798	\$ -	1,397,272	\$ 10,695,526	\$ 1,430,110
Special Assessment Bonds with governmental commitment	893,976	-	225,000	668,976	205,000
Less amounts: for premium	678,260	-	71,462	606,798	73,383
Subtotal GO Bonds	<u>13,665,034</u>	<u>-</u>	<u>1,693,734</u>	<u>11,971,300</u>	<u>1,708,493</u>
Revenue Bonds	-	17,995,000	2,370,000	15,625,000	3,260,000
Add amounts for premiums	-	922,977	89,687	833,290	179,373
Subtotal Revenue Bonds	<u>-</u>	<u>18,917,977</u>	<u>2,459,687</u>	<u>16,458,290</u>	<u>3,439,373</u>
Notes Payable	157,500	-	70,000	87,500	70,000
Notes Payable - Other Gov't	-	6,130,130	-	6,130,130	884,702
Capital Lease	366,750	-	48,493	318,257	48,493
Other post employee benefits	3,120,673	759,317	-	3,879,990	-
Net Pension Liability	16,532,963	3,902,219	-	20,435,182	-
Compensated Absences	2,890,394	168,119	-	3,058,513	-
Capital Lease - Int Svc.	114,183	-	42,108	72,075	40,129
Comp. Absences - Int Svc.	193,037	27,338	-	220,375	-
Claims/Judgements-Int Svc.	1,780,000	140,906	-	1,920,906	547,347
Net Pension Liability - Int Svc.	1,049,063	304,073	-	1,353,136	-
Total Gen'l Long-Term Debt	<u>\$ 39,869,597</u>	<u>\$ 30,350,079</u>	<u>\$ 4,314,022</u>	<u>\$ 65,905,654</u>	<u>\$ 6,738,537</u>

For governmental activities, claims and judgments, other post-employment benefits, and compensated absences are generally liquidated by the general fund.

Changes in Business Type Activities Long-Term Debt

	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bonds	\$ 30,925,000		1,210,000	\$ 29,715,000	\$ 1,245,000
Plus: Premium on bonds	851,619		57,804	793,815	57,804
Revenue Bonds	18,800,000		18,800,000	-	-
Plus: Premium on bond	1,012,664		1,012,664	-	-
Total bonds payable	51,589,283	-	21,080,468	30,508,815	1,302,804
Notes Payable-Other Govts.	8,977,980		7,578,526	1,399,454	155,231
Landfill Closure and Postclosure Care	17,413,031	845,786	976,637	17,282,180	-
Capital Lease	-	24,910	7,178	17,732	-
Net Pension Liability	3,851,297		639,365	3,211,932	-
Compensated Absences	597,842		125,984	471,858	-
Total Debt	\$ 82,429,433	\$ 870,696	\$ 30,408,158	\$ 52,891,971	\$ 1,458,035

Changes in Long-Term Debt Component Unit (Public Facilities District)

	<u>1/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2016</u>	<u>Due Within</u> <u>One Year</u>
Due to Primary Government Bonds	\$ 4,190,000	\$ -	\$ 260,000	3,930,000	\$ 275,000
Notes Payable	392,736	-		392,736	
Plus (minus)	0			-	
For issuance premiums	295,578	-	25,890	269,688	25,890
Due to Primary Government (net)	4,878,314	-	285,890	4,592,424	300,890
Notes Payable	5,290,000	-	155,000	5,135,000	175,000
Less deferred amounts:					
For issuance discounts	(34,291)	-	(2,017)	(32,274)	(2,017)
Due to Other Governments (net)	5,255,709	-	152,983	5,102,726	172,983
Total Long Term Debt	\$ 10,134,023	\$ -	\$ 438,873	\$ 9,695,150	\$ 473,873

5. LEGAL DEBT MARGIN

State law sets the County’s limitation on external long-term debt and the remaining debt that may be incurred is as follows:

<u>PURPOSE OF</u> <u>INDEBTEDNESS</u>	<u>REMAINING</u> <u>CAPACITY</u>
General Government (No vote required)	\$ 97,145,463
General Government (Vote required)	\$194,860,067

6. DEBT COVERAGE REQUIREMENTS:

The 2002 special revenue refunding bonds resolution requires that net revenues of Three Rivers meet either 1.3 times the aggregate annual debt service when system development charges are included in the revenues or 1.2 times the aggregate annual debt service when the system development charges are not included in the revenues.

