

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**Cowlitz County**

Audit Period  
**January 1, 2012 through December 31, 2012**

**Report No. 1010612**

Issue Date  
**September 30, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

September 30, 2013

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,

**TROY KELLEY**  
STATE AUDITOR

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# Federal Summary

## **Cowlitz County January 1, 2012 through December 31, 2012**

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

### ***FINANCIAL STATEMENTS***

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

#### ***Internal Control Over Financial Reporting:***

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

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

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

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

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

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

**Identification of Major Programs:**

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (Recovery Act)
97.036	Disaster Grants - Public Assistance Program
97.044	Assistance to Firefighters Grant
97.067	Homeland Security Grant Program Cluster

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

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

# Schedule of Federal Audit Findings and Questioned Costs

## Cowlitz County January 1, 2012 through December 31, 2012

### 1. The County's internal controls were inadequate to ensure compliance with requirements of its Homeland Security Grant.

**CFDA Number and Title:** 97.067 Homeland Security Grant Program  
**Federal Grantor Name:** Department of Homeland Security  
**Federal Award/Contract Number:** 2010-SS-T0-0084, EMW-2011-SS-00030-S01  
**Pass-through Entity Name:** Clark County, Washington State Military Department  
**Pass-through Award/Contract Number:** E11108E2, E12-246, K858; E11-108  
**Questioned Cost Amount:** \$0

#### Background

The Homeland Security Grant program provides support to state and local governments to prepare for, prevent, respond to and recover from threats and incidents of terrorism and to enhance regional preparedness. In 2012 the County spent \$358,856 of Homeland Security grant program funding.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program activities.

#### Description of Condition

We found weaknesses in internal controls and noncompliance with the following federal requirements:

##### Allowable Cost Principles

We reviewed payroll transactions to determine whether salaries and benefits charged to federal grants were supported by adequate time and effort documentation, as required by federal regulations. Depending on the number and type of activities an employee works on, documentation can be a semi-annual certification or a monthly personnel activity report, such as a timesheet.

The County charged part of one employee's salary to the grant but did not maintain time and effort documentation.

##### Suspension and Debarment

Recipients of federal grants are prohibited from contracting with parties that are suspended or debarred from doing business with the federal government. For contracts

of \$25,000 or more, the County must ensure the vendor/subrecipient is not suspended or debarred. This can be accomplished by obtaining a written certification from the vendor/subrecipient, inserting a clause or condition into the contract that states the contractor is not suspended or debarred, or by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration.

The County did not exercise any of these three options when purchasing equipment for \$35,223.

### Equipment

Federal regulations require grant recipients to maintain equipment records that identify equipment purchased with federal funds. The County's inventory records did not contain required information such as percentage of federal participation in the cost. The County cannot provide reasonable assurance that proper records are kept for equipment paid for with federal grant funds.

### **Cause of Condition**

Employees responsible for monitoring grant compliance were not aware of these federal program requirements.

### **Effect of Condition and Questioned Costs**

The County charged salaries totaling \$54,813 to the Homeland Security Grant without adequate time and effort records. We were able to review other documentation to support the fact that employee worked in the program.

Without adequate controls over suspension/debarment requirements, the County could not ensure vendors paid with federal funds were not suspended or debarred from participating in federal programs. We determined the vendor in this case was not suspended or debarred.

Without proper equipment records, it is possible that equipment could be used for unauthorized purposes or disposed of in a manner that violates federal requirements. Moreover, the Department of Homeland Security would not be appropriately compensated for its share of any property sold or converted to nonfederal use.

### **Recommendation**

We recommend the County provide training to program staff and establish internal processes to:

- Ensure time and effort documentation is obtained for all employees in accordance with federal requirements.
- Verify that potential vendors/subrecipients are not excluded or disqualified from federally-funded projects, using one of the acceptable methods, before entering into contracts.
- Properly identify and track equipment acquired with federal funds.

## County's Response

*Cowlitz County considers itself a steward of the taxpayer's money and welcomes the opportunity provided by the audit to improve our internal controls. We believe audits are a collaborative effort and value the review of our programs.*

### Allowable Cost Principles

*The County understands the requirements for time and effort reporting in both federal regulations and County policy. The County has controls in place to ensure compliance with these requirements and asserts that all payroll costs were adequately documented to ensure reimbursements from federal grants were proper. The County does, however, acknowledge missing the semi-annual certification for one employee who worked solely on the program and will ensure the certifications are completed and submitted in the future.*

### Suspension and Debarment

*The County will add language to their future request for proposals and contracts requesting vendors certify they have not been suspended or debarred from receiving federal funds. The County will also encourage employees managing grants and contracts to verify that vendors are not listed on the Excluded Parties List System (EPLS).*

### Equipment

*The County will ensure its inventory of equipment documents the source of funds used to purchase items and improve its inventory tracking processes.*

## Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and look forward to reviewing the corrective action taken during our next regularly scheduled audit.

## Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Appendix B, Section 8(h), states:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
  - (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
  - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee.
  - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
    - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
    - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Title 24, Code of Federal Regulations, Section 85.35, states:

85.35 Subawards to debarred and suspended parties.

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs subject to 2 CFR part 2424.

U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* [Title 44 CFR 13.32 Equipment], states in part:

d. Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.

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, 2012 through December 31, 2012**

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, each major fund and the aggregate discretely presented component units and remaining fund information of Cowlitz County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 19, 2013. During the year ended December 31, 2013, the County implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

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

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

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

In addition, we noted certain matters that we will report to the management of the County in a separate letter dated September 20, 2013.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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



**TROY KELLEY**  
STATE AUDITOR

September 19, 2013

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

**Cowlitz County**  
**January 1, 2012 through December 31, 2012**

Board of Commissioners  
Cowlitz County  
Kelso, Washington

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

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

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

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

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

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

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

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

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

### ***County's Response to Findings***

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

## ***PURPOSE OF THIS REPORT***

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

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 19, 2013

# Independent Auditor's Report on Financial Statements

## Cowlitz County January 1, 2012 through December 31, 2012

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, each major fund and the aggregate discretely presented component units and remaining fund information of Cowlitz County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 16.