The ratio requirement was met at December 31, 2016. The aggregate annual debt service when system development charges are included in revenue was 1.30 and excluding system development charges coverage was 1.25 times the 2016 debt service on bonds.

In March of 2008, the County’s Bond Insurer for the 2002 Revenue Bonds (FGIC) was downgraded to Baa3 from AAA. As a result, Three Rivers must meet Reserve Requirements for the Bonds issued through deposit into the Reserve Account. At December 31, 2016 \$2,709,284 is being held to satisfy this debt service covenant.

Additionally, Three Rivers is required to hold funds in a rate stabilization account. At December 31, 2016, \$244,290 was held in this account.

B. CAPITALIZED LEASES

The County has entered into separate lease agreements as lessee for computer servers and related equipment, and vehicles. These lease agreements qualify as capital leases for accounting purposes, and therefore have been recorded at the present value of their future minimum lease payments as of the inception date. The value of assets acquired through capital lease for governmental activities is \$475,277 (\$729,856 less accumulated depreciation of \$259,219).

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

Year Ending	Governmental Activities
<u>December 31</u>	<u>Principal</u>
2017	117,906
2018	87,286
2019	86,979
2020	166,056
Total minimum lease payments	<u>458,227</u>
Less amount representing interest	<u>64,500</u>
Present value of minimum lease payments	<u>\$ 393,727</u>

NOTE 10 –CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require municipal solid waste landfills to place a cover on their landfills and perform certain maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and post closure costs will be paid near or after designated areas of the landfill are filled, the County is required to report a portion of these closure and post closure care costs as an expense and as a liability in each period that the landfill accepts waste.

As of March 2015, the County owns two landfills; the Tennant Way Landfill and the Headquarters Landfill. The County reported \$17.3 million as landfill closure and post closure care liability at December 31, 2016. This represents the cumulative amount reported to date based on the capacity used. This cost is an estimate; actual costs may be higher due to inflation, deflation, changes in technology or changes in applicable laws or regulations.

Tennant Way

The Tennant Way landfill consists of two separate regulatory units, the unlined landfill and the lined landfill.

The unlined landfill was at full capacity in 1992 and is monitored under WAC 173-304, which requires a 20 year monitoring period. This landfill was treated separately under Washington State regulations. As a result, 100% of the post-closure care costs have been included as a liability, in the amount of \$1.2 million. Although monitoring requirements for this section are 20 years, the County is recognizing 30 years of post-closure monitoring voluntarily, due to the difficulties of monitoring this site separately from the lined site. The voluntary post-closure costs for the additional ten years is included in the liability. Two years of post-closure has been completed, therefore, the liability represents the remaining 28 years.

The Lined Landfill was closed in April 2014, thus, the lined landfill is at 100% percent of the estimated refuse capacity at December 31, 2016. As a result, \$6.2 million is reported as landfill closure and post closure care liability, related to this section of the landfill. These amounts are based on what it would cost to perform all closure and post closure care at the end of 2016. This landfill has closed under WAC 173-351 requirements implemented by the Washington State Department of Ecology and the Cowlitz County Environmental Health Department. The lined landfill is required to be monitored for 30 years after closure. Two year of post-closure has been completed, therefore, the liability represents the remaining 28 years.