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

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

#### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of Cowlitz County, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the general, county road and community mental health 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 12 to the financial statements, in 2013, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 17 through 26 and information on other postemployment benefit – LEOFF 1 retiree medical benefits on page 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

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

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



**TROY KELLEY**  
STATE AUDITOR

September 19, 2013

# Financial Section

## **Cowlitz County January 1, 2012 through December 31, 2012**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2012

Statement of Activities – 2012

Balance Sheet – Governmental Funds – 2012

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2012

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2012

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2012

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund – 2012

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – County Road – 2012

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – Community Mental Health – 2012

Statement of Fund Net Position – Proprietary Funds – 2012

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2012

Statement of Cash Flows – Proprietary Funds – 2012

Statement of Fiduciary Net Position – Fiduciary Funds – 2012

Notes to Financial Statements – 2012

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Other Post Employment Benefit – Schedule of Funding Progress – 2012

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards and Notes – 2012

## 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, 2012. The discussion emphasizes results for calendar year 2012 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 of Cowlitz County exceeded its liabilities by \$243.5 million. Net investment in capital assets (net of depreciation and related debt) accounts for 76% of this amount with a value of \$186 million. Of the unrestricted net position, \$22 million of governmental activity and \$21.5 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 increased \$35.5 million in 2012. The net position of business-type activities increased \$33.4 million and total net position of governmental activities increased \$2.1 from 2011 operations. This increase is attributed to reporting Three Rivers Regional Wastewater Authority as a major fund of the County and not as a component unit.
- At December 31, 2012 Cowlitz County's governmental funds reported a combined ending fund balance of \$36.1 million, a decrease of \$9.6 million compared to the prior year.
- The General Fund unassigned fund balance at December 31, 2012 was \$7.5 million, a 14% increase compared to the December 31, 2011 total of \$6.6 million. The December 31, 2012 unassigned fund balance represents 42% of the 2012 total liabilities, deferred inflows and fund balance.
- The County Road Fund assigned fund balance at December 31, 2012 totaled \$6.1 million, an increase of 6% compared to the December 31, 2011 balance. The ending assigned fund balance represents 61.9% of the 2012 Road Fund total liabilities, deferred inflows and fund balance.
- Cowlitz County's total noncurrent liabilities (without component unit) as of December 31, 2012 totaled \$80.2 million, a net increase of over \$30 million from the previous year. This increase is attributed to the County reporting the debt of Three Rivers Regional Wastewater Authority.
- At December 31, 2012 the County's remaining capacity for issuing nonvoted debt is \$109.8 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 with not be received or paid in 2012.)

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 – 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 are 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 money.

**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 35 individual governmental funds at the close of 2012 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, Community Mental Health Fund, Debt Svc 2006 Special Revenue Bonds, Capital Improvement Fund, Three Rivers Regional Wastewater, 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 30 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Cowlitz County adopts a biennial budget comprised of two annual budgets. A budgetary comparison statement to actual expenditures has been provided, in the section identified required supplementary information, 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, and Three Rivers Regional Wastewater. The Solid Waste and Three Rivers funds are identified as major funds. The 911 Communication Center, Water/Sewer Utility, 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 systems, general liability and insurance services, workers' compensation and unemployment compensation costs. The County's internal service funds also account for the operation 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. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found 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 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 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 by \$243.5 million at December 31, 2012 compared to \$208.1 million at December 31, 2011.

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, 2012 net of depreciation totals \$90.3 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 55,974,017	\$ 68,632,296	43,346,999	34,505,913	\$ 99,321,016	\$ 103,138,209
Capital assets (net of depreciation.	147,680,129	144,484,465	81,854,499	16,382,048	229,534,628	160,866,513
Total assets	<u>\$ 203,654,146</u>	<u>\$ 213,116,761</u>	<u>125,201,498</u>	<u>50,887,961</u>	<u>328,855,644</u>	<u>264,004,722</u>
Total deferred outflows of resources	\$ 307,301	\$ -	\$ -	\$ -	\$ 307,301	\$ -
Noncurrent Liabilities	24,811,293	34,254,676	55,509,126	15,391,142	80,320,419	49,645,818
Other liabilities	3,719,596	5,501,101	1,574,733	789,934	5,294,329	6,291,035
Total liabilities	<u>28,530,889</u>	<u>39,755,777</u>	<u>57,083,859</u>	<u>16,181,076</u>	<u>85,614,748</u>	<u>55,936,853</u>
Net Position:						
Net Investment in Capital						
Assets	145,219,879	144,484,465	41,252,246	14,887,126	186,472,125	159,371,591
Restricted	8,245,360	15,603,696	5,397,569	19,152	13,642,929	15,622,848
Unrestricted	21,965,319	13,272,823	21,467,829	19,800,607	43,433,148	33,073,430
Total net position	<u>\$ 175,430,558</u>	<u>\$ 173,360,984</u>	<u>\$ 68,117,644</u>	<u>\$ 34,706,885</u>	<u>\$ 243,548,202</u>	<u>\$ 208,067,869</u>

At December 31, 2012 the County had positive balances in governmental and business-type activities and in total net position. The same situation existed for 2011. Cowlitz County's total net position increased \$34.5 million in 2012 compared to December 31, 2011. This change is a result of moving the Enterprise fund, Three Rivers Wastewater, into the County's business type activities, rather than presenting it as a discretely presented component unit, as done in 2011.

**Statement of Changes in Net Position** Key elements in the net increase in net position for 2012 along with comparative amounts for 2011 follows:

**Cowlitz County –Changes in Net Position**

	Governmental		Business-type activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for services	\$ 22,935,104	\$ 24,482,267	\$ 18,953,049	\$ 10,498,053	\$ 41,888,153	\$ 34,980,320
Operating grants & contributions	9,326,578	7,773,220	984,378	308,296	10,310,956	8,081,516
Capital grants and contributions	1,719,110	1,363,495	224,989	579,298	1,944,099	1,942,793
<i>General Revenues</i>						
Taxes	41,021,403	37,727,105	964,214	958,402	41,985,617	38,685,507
Gain (loss) on sale of assets	725,858	668,563	24,543	(125,413)	750,401	543,150
Miscellaneous	-	-	-	-	-	-
Interest earned on investments	82,259	253,198	81,473	58,711	163,732	311,909
<b>Total revenues</b>	<b>75,810,312</b>	<b>72,267,848</b>	<b>21,232,646</b>	<b>12,277,347</b>	<b>97,042,958</b>	<b>84,545,195</b>
<b>Program Expenses</b>						
General Government	10,738,436	11,117,076			10,738,436	11,117,076
Public Safety	21,826,278	21,592,210	4,155,335	4,080,833	25,981,613	25,673,043
Judicial	5,958,095	5,857,861			5,958,095	5,857,861
Physical environment	480,063	714,475			480,063	714,475
Transportation-roads	14,074,287	15,111,924			14,074,287	15,111,924
Economic environment	4,057,170	3,486,399			4,057,170	3,486,399
Health	13,042,831	14,985,584			13,042,831	14,985,584
Culture & recreation	966,950	1,155,935	2,388,673	2,212,768	3,355,623	3,368,703
Sewer			9,261,942		9,261,942	-
Solid Waste			4,988,942	4,360,568	4,988,942	4,360,568
Water/Sewer			1,690,549	1,485,969	1,690,549	1,485,969
Interest on long-term debt	472,882	1,286,403			472,882	1,286,403
<b>Total Expenses</b>	<b>71,616,992</b>	<b>75,307,867</b>	<b>22,485,441</b>	<b>12,140,138</b>	<b>94,102,433</b>	<b>87,448,005</b>
Excess (deficiency) of revenues over (under) expenses	4,193,320	(3,040,019)	(1,252,795)	137,209	2,940,525	(2,902,810)
Special Items	(2,228,847)				(2,228,847)	
Transfers	(208,180)	(192,062)	208,180	192,062	-	-
<b>Change in Net Position</b>	<b>1,756,293</b>	<b>(3,232,081)</b>	<b>(1,044,615)</b>	<b>329,271</b>	<b>711,678</b>	<b>(2,902,810)</b>
Net position January 1	173,360,984	176,593,065	34,706,885	34,377,614	208,067,869	210,970,679
Change in Accounting Principle	(81,907)		(1,728,843)		(1,810,750)	-
Prior period adjustment	395,188	-	36,184,217	-	36,579,405	-
<b>Net position -December 31</b>	<b>\$ 175,430,558</b>	<b>\$ 173,360,984</b>	<b>\$ 68,117,644</b>	<b>\$ 34,706,885</b>	<b>\$ 243,548,202</b>	<b>\$ 208,067,869</b>

Cowlitz County revenue totaled \$97 million in 2012. Governmental activities provided \$75.8 million, 78.1%, while business activities provided \$21.2 million. Taxes - \$41.2 million account for 42.5% of the 2012 primary government revenues compared to \$38.7 million in 2011.

**Governmental activities** net position of Cowlitz County increased by \$2.1 million in 2012. The County presented a positive change even though it presents a special item for the transfer of the mental health fund balance to a new regional RSN. Revenues increased when comparing 2012 to 2011. The largest increases presented themselves in the Taxes (\$3.3 million) and operating grants (\$1.5 million). Charges for services revenue totaled \$22.9 million in 2012 compared to \$24.5 million in 2011. Capital grants and capital contributions totaled \$1.7 million in 2012 and \$1.4 million in 2011. Additionally, expenses decreased \$3.7 million (4.9%) in 2012, compared to 2011. County governmental activity expenses in 2012 totaled \$71.6 million, a 4.9% decrease compared to 2011.

**Business type activities** expenses for Cowlitz County in 2012 totaled \$22.5 million compared to \$12.1 million in 2011. This is a result of including the Three Rivers Regional Wastewater Fund (TRRWA) in the business type activity column of the financial statements in 2012. Expenses

included public safety programs consisting of (911 communications, law enforcement records and emergency management) - \$4.2 million; the solid waste landfill \$5.0 million; the water sewer utility \$1.7 million in expenses, the exposition center had \$2.4 million, and sewer of \$9.3 million. Likewise, revenues increased \$9.0 million 2012. Again, this is a 73% increase due to the addition of TRRWA. Charges for services revenues of \$19.0 million accounted for 89.1% of total business revenues. Other business revenues consisted of \$964 thousands in 911 communication taxes. Interest earnings on investments totaled \$81,473 in 2012 compared to \$58,711 in 2011.

The Solid Waste Utility revenue of \$3.8 million accounted for 18% of the business-type revenues reported in 2012 which is about the same as 2011. Net position of the Solid Waste Utility totaled \$19.6 million at December 31, 2012, a decrease of approximately \$1.1 million from 2011. Interest income in 2012 totaled \$60.5 thousand versus \$53.3 thousand in 2011.

Three Rivers charges for service revenues totaled \$8.4 million in 2012 and a total net position at year-end of \$33.7 million.

**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, Capital Improvement Fund, 2006 Special Sewer Revenue Bond Fund and Community Mental Health Fund are the County’s major governmental funds. These funds account for 72% of the total governmental funds as of the December 31, 2012 ending fund balance.

	Fund Balance	Percent
General Fund	\$ 12,417,483	34.42%
Road Fund	8,883,239	24.62%
Community Mental Health	351,731	0.97%
Capital Improvement Fund	4,351,835	12.06%
Other Governmental Funds	10,074,347	27.92%
Total Governmental Fund Balance	\$ 36,078,635	100.00%

Approximately 20.9% of the governmental fund’s fund balance of \$36.1 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. \$11.0 million (30.4%) 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 2012.

	Revenues	Expenditures
General Fund	\$38,782,033	\$37,360,469
County Road	16,711,226	14,063,384
Community Mental Health	8,600,454	11,621,484
Capital Improvement Fund	2,441,346	3,831,866
Other Governmental Funds	9,262,116	9,991,460

Governmental fund revenues in 2012 totaled \$75.8 million which is more than 2011 governmental fund revenues of \$71.5 million by \$4.3 million. This increase is mostly seen in the tax revenue category.

The **General Fund** is the chief operating fund of Cowlitz County. At December 31, 2012 the unassigned fund balance of the General Fund was \$7.5 million; this represents 21% of the total fund balance for all governmental funds. The General Fund's 2012 total fund balance at December 31, 2012 was \$12.4 million compared to \$6.56 million at the end of 2011. This large change is a result of moving the component unit receivable from the general fund from the debt service fund. The General Fund had \$38.9 million in revenues in 2012 compared to \$35.7 million in 2011. Total tax revenues totaled \$24.8 million at the end of 2012 compared to \$22.7 million at the end of 2011. General Fund 2012 expenditures remained stable at \$37.4 million. Public Safety expenditures of the General Fund of \$18.7 million represent 50.5% of the General Fund expenditures.

The General Fund transfers out in 2012 to support other County funds totaled \$1.5 million compared to \$2.1 million in 2011.

The **County Road's** fund balance increased \$3.1 million to \$8.9 million at December 31, 2012. Total revenues in 2012 were \$16.7 million compared to \$13.8 million in 2011. Road Fund expenditures for 2012 totaled \$14.1 million compared to \$13.0 million in 2011. Road construction expenditures totaled \$2.8 million compared to \$2.2 million in 2011. Intergovernmental revenues of \$5.8 million in 2012 represents a \$866,506 increase over 2011 intergovernmental revenues. Additionally, this fund presents a tax increase of \$1.9 million or 22% when compared to 2011.

The **Community Mental Health's** fund balance at December 31, 2012 totaled \$351,731. This was a decrease of \$3.3 million from 2011 due to the transfer of fund balance to the RSN. Revenues were \$8.6 million in 2012 compared to \$10.9 million in 2011. Expenditures were \$11.6 million in 2012 compared to \$11.1 million in 2011. The County contracts with outside parties to provide mental health, substance abuse and developmental disabilities programs.

The **Capital Improvements** fund balance at December 31, 2012 totaled \$4.4 million. This was a decrease of \$5 thousand from 2011. Revenues were \$2.4 million in 2012 compared to \$1.8 million in 2011. Expenditures were \$3.8 million in 2012 compared to \$4.4 million in 2011. Bond proceeds of over \$2 million were received in 2012.

The **Debt Service 2006 Special Sewer Revenue Bonds** was eliminated in 2012 with the removal of the debt issued on behalf of TRRWA.

**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 two major enterprise funds, the Solid Waste Fund and Three Rivers that account for 78% of the \$68.8

million net position for total enterprise funds at December 31, 2012. The December 31, 2012 unrestricted net position and changes in unrestricted net position of the major enterprise funds for 2012 were:

	Unrestricted Net Position 12/31/12	Increase (Decrease) for Year
Solid Waste	15,129,560	(1,056,141)
Three Rivers	2,863,365	(2,268,920)

#### IV. Budget Analysis –General Fund Budgetary Highlights

The net difference between the original General Fund budget total expenditures for 2012 and the final amended budget was a \$1.57 million decrease in appropriations over the original budget of \$44.18 million. The amended net changes to appropriations for 2012 were as follows:

Increases (Decreases) To Budget	Activity
\$ (270,999)	General Government
(771,312)	Public Safety
(64,281)	Judicial
(116,958)	Economic Environment
(29,027)	Culture and Recreation
(42,732)	Mental and Physical Health
(275,000)	Transfers Out

#### 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, 2012 totals \$230 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 increase in Cowlitz County’s capital assets net of depreciation was \$68.7 million over 2011. This consisted of a \$3.2 million increase in governmental activity capital assets and a \$65.5 million increase in business-type activity capital assets, primarily from the inclusion of Three Rivers.

	COWLITZ COUNTY CAPITAL ASSETS (net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 11,663,605	\$ 11,305,666	\$ 1,735,140	\$ 1,148,600	\$ 13,398,745	\$ 12,454,266
Buildings& Syst. Improve other than Buildings	30,940,800	31,862,498	72,709,595	9,293,879	103,650,395	41,156,377
Machinery&Equip.	3,478,808	3,429,066	1,961,766	2,923,876	5,440,574	6,352,942
Intangible	6,950,962	6,310,241	1,656,166	1,932,257	8,607,128	8,242,498
Infrastructure	57,283	70,881	231,060	16,453	288,343	87,334
Construction in Progress	90,281,565	90,257,462	-	-	90,281,565	90,257,462
Total	4,307,104	1,248,651	3,560,772	1,066,983	7,867,876	2,315,634
	<u>\$ 147,680,127</u>	<u>\$ 144,484,465</u>	<u>\$ 81,854,499</u>	<u>\$ 16,382,048</u>	<u>\$ 229,534,626</u>	<u>\$ 160,866,513</u>

For more information see note disclosure 4D.

**Long-Term Debt.** At December 31, 2012 Cowlitz County has \$16.98 million in long-term debt owed from *governmental activities* and \$39.5 million in long-term debt for *business type activities*.

**COWLITZ COUNTY OUTSTANDING DEBT  
General Obligation and Revenue Bonds**

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$15,512,750	\$25,836,250	\$0	\$0	\$15,512,750	\$25,836,250
Revenue bonds			\$27,350,000		27,350,000	
Special assessment bonds with Govt. commitment	1,470,682	1,657,682			1,470,682	1,657,682
	<u>\$16,983,432</u>	<u>\$27,493,932</u>	<u>\$27,350,000</u>	<u>\$0</u>	<u>\$44,333,432</u>	<u>\$27,493,932</u>

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.

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

**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 4<sup>th</sup> Avenue No., Kelso, Wa. 98626.

**Cowlitz County, Washington**  
**Statement of Net Position**  
**December 31, 2012**

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Public Facilities District
<b>ASSETS</b>				
Cash, cash equivalents & pooled investments	\$ 36,694,992	\$ 21,232,265	\$ 57,927,257	\$ 559,895
Receivables (net)	13,194,095	1,681,190	14,875,285	149,786
Internal Balances	217,210	(217,210)	-	-
Inventories	657,367	361,488	1,018,855	-
Prepaid items	219,640	91,300	310,940	20,935
Due from component unit	4,880,000	392,736	5,272,736	-
Restricted cash, cash equivalents & pooled investments:			-	
Customer deposits	110,713	36,130	146,843	-
Debt service		5,397,569	5,397,569	478,778
Closure and postclosure	-	7,269,827	7,269,827	-
Restricted investment for closure and postclosure	-	7,101,704	7,101,704	-
<i>Capital Assets:</i>			-	
Nondepreciable assets	11,663,605	1,735,140	13,398,745	
Depreciable assets (net)	41,422,155	76,558,587	117,980,742	15,394,167
Infrastructure (net)	90,287,265	-	90,287,265	-
Construction in progress	4,307,104	3,560,772	7,867,876	-
<b>Total Assets</b>	203,654,146	125,201,498	328,855,644	16,603,561
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amounts on refunding	307,301	-	307,301	324,926
<b>Total Deferred outflows of resources</b>	307,301	-	307,301	324,926
<b>LIABILITIES</b>				
Accounts payable & accrued exp.	1,720,725	1,224,942	2,945,667	64,136
Other current liabilities	1,887,558	317,261	2,204,819	-
Customer Deposits	111,313	32,530	143,843	-
<i>Noncurrent Liabilities:</i>				
Due within one year	2,231,046	10,756,428	12,987,474	117,983
Due primary gov. within one yr.	-	-	-	240,890
Due in more than one year	22,580,247	44,752,693	67,332,940	5,526,674
Due primary gov. more than one year	-	-	-	5,405,094
<b>Total Liabilities</b>	28,530,889	57,083,854	85,614,743	11,354,777
<b>NET POSITION</b>				
Net investment in capital assets	145,219,879	41,252,246	186,472,125	4,821,188
Restricted for:				
Economic environment	2,790,389	-	2,790,389	-
General government	885,847	-	885,847	-
Public safety	96,105	-	96,105	-
Judicial	79,950	-	79,950	-
Health	351,731	-	351,731	-
Physical environment	812,644	-	812,644	-
Transportation-roads	3,010,100	-	3,010,100	-
Culture & recreation	218,594	-	218,594	478,778
Restricted, for debt purposes		5,397,569	5,397,569	-
Unrestricted	21,965,319	21,467,829	43,433,148	273,744
<b>Total Net Position</b>	\$ 175,430,558	\$ 68,117,644	\$ 243,548,202	\$ 5,573,710