Headquarters Landfill

This landfill was purchased by the County in March 2014. At the time of the purchase, the landfill was at 7.9% capacity. The closure and post closure liability at the time of purchase was \$7.7 million dollars, which was assumed by the County. This is presented as excess consideration provided for acquisition on the statement of net position. At December 31, 2016, the landfill was at 10.9% capacity. Based on the capacity used thru December 31, 2016, the closure and postclosure liability is \$9.88 million. The estimated total current cost of closure and postclosure care remaining to be recognized is \$81,151,393. It is estimated that the landfill will be closed in September 2120 under WAC 173-351 Criteria for Municipal Solid Waste Landfills.

Cowlitz County is required by state regulations to accumulate funds over the remaining life of the landfill to provide for the closure and post closure care. The County is in compliance with these requirements. At December 31, 2016 the County had \$17.3 million in cash and investments held for these purposes for both landfills. The amounts are reported as restricted cash and investment on the statement of net position.

NOTE 11. SPECIAL ITEM

Transfer of Operations – Three Rivers Waste Water Authority

Effective June 30, 2016, the Major Enterprise fund, Three Rivers Regional Waste Water Fund became a separate legal entity that is defined in GASB 69, *Government Combinations and Disposals of Government Operations*, as a transfer of operations type of government disposal. In accordance with GASB 69, a special item – loss on disposal of operations in the amount of \$59.1 million was recognized. The County transferred capital assets in the amount of \$54.5 million, cash balances in the amount of \$6.1 million, inventory and other assets in the amount of \$.4 million and other fund liabilities of \$1.9 million.

Additionally, the bonded debt paid for by the Three Rivers enterprise fund that was issued by Cowlitz County, is still the responsibility of the County. It could not legally be transferred from the County. This created a contract receivable in the amount of \$17,995,000. Additionally, the County is responsible for the PWTF loans issued by the County on behalf of Three Rivers. This created a receivable of \$6,130,130.

	<u>Outstanding Amount</u>
<i><u>Bonds</u></i>	
2002 Special Revenue Bonds	\$ 10,305,000
2015 Sewer Revenue Refunding Bonds	<u>7,690,000</u>
Total Bonds Transferred to Governmental Activities	<u>17,995,000</u>
<i><u>Intergovernmental Loans</u></i>	
1999 TRRWA Public Work Trust Fund	1,125,987
2001 TRRW Public Work Trust Fund	791,667
2008 TRRWA Public Work Trust Fund	<u>4,212,476</u>
Total intergovernmental loans transferred to governmental activities	<u>6,130,130</u>
Total debt related to transfer	<u>\$ 24,125,130</u>

On the Statement of Activities, governmental activities column, the County is recognizing a transfer out of \$25,167,325 related to this transaction. This represents the debt transferred from the enterprise fund to governmental activities, as well as the deferred amount on refunding of \$119,218 and unamortized premium on debt of \$922,977. Further, the County is recognizing a gain on extinguishment of debt in the amount of \$24,125,130, as the new entity Three Rivers Wastewater Authority will be responsible for payment of the debt. The County also paid \$80,000 to TRRWA for waste water services in 2016.

NOTE 12 – CONTINGENT LIABILITIES

Cowlitz 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.

Cowlitz County participates in a number of federal and state assisted programs. The grants are subject to an annual audit, principally the federal programs. The audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the contracts. At this time there are no known disallowed expenditures and if any disallowed expenditures should result it is estimated that such amounts, if any to be immaterial.

NOTE 13 – OTHER DISCLOSURES

A. RELATED PARTY TRANSACTIONS

The PFD and Cowlitz County (county) entered into an interlocal agreement in 2003 for the financing, construction, and operation of a Regional Conference and Special Events Center (center). As the primary government, the county issued bonds for the construction of the center. The remaining obligation on this bond issue is \$3,930,000. The PFD also has a loan with Cowlitz County Solid Waste in the amount of \$810,000, but only borrowed \$392,736 (see note 9). The center was constructed on property owned by the county. The county has a long-term lease with the PFD for the site. The PFD retains ownership of the facility. RCW 35.57.020 requires that retained

sales tax used for prescribed center purposes is matched 33 percent from other public or private sources. The county provides an “in-kind” match as required by forgiving the annual fair market rental value of the site to the PFD. The match for 2016 was \$223,376. Additionally, in-kind match is provided by Cowlitz County from lodging and sales tax in the amount of \$117,873.