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, 2012**

	Net (Expense) Revenue and Changes in Net Position							Component Unit
	Primary Government							
	Program Revenues		Capital Grants and Contributions		Business-type Activities		Total	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	Public Facilities District		
<b>FUNCTIONS/PROGRAMS</b>								
<i>Governmental Activities:</i>								
General Government	\$ 10,738,436	\$ 3,085,658	\$ 1,742,802	\$ (5,909,976)	\$ -	\$ (5,909,976)		
Public Safety	21,826,278	5,001,229	1,532,644	(15,292,405)	-	(15,292,405)		
Judicial	5,958,095	2,870,890	172,421	(2,914,784)	-	(2,914,784)		
Physical Environment	480,063	245,559	166,791	(67,713)	-	(67,713)		
Transportation - Roads	14,074,287	953,884	1,579,773	(9,821,520)	1,719,110	(9,821,520)		
Economic Environment	4,057,170	2,229,580	865,406	(962,184)	-	(962,184)		
Health	13,042,831	8,411,619	3,266,741	(1,364,471)	-	(1,364,471)		
Culture & Recreation	966,950	136,685	-	(830,265)	-	(830,265)		
Interest on long-term debt	472,882	-	-	(472,882)	-	(472,882)		
Total governmental activities	<u>71,616,992</u>	<u>22,935,104</u>	<u>9,326,578</u>	<u>(37,636,200)</u>	<u>1,719,110</u>	<u>(37,636,200)</u>		
<i>Business-type Activities:</i>								
Water/Sewer	1,690,549	1,447,057	-	-	15,871	(227,621)		
Sewer	9,261,942	8,355,054	-	-	98,829	(808,059)		
Garbage & Solid Waste	4,988,942	3,780,850	42,164	-	-	(1,165,928)		
Public Safety	4,155,335	3,163,737	907,941	-	50,917	(32,740)		
Culture & Recreation	2,388,673	2,206,351	34,273	-	59,372	(88,677)		
Total business-type activities	<u>22,485,441</u>	<u>18,953,049</u>	<u>984,378</u>	<u>-</u>	<u>224,989</u>	<u>(2,323,025)</u>		
Total Primary Government	<u>\$ 94,102,433</u>	<u>\$ 41,888,153</u>	<u>\$ 10,310,956</u>	<u>\$ (37,636,200)</u>	<u>\$ (2,323,025)</u>	<u>\$ (39,959,225)</u>		
<b>Component Unit</b>								
Public Facilities District	1,368,711	14,518	-	-	35,148	-	(1,319,045)	
Total Component Units	<u>\$ 1,368,711</u>	<u>\$ 14,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,148</u>	<u>\$ -</u>	<u>(1,319,045)</u>	
<b>GENERAL REVENUES:</b>								
Property Taxes				28,455,526		28,455,526		
Sales Taxes				6,749,543		6,749,543	869,806	
911 Taxes				-	964,214	964,214		
Other Taxes				5,816,334		5,816,334		
Investment Earnings				82,259	81,473	163,732	2,036	
Gain (loss) on sale of capital assets				725,858	24,543	750,401		
				(2,228,847)	-	(2,228,847)		
				(208,180)	208,180	-		
				39,392,493	1,278,410	40,670,903	871,842	
				1,756,293	(1,044,615)	711,678	(447,203)	
<b>SPECIAL ITEMS TRANSFERS</b>								
Total General Revenues, Special Items & Transfers				173,360,984	34,706,885	208,067,869	6,022,321	
Change in accounting principle				(81,907)	(1,728,843)	(1,810,750)	(61,952)	
Prior period adjustment				395,188	36,184,217	36,579,405	60,544	
Net position - December 31				<u>\$ 175,430,558</u>	<u>\$ 68,117,644</u>	<u>\$ 243,548,202</u>	<u>\$ 5,573,710</u>	

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

Cowlitz County, Washington  
Balance Sheet  
Governmental Funds  
December 31, 2012

	Major Funds							Total Governmental Funds
	General	County Road	Community Mental Health	Debt Svc		Other Governmental Funds	Total Governmental Funds	
				2006 Special	Sewer Rev Bonds			
<b>ASSETS</b>								
<i>Current Assets:</i>								
Cash, cash equivalents & pooled investments	\$ 6,936,438	\$ 7,970,734	\$ 156,124			\$ 3,548,857	\$ 7,545,551	\$ 26,157,704
Receivables (net)	6,024,138	1,812,580	484,014			1,076,729	3,471,030	12,868,491
Due from other funds	98,963	46,737					5,851	151,551
Due from component unit	4,880,000							4,880,000
Customer deposits & seized	14,364						96,349	110,713
<b>Total assets</b>	<b>\$ 17,953,903</b>	<b>\$ 9,830,051</b>	<b>\$ 640,138</b>	<b>\$ -</b>	<b>\$ 4,625,586</b>	<b>\$ 11,118,781</b>	<b>\$ 44,168,459</b>	
<b>LIABILITIES</b>								
Accounts payable	\$ 385,551	\$ 84,454	\$ 162,503			\$ 245,210	\$ 72,757	\$ 950,475
Payable to other governments	139,025	40,598	125,904			13,508	215,664	534,699
Due to other funds	64,501	153,675				13,036	110,251	341,463
Other current liabilities	1,271,504	249,804				1,997	188,319	1,711,624
Customer deposits and seized payable	14,964						96,349	111,313
<b>Total liabilities</b>	<b>\$ 1,875,545</b>	<b>\$ 528,531</b>	<b>\$ 288,407</b>	<b>\$ -</b>	<b>\$ 273,751</b>	<b>\$ 683,340</b>	<b>\$ 3,649,574</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable revenue - property taxes	2,365,609	418,281					18,752	2,802,642
Unavailable revenue - special assessments							342,342	342,342
Unavailable revenue - court	1,295,266							1,295,266
<b>Total deferred inflows of resources</b>	<b>\$ 3,660,875</b>	<b>\$ 418,281</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 361,094</b>	<b>\$ 4,440,250</b>	
<b>FUND BALANCE</b>								
Nonspendable						\$ 795,915		\$ 795,915
Restricted	4,880,000	2,797,024	351,731			1,250,802	7,511,206	16,790,763
Assigned		6,086,215				2,305,118	2,563,141	10,954,474
Unassigned	7,537,483							7,537,483
<b>Total fund balance</b>	<b>\$ 12,417,483</b>	<b>\$ 8,883,239</b>	<b>\$ 351,731</b>	<b>\$ -</b>	<b>\$ 4,351,835</b>	<b>\$ 10,074,347</b>	<b>\$ 36,078,635</b>	
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 17,953,903</b>	<b>\$ 9,830,051</b>	<b>\$ 640,138</b>	<b>\$ -</b>	<b>\$ 4,625,586</b>	<b>\$ 11,118,781</b>	<b>\$ 44,168,459</b>	

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, 2012**

Total fund balances as shown on the Governmental Funds Balance Sheet	\$ 36,078,635
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 are included as part of reconciling item further down the page).	141,875,839
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.	15,364,997
Allocation to enterprise funds share of net (income) loss of internal service funds.	43,791
Other long-term assets are not available to pay for current-period expenditures and, therefore are not recognized as payable/receivable in the funds	307,301
Accrued interest receivable was less than interest receivable modified accrual	83,765
Other long-term assets not available to pay for current-period expenditures and, therefore are deferred in the funds.	4,440,250
Inventories not recorded in governmental funds are recorded in governmental activities.	169,731
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>(22,933,751)</u>
Net position of governmental activities	<u><u>\$ 175,430,558</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, 2012**

	Major Funds						Total Governmental Funds
	General	County Road	Community Mental Health	Debt Svc 2006 Special Sewer Rev Bonds	Capital Improvements	Other Governmental Funds	
<b>REVENUES</b>							
Taxes	\$ 24,837,851	\$ 10,368,118	\$ -	\$ -	\$ 1,531,146	\$ 1,435,219	\$ 38,172,334
Licenses & Permits	106,220	-	-	-	-	1,363,814	1,470,034
Intergovernmental	6,810,163	5,827,455	8,596,342	-	835,436	3,496,826	25,566,222
Charges for Services	5,222,519	379,349	-	-	-	1,298,345	6,900,213
Fines & Forfeitures	1,036,307	-	-	-	-	202,134	1,238,441
Investment Earnings	187,426	9,572	4,112	-	30,468	41,478	273,056
Rents & Leases	416,670	4,750	-	-	42,232	87	463,739
Special Assessments	-	-	-	-	-	700,268	700,268
Insurance Premiums & Recoveries	-	17,166	-	-	-	-	17,166
Miscellaneous Revenues	164,877	104,816	-	-	2,064	723,945	995,702
<b>Total revenues</b>	<b>38,782,033</b>	<b>16,711,226</b>	<b>8,600,454</b>	<b>-</b>	<b>2,441,346</b>	<b>9,262,116</b>	<b>75,797,175</b>
<b>EXPENDITURES</b>							
<i>Current:</i>							
General Government	10,058,800	-	-	-	77,693	359,902	10,496,395
Public Safety	18,749,078	-	-	-	-	1,695,094	20,444,172
Judicial	5,809,759	-	-	-	-	-	5,809,759
Physical Environment	158,969	-	-	-	9,434	310,947	479,350
Economic Environment	1,277,032	-	-	-	46,156	2,699,902	4,023,090
Transportation	42,861	11,197,951	-	-	-	268	11,241,080
Health & Human Services	638,029	-	11,621,484	-	-	2,970,384	15,229,897
Culture & Recreation	584,815	-	-	-	3,879	128,669	717,363
<i>Debt Service:</i>							
Principal	-	70,000	-	-	-	1,092,000	1,162,000
Interest	-	638	-	-	7,300	692,485	700,423
Other	-	-	-	-	602	-	602
<i>Capital Outlay</i>	41,126	2,794,795	-	-	3,686,802	41,809	6,564,532
<b>Total expenditures</b>	<b>37,360,469</b>	<b>14,063,384</b>	<b>11,621,484</b>	<b>-</b>	<b>3,831,866</b>	<b>9,991,460</b>	<b>76,868,663</b>
Excess (deficiency) of revenues over (under) expenditures	1,421,564	2,647,842	(3,021,030)	-	(1,390,520)	(729,344)	(1,071,488)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	328,193	-	4,085	-	21,144	1,849,694	2,203,116
Transfers out	(1,547,337)	-	-	-	(650,057)	(515,177)	(2,712,571)
Sale of capital assets	317,783	314,463	-	-	2,750	5,483	640,479
Payment to refunding bond escrow	-	-	-	-	2,011,500	(9,115,175)	(9,115,175)
General obligation bonds issued	-	-	-	-	-	8,570,000	8,570,000
Refunding bonds issued	-	-	-	-	-	647,022	647,022
Premium on bonds issued	(901,361)	314,463	4,085	-	1,385,337	1,441,847	2,244,371
<b>Total other financing sources (uses)</b>	<b>520,203</b>	<b>2,962,305</b>	<b>(3,016,945)</b>	<b>-</b>	<b>(5,183)</b>	<b>712,503</b>	<b>1,172,883</b>
<b>Net change in fund balance</b>	<b>6,560,666</b>	<b>5,717,220</b>	<b>3,368,676</b>	<b>11,205,000</b>	<b>4,357,018</b>	<b>14,506,984</b>	<b>45,715,564</b>
<b>Fund balances--beginning</b>	<b>5,336,614</b>	<b>203,714</b>	<b>-</b>	<b>(11,205,000)</b>	<b>-</b>	<b>(5,145,140)</b>	<b>(10,809,812)</b>
Prior period adjustment	\$ 12,417,483	\$ 8,883,239	\$ 351,731	\$ -	\$ 4,351,835	\$ 10,074,347	\$ 36,078,635
<b>Fund balances--ending</b>	<b>\$ 12,417,483</b>	<b>\$ 8,883,239</b>	<b>\$ 351,731</b>	<b>\$ -</b>	<b>\$ 4,351,835</b>	<b>\$ 10,074,347</b>	<b>\$ 36,078,635</b>