The PFD is obligated to cover the operating losses of the regional conference and special events center. Payments to Cowlitz County to cover these losses were \$100,000 for 2016.

B. JOINT VENTURE

Southwest Washington Regional Airport Board:

The cities of Longview and Kelso along with Cowlitz County and the Port of Longview entered into an agreement in February of 2012 to establish an Airport Board (Board) to jointly fund and manage the operations, maintenance, improvement and regulation of the Southwest Washington Regional Airport. Prior to the agreement the Airport had been owned and operated by the City of Kelso. This agreement took effect in January of 2013 with noncapital assets and liabilities transferred to the board which consists of a member from each party and an at large member to be appointed by majority vote of the other members.

The Board formulates its preliminary annual budget and submits it to each participating jurisdiction prior to August 1, of each year. Estimated expenses for maintenance and operations, repairs and replacements to existing facilities, capital projects, and debt service are netted against estimated airport operating revenues to determine the amount of annual subsidy required by the participating jurisdictions. Each jurisdiction is responsible for 25% of the estimated subsidy. Payments made to the airport by the County in 2016 were \$76,000.

This agreement may be terminated at any time upon the approval by a super-majority of the entities. All assets and liabilities acquired by the Board will remain the property of the airport and used for airport maintenance and operations consistent with FAA’s Revenue Use Policy. In the event the airport ceases to operate, any assets or liabilities remaining from such property acquired after the commencement of this agreement, and after the full satisfaction of all federal obligations, grant repayments to the FAA, and satisfaction of FAA’s Revenue Use Policy, shall be distributed to the parties in the same proportion as the financial contribution of the parties for its acquisition.

The County’s ongoing financial responsibility is minimal at the end of December 31, 2016. The airport has less than \$25,000 in outstanding obligations. The airport is not accumulating significant resources or experiencing fiscal stress that would cause additional financial benefit or burden on the County in the future. The airport does not issue stand- alone financial statements.

C. SUBSEQUENT EVENTS

No Subsequent Events to year end.

D. PRIOR PERIOD ADJUSTMENT

The County statements present the following prior period adjustments, by fund type:

<i>Gov't Wide Corrections</i>	<i>Amount</i>
Road Fund - Correction of excess depreciation expense on fully depreciated assets	4,524,101
Adjust pension liability previously understated	(977,880)
Non Major Funds - prior year asset forfeiture adjustment	(2,720)
General Fund - prior year year court cost reimbursement	8,000
<i>Total Business Type Activities</i>	<i>3,551,501</i>

<i>Fund Statement Corrections</i>	<i>Amount</i>
General Fund - offset long-term receivable against deferred revenue	(4,190,000)
Non Major Funds - prior year asset forfeiture adjustment	(2,720)
General Fund - prior year year court cost reimbursement	8,000
<i>Total governmental Funds</i>	<i>(4,184,720)</i>

E. DEFICIT NET POSITION/FUND BALANCE

At December 31, 2016, the following funds reported deficits in the fund balances or fund net position:

<u>Fund</u>	<u>Deficit</u>
Public Shooting Range - non major enterprise fund	196,060
Industrial Accident Insurance Fund - internal service fund	85,670
Risk Management Fund - internal service fund	674,906

The Public Shooting Range deficit net position results from the fund’s interfund loan payable to the general fund, which was borrowed to provide capital for construction of a public shooting range. Use Fees are collected from shooters for payment of the loan. This fund has accumulated \$50,862 in cash to use towards payment of this liability.

The Industrial Accident Insurance fund had a deficit net position is due to recognition of an estimate for projected future year’s pay out on the industrial accidents incurred of \$478,441. At December 31, 2016 the fund had \$410,368 in cash and investments to meet current payables of \$18,700.

The Risk Management Internal service fund deficit net position is also due to recognition of an estimate for projected future pay out of general claims incurred of \$1.44 million and the inclusion of \$114,838 in pension liability. This fund has \$801,181 in cash and only \$858 of claims payable presented as a current liability. The County will assess revenues to other funds to make up for this deficit.

**Cowlitz County, Washington
Required Supplementary Information
Other Post Employment Benefit
Schedule of Funding Progress**

LEOFF 1 Retiree Medical Benefits

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded Actuarial Accrued Liabilities (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
(Note 1 & 2)						
12/31/2010	\$ -	\$ 6,379,253	\$ 6,379,253	0%	\$ -	0%
12/31/2012	-	6,082,679	6,082,679	0%	-	0%
12/31/2015	-	11,113,478	11,113,478	0%	-	0%

Note 1 = Actuary valuation conducted every three years.

Note 2 = Alternative method used for valuation.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30

Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.229672%	\$ 12,334,468	\$ 387,175	3186%	57.03%
2015	0.236004%	\$ 12,345,204	\$ 557,669	2214%	59.10%
2014	0.249000%	12,543,492	750,167	1672%	61.19%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30

Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.240895%	\$ 12,128,873	\$ 23,437,513	51.75%	85.82%
2015	0.247671%	\$ 8,849,426	\$ 21,977,689	40.27%	89.20%
2014	0.254713%	5,148,669	20,044,875	25.69%	93.29%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County

Schedule of Proportionate Share of the Net Pension Liability

PSERS

As of June 30

Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	1.263375%	\$ 536,909	\$ 4,095,348	13.11%	90.41%
2015	1.307756%	\$ 238,692	\$ 3,829,065	6.23%	95.08%
2014	1.414900%	(204,892)	3,474,694	-5.90%	105.01%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County

Schedule of Proportionate Share of the Net Pension Liability

LEOFF 1

As of June 30

Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.040909%	\$ (421,480)	N/A	N/A	123.74%
2015	0.040473%	\$ (487,789)	N/A	N/A	127.36%
2014	0.041280%	(500,640)	N/A	N/A	126.91%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County

Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30
Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	State's proportionate share of the net pension liability (asset) associated with the employer	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
			TOTAL			
2016	0.111561%	\$ (648,872)	\$ (423,018)	\$ 3,379,628	-19.20%	106.04%
2015	0.111898%	\$ (1,150,088)	\$ (760,439)	\$ 3,247,188	-35.42%	111.67%
2014	0.108588%	(1,441,009)	(941,528)	2,754,089	-52.32%	116.75%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County
 Schedule of Employer Contributions
 PERS 1
 As of December 31
 Last 3 Fiscal Years

Year Ended December 31,	Statutory or contractually required contributions	Contributions in relation to the statutory or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 1,331,327	\$ (1,331,327)	\$ -	\$ 397,846	334.63%
2015	\$ 1,254,343	\$ (1,254,343)	\$ -	\$ 477,683	262.59%
2014	1,120,168	(1,120,168)	-	647,989	172.87%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County
 Schedule of Employer Contributions
 PERS 2/3
 As of December 31
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 1,412,392	\$ (1,412,392)	\$ -	\$ 22,670,773	6.23%
2015	\$ 1,307,583	\$ (1,307,583)	\$ -	\$ 21,939,117	5.96%
2014	1,124,609	(1,124,609)	-	22,077,469	5.09%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County
 Schedule of Employer Contributions
 PSERS
 As of December 31
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 284,835	(284,835)	\$ -	\$ 4,308,901	6.61%
2015	\$ 275,108	(275,108)	\$ -	\$ 4,009,775	6.86%
2014	239,028	(239,028)	-	3,708,261	6.45%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County
 Schedule of Employer Contributions
 LEOFF 1
 As of December 31
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ -	-	\$ -	N/A	N/A
2015	\$ -	-	\$ -	N/A	N/A
2014	\$ -	-	\$ -	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Cowlitz County