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, 2012**

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 \$ 1,172,883

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. 2,755,502

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. (914,461)

Change in accrual interest earnings versus on modified accrual basis (243,479)

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. (846,222)

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, accrued compensation payable for year and deferred outflows of resources. (73,790)

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. (94,140)

Change in net position-governmental activities- on the Statement of Activities \$ 1,756,293

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

	<b>General Fund</b>			
	<b>Budgeted Amounts</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual Amounts</b>	<b>Final Budget - Positive (Negative)</b>
<i>Revenues:</i>				
Taxes	\$ 23,998,966	\$ 23,998,966	\$ 24,837,851	\$ 838,885
Licenses & Permits	82,010	82,010	106,220	24,210
Intergovernmental	6,393,442	6,479,442	6,810,163	330,721
Charges for services	4,917,460	4,931,460	5,217,599	286,139
Fines and forfeits	1,179,860	1,179,860	1,036,307	(143,553)
Interest	165,880	165,880	186,437	20,557
Miscellaneous	959,169	989,319	581,476	(407,843)
<i>Total revenues</i>	<u>37,696,787</u>	<u>37,826,937</u>	<u>38,776,053</u>	<u>949,116</u>
<i>Expenditures:</i>				
General government	10,392,298	10,121,299	9,866,966	254,333
Public safety	19,620,847	18,849,535	18,477,932	371,603
Judicial	6,171,962	6,107,681	5,809,759	297,922
Physical environ. (animal cont./soil cons.)	349,942	349,942	158,969	190,973
Economic environment	1,575,398	1,458,440	1,277,032	181,408
Transportation	48,230	48,230	42,861	5,369
Mental & physical health	670,042	627,310	638,029	(10,719)
Culture & recreation	644,980	615,953	584,815	31,138
Debt Service - Principal		-	-	-
Capital outlay	85,000	85,000	41,126	43,874
<i>Total Expenditures</i>	<u>39,558,699</u>	<u>38,263,390</u>	<u>36,897,489</u>	<u>1,365,901</u>
Excess (deficiency) of revenues over expenditures	<u>(1,861,912)</u>	<u>(436,453)</u>	<u>1,878,564</u>	<u>2,315,017</u>
<i>Other financial sources (uses):</i>				
Proceeds-sale fixed assets	240,000	240,000	317,783	77,783
Transfers In	46,000	46,000	107,460	61,460
Transfers (out)	(2,385,567)	(2,110,567)	(1,747,337)	363,230
<i>Total Other financial sources (uses):</i>	<u>(2,099,567)</u>	<u>(1,824,567)</u>	<u>(1,322,094)</u>	<u>502,473</u>
Net change in fund balances	(3,961,479)	(2,261,020)	556,470	2,817,490
Fund balance, January 1	6,197,678	6,197,678	5,838,160	(359,518)
Prior Period Adjustments	-	-	5,336,614	5,336,614
Fund balance, December 31	<u>\$ 2,236,199</u>	<u>\$ 3,936,658</u>	<u>11,731,244</u>	<u>\$ 7,794,586</u>
Adjustment to GAAP basis:				
GIS Fund			237,829	
Benefits Administration Fund			448,410	
Fund balance - GAAP basis			<u>\$ 12,417,483</u>	

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

**County Road**

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<i>Revenues:</i>				
Taxes	\$ 9,485,169	\$ 9,485,169	\$ 10,368,118	\$ 882,949
Licenses & Permits		-	-	-
Intergovernmental	7,472,270	7,472,270	5,827,455	(1,644,815)
Charges for services	159,500	159,500	379,349	219,849
Fines and forfeits		-	-	-
Interest	8,000	8,000	9,572	1,572
Miscellaneous	51,000	51,000	126,732	75,732
<i>Total revenues</i>	17,175,939	17,175,939	16,711,226	(464,713)
<i>Expenditures:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Judicial	-	-	-	-
Physical environ. (animal cont./soil cons.)	-	-	-	-
Economic environment	-	-	-	-
Transportation	12,077,719	12,077,719	11,197,951	879,768
Mental & physical health		-	-	-
Culture & recreation		-	-	-
Debt Service - Principal		-	70,638	(70,638)
Capital outlay	7,782,697	7,782,697	2,794,795	4,987,902
<i>Total Expenditures</i>	19,860,416	19,860,416	14,063,384	5,797,032
Excess (deficiency) of revenues over expenditures	(2,684,477)	(2,684,477)	2,647,842	5,332,319
<i>Other financial sources (uses):</i>				
Proceeds-sale fixed assets	500,000	500,000	314,463	(185,537)
Transfers In	74,000	74,000	-	(74,000)
Transfers (out)	(46,728)	(46,728)	-	46,728
<i>Total Other financial sources (uses):</i>	527,272	527,272	314,463	(212,809)
Net change in fund balances	(2,157,205)	(2,157,205)	2,962,305	5,119,510
Fund balance, January 1	4,500,000	4,500,000	5,717,220	1,217,220
Prior Period Adjustments	-	-	203,714	203,714
Fund balance, December 31	\$ 2,342,795	\$ 2,342,795	\$ 8,883,239	\$ 6,540,444