Schedule of Employer Contributions

LEOFF 2

As of December 31

Last 2 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 172,782	\$ (172,782)	\$ -	\$ 3,410,641	5.07%
2015	\$ 184,226	\$ (184,226)	\$ -	\$ 3,391,340	5.43%
2014	158,386	(158,386)	-	3,027,915	5.23%

Cowlitz County
Notes to Required Supplemental Information - Pension

As of December 31
Last Three Fiscal Years

Note 1: Information Provided

The County implemented GASB 68 for the year ended December 31, 2015. There was not additional information in 2016.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3: Change in contribution rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 9.21% to 11.18% for pay periods beginning July 2015.

The employer contribution rates for PSERS plans increased from 10.54% to 11.54% for pay periods beginning July 2015.

Note 4: LEOFF 1

For LEOFF 1, there is a net pension asset for the County; however, there are no active employees participating in the plan, and no required contributions because the plan is fully funded. Therefore, covered payroll and contributions as a percent of covered payroll are displayed as N/A.

Cowlitz 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 Dept of Agriculture)	School Breakfast Program	10.553	0	11,859	-	11,859	-	
Food And Nutrition Service, Department Of Agriculture (via Dept of Agriculture)	National School Lunch Program	10.555	0	17,531	-	17,531	-	
Food And Nutrition Service, Department Of Agriculture (via DHHS-WA DSHS)	Summer Food Service Program for Children	10.559	20160419	1,122	-	1,122	-	
Total Child Nutrition Cluster:				30,513	-	30,513	-	
Forest Service Schools and Roads Cluster								
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	#14-PA- 11060300-011	-	41,951	41,951	-	3
Forest Service, Department Of Agriculture (via Dept of Agriculture)	Schools and Roads - Grants to States	10.665	0	60,328	-	60,328	-	
Forest Service, Department Of Agriculture (via WA Dept of Commerce)	Schools and Roads - Grants to States	10.665	0	(7,736)	-	(7,736)	-	
Total Forest Service Schools and Roads Cluster:				52,592	41,951	94,544	-	
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA Dept of Commerce)	Emergency Solutions Grant Program	14.231	14-46107-004	127,213	-	127,213	149,434	
(via WA Dept of Commerce)	CDBG LCCAP Pub Service	14.288	15-62210-004	10,416	-	10,416	9,809	
(via WA Dept of Commerce)	CDBG LCCAP Pub Service	14.288	16-62210-004	48,998	-	48,998	48,998	

The accompanying notes are an integral part of this schedule.

Cowlitz 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 14,288:	59,414	-	59,414	58,807	
Bureau Of Justice Statistics, Department Of Justice	National Criminal History Improvement Program (NCHIP)	16.554	K11482	-	12,120	12,120	-	
Office For Victims Of Crime, Department Of Justice	Crime Victim Assistance	16.575	31102-507	-	42,317	42,317	-	
Violence Against Women Office, Department Of Justice	Violence Against Women Formula Grants	16.588	F15-31103-072	-	16,326	16,326	-	
Bureau Of Justice Assistance, Department Of Justice	State Criminal Alien Assistance Program	16.606	0	-	5,677	5,677	-	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	0	-	(783)	(783)	-	
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F16-31440-006	-	31,972	31,972	25,231	
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F15-31440-006	-	72,075	72,075	50,146	
			Total CFDA 16,738:	-	104,047	104,047	75,377	
Highway Planning and Construction Cluster								
Federal Highway Administration (fwa), Department Of Transportation (via Dept. of Tran- Highway Planning Crst)	Highway Planning and Construction	20.205	LA 8587	15,287	-	15,287	-	
Federal Highway Administration (fwa), Department Of Transportation (via Dept. of Tran- Highway Planning Crst)	Highway Planning and Construction	20.205	LA 8583	10,168	-	10,168	-	

The accompanying notes are an integral part of this schedule.

Cowlitz 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 Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 8582	8,193	-	8,193	-	
Federal Highway Administration (fhw), Department Of Transportation (via Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 8956	10,764	-	10,764	-	
Federal Highway Administration (fhw), Department Of Transportation (via Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 8958	13,016	-	13,016	-	
Federal Highway Administration (fhw), Department Of Transportation (via Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 8261	15,230	-	15,230	-	
Federal Highway Administration (fhw), Department Of Transportation (via Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 8588	77,653	-	77,653	-	
Federal Highway Administration (fhw), Department Of Transportation (via Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 7007	162,714	-	162,714	-	
Federal Highway Administration (fhw), Department Of Transportation (via Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 8713	251,049	-	251,049	-	
Federal Highway Administration (fhw), Department Of Transportation (via Dept. of Tran- Highway Planning Cnst)	Highway Planning and Construction	20.205	LA 8957	22,094	-	22,094	-	

The accompanying notes are an integral part of this schedule.

Cowlitz 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 Dept. of Tran- Highway Planning Crnst)	Highway Planning and Construction	20.205	LA 8520	259,039	-	259,039	-	
Total Highway Planning and Construction Cluster:				845,208	-	845,208	-	
Highway Safety Cluster								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via DOT-WA Traffic Safety Comm)	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	0	890	-	890	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via DOT-WA Traffic Safety Comm)	Occupant Protection Incentive Grants	20.602	0	2,795	-	2,795	-	
Total Highway Safety Cluster:				3,685	-	3,685	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via DHHS-WA DSHS)	Public Health Emergency Preparedness	93.069	C17107/C1688 2	65,431	-	65,431	-	3
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA DOH)	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	C17107	4,455	-	4,455	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Dept. of Health & Human Services)	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1563-42471	24,479	-	24,479	-	

The accompanying notes are an integral part of this schedule.

Cowlitz 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		
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Dept. of Health & Human Services)	Substance Abuse and Mental Health Services_Protects of Regional and National Significance	93.243	1563-42471	1,917	-	1,917	-	
Total CFDA 93.243:				26,396	-	26,396	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA DOH)	Immunization Cooperative Agreements	93.268	C17107	2,901	-	2,901	-	
Health Resources And Services Administration, Department Of Health And Human Services (via WA DOH)	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	508	55,530	-	55,530	21,526	3
Health Resources And Services Administration, Department Of Health And Human Services (via WA DOH)	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	386	209,864	-	209,864	-	3
Total CFDA 93.505:				265,394	-	265,394	21,526	
TANF Cluster								
Administration For Children And Families, Department Of Health And Human Services (via DHHS- WA DSHS)	Temporary Assistance for Needy Families	93.558	1563-39089	4,775	-	4,775	-	
Total TANF Cluster:				4,775	-	4,775	-	
Administration For Children And Families, Department Of Health And Human Services (via WA DSHS)	Child Support Enforcement	93.563	7663-15012	6,580	-	6,580	-	3

The accompanying notes are an integral part of this schedule.

Cowlitz 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		
Administration For Children And Families, Department Of Health And Human Services (via WA DSHS)	Child Support Enforcement	93.563	2110-80610	105,470	-	105,470	-	
Administration For Children And Families, Department Of Health And Human Services (via WA DSHS)	Child Support Enforcement	93.563	3039CS-63	434,362	-	434,362	-	
Total CFDA 93.563:				546,412	-	546,412	-	
	Voting Access Individuals w/Disabilities	93.617	EAID G-4275;	-	1,958	1,958	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA DOH)	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	HHS-HLC 1422	70,072	-	70,072	-	3
Medicaid Cluster								
Centers For Medicare And Medicaid Services, Department Of Health And Human Services	Medical Assistance Program	93.778	1163-35232	-	10,520	10,520	-	
Total Medicaid Cluster:				-	10,520	10,520	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Dept. of Health & Human Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27298	242	-	242	-	

The accompanying notes are an integral part of this schedule.