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

**Community Mental Health**

	<u>Budgeted Amounts</u>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual Amounts</b>	<b>Final Budget - Positive (Negative)</b>
<i>Revenues:</i>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-
Intergovernmental	11,547,163	11,547,163	8,596,342	(2,950,821)
Charges for services	-	-	-	-
Fines and forfeits	-	-	-	-
Interest	-	-	4,112	4,112
Miscellaneous	31,000	31,000	-	(31,000)
<i>Total revenues</i>	<u>11,578,163</u>	<u>11,578,163</u>	<u>8,600,454</u>	<u>(2,977,709)</u>
<i>Expenditures:</i>				
General government	-	-	-	-
Public safety	-	-	-	-
Judicial	-	-	-	-
Physical environ. (animal cont./soil cons.)	-	-	-	-
Economic environment	-	-	-	-
Transportation	-	-	-	-
Mental & physical health	11,622,663	11,622,663	11,621,484	1,179
Culture & recreation	-	-	-	-
Debt Service - Principal	-	-	-	-
Capital outlay	-	-	-	-
<i>Total Expenditures</i>	<u>11,622,663</u>	<u>11,622,663</u>	<u>11,621,484</u>	<u>1,179</u>
Excess (deficiency) of revenues over expenditures	<u>(44,500)</u>	<u>(44,500)</u>	<u>(3,021,030)</u>	<u>(2,976,530)</u>
<i>Other financial sources (uses):</i>				
Proceeds-sale fixed assets	-	-	-	-
Transfers In	-	-	4,085	4,085
Transfers (out)	-	-	-	-
<i>Total Other financial sources (uses):</i>	<u>-</u>	<u>-</u>	<u>4,085</u>	<u>4,085</u>
Net change in fund balances	(44,500)	(44,500)	(3,016,945)	(2,972,445)
Fund balance, January 1	2,289,245	2,289,245	3,368,676	1,079,431
Prior Period Adjustments	-	-	-	-
Fund balance, December 31	<u>\$ 2,244,745</u>	<u>\$ 2,244,745</u>	<u>\$ 351,731</u>	<u>\$ (1,893,014)</u>

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, 2012**

	Solid Waste	Three Rivers	Nonmajor Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
<b>ASSETS</b>					
<i>Current assets:</i>					
Cash, cash equivalents & pooled investments	\$ 14,455,720	\$ 2,833,603	\$ 3,942,942	\$ 21,232,265	\$ 10,537,288
Receivables (net)	265,170	1,790	179,112	446,072	241,839
Interest receivable	453	-	-	453	-
Due from other funds	2,761	-	7,455	10,216	550,237
Due from other governments	405,056	499,399	330,210	1,234,665	-
Interfund loan receivable - current	101,000	-	-	101,000	-
Inventories	29,754	331,734	-	361,488	487,636
Prepaid items	8,752	27,025	55,523	91,300	219,640
Restricted cash and cash equivalents (\$6,902,691 for landfill, \$36,130 for customer deposits)	6,902,691	-	36,130	6,938,821	-
<i>Total Current Assets</i>	<u>22,171,357</u>	<u>3,693,551</u>	<u>4,551,372</u>	<u>30,416,280</u>	<u>12,036,640</u>
<i>Noncurrent assets:</i>					
Restricted cash, cash equivalents & investments:					
Debt Requirements	-	5,397,569	-	5,397,569	-
Cash & equivalents for closure & postclosure	367,136	-	-	367,136	-
Interfund loan receivable	65,443	-	-	65,443	-
Due from component unit	392,736	-	-	392,736	-
Deferred charges & other assets	-	-	-	-	-
Investments for closure & postclosure	7,101,704	-	-	7,101,704	-
<i>Capital assets:</i>					
Land	389,392	586,540	759,208	1,735,140	20,795
Construction in progress	1,919,606	277,490	1,363,676	3,560,772	-
Buildings and system	4,258,266	94,498,002	15,375,869	114,132,137	428,217
Improvements and other than bldgs.	8,270,344	7,297	2,237,559	10,515,200	-
Machinery and equipment	1,875,812	970,196	2,310,925	5,156,933	14,702,590
Intangible	25,387	-	1,695,003	1,720,390	1,087,512
Less accumulated depreciation	(12,304,550)	(32,291,530)	(10,369,993)	(54,966,073)	(10,434,824)
Total capital assets (net of accum depr.)	<u>4,434,257</u>	<u>64,047,995</u>	<u>13,372,247</u>	<u>81,854,499</u>	<u>5,804,290</u>
<b>Total assets</b>	<u><b>34,532,633</b></u>	<u><b>73,139,115</b></u>	<u><b>17,923,619</b></u>	<u><b>125,595,367</b></u>	<u><b>17,840,930</b></u>
<b>LIABILITIES</b>					
<i>Current liabilities:</i>					
Accounts payable	333,197	125,012	256,175	714,384	174,009
Payable to other governments	5,661	73,499	72,007	151,167	61,543
Contract retainage payable	-	-	-	-	-
Due to other funds	166,798	2,805	14,032	183,635	186,906
Accrued interest payable	-	359,391	-	359,391	-
Claims and judgements	-	-	-	-	803,660
Revenue Bonds Payable	-	2,776,351	-	2,776,351	-
Notes Payable	-	925,559	151,827	1,077,386	16,889
Landfill closure and postclosure costs	6,902,691	-	-	6,902,691	-
Interfund loans payable-current	-	-	101,000	101,000	-
Other current liabilities	30,517	92,555	194,189	317,261	92,169
Customer deposits payable from restricted assets	-	-	32,530	32,530	-
Total current liabilities	<u>7,438,864</u>	<u>4,355,172</u>	<u>821,760</u>	<u>12,615,796</u>	<u>1,335,176</u>
<i>Noncurrent liabilities:</i>					
Compensated absences	61,112	176,924	297,301	535,337	142,410
Landfill closure and postclosure costs	7,468,840	-	-	7,468,840	-
Claims and judgements	-	-	-	-	991,122
Bonds payable & net of unamortized discount)	-	25,668,990	-	25,668,990	-
Interfund loan payable	-	-	65,443	65,443	-
Notes Payable	-	9,274,523	1,805,003	11,079,526	7,227
Total non current liabilities	<u>7,529,952</u>	<u>35,120,437</u>	<u>2,167,747</u>	<u>44,818,136</u>	<u>1,140,759</u>
<b>Total liabilities</b>	<u><b>14,968,816</b></u>	<u><b>39,475,609</b></u>	<u><b>2,989,507</b></u>	<u><b>57,433,932</b></u>	<u><b>2,475,935</b></u>
<b>NET POSITION</b>					
Net investment in capital assets	4,434,257	25,402,572	11,415,417	41,252,246	5,780,174
Restricted - debt covenants	-	5,397,569	-	5,397,569	-
Unrestricted	15,129,560	2,863,365	3,518,695	21,511,620	9,584,821
<b>Total net position</b>	<u><b>\$ 19,563,817</b></u>	<u><b>\$ 33,663,506</b></u>	<u><b>\$ 14,934,112</b></u>	<u><b>68,161,435</b></u>	<u><b>\$ 15