Cowlitz 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		
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Dept. of Health & Human Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27298	16,828	-	16,828	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Dept. of Health & Human Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27298	7,919	-	7,919	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via Dept. of Health & Human Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27298	54,410	-	54,410	-	
Total CFDA 93.959:				79,399	-	79,399	-	
Health Resources And Services Administration, Department Of Health And Human Services (via DHHS-WA DSHS)	Maternal and Child Health Services Block Grant to the States	93.994	C17107	86,760	-	86,760	-	3
Executive Office Of The President	High Intensity Drug Trafficking Areas Program	95.001	0	-	35,416	35,416	-	
Executive Office Of The President	High Intensity Drug Trafficking Areas Program	95.001	9004000064	-	30,000	30,000	-	
Executive Office Of The President	High Intensity Drug Trafficking Areas Program	95.001	G16NW0011A	-	62,796	62,796	6,457	
Total CFDA 95.001:				-	128,212	128,212	6,457	

The accompanying notes are an integral part of this schedule.

Cowlitz 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	Boating Safety Financial Assistance	97.012	0	-	14,002	14,002	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Dept)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D16-715 Dec	125,520	-	125,520	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Dept)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PW110	101,957	-	101,957	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Dept)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PW-110	1,524	-	1,524	-	
				Total CFDA 97.036:	-	229,000	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA ST Military & FEMA)	Emergency Management Performance Grants	97.042	E17-151	18,581	-	18,581	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA ST Military & FEMA)	Emergency Management Performance Grants	97.042	E16-101	52,395	-	52,395	-	
				Total CFDA 97.042:	-	70,976	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA ST Military & FEMA)	Homeland Security Grant Program	97.067	E16-063	16,213	-	16,213	-	

The accompanying notes are an integral part of this schedule.

Cowlitz 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 WA ST Military & FEMA)	Homeland Security Grant Program	97.067	E15-081	36,296	-	36,296	-	
Total CFDA 97.067:				52,509	-	52,509	-	
Total Federal Awards Expended:				2,623,106	376,346	2,999,452	311,600	

The accompanying notes are an integral part of this schedule.

COWLITZ COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Note 1- BASIS OF ACCOUNTING

The schedule is prepared on the same basis of accounting as the county's financial statements. The county uses the modified accrual basis of accounting for governmental funds and full accrual basis for proprietary funds.

Note 2-PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the County's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in 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-INDIRECT COST RATE

The amount expended includes amounts claimed as indirect cost recovery using an approved indirect rate provided by individual contracts to the following programs:

10.665	\$	3,814
93.069		12,784
93.505		19,634
93.563		858
93.757		13,279
93.994		36,068
	<u>\$</u>	<u>86,437</u>

The County has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

**Cowlitz 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 Cowlitz County.

Finding ref number: 2016-001	Finding caption: The County’s internal controls were not adequate to ensure accurate financial reporting.
Name, address, and telephone of auditee contact person: Kris Swanson, Auditor 207 Fourth Avenue North Kelso, WA 98626 (360) 577-3002	
Corrective action the auditee plans to take in response to the finding: <i>The County has updated our process logic for financial statement preparation concerning the major funds calculation, with a reminder to exclude internal service funds from the calculation. The County has also corrected templates for receipting loan payments received from other governments, so that payments are deposited against the correct accounts on the original transactions and prevents the need for reclassifying entries.</i>	
Anticipated date to complete the corrective action: September 2017	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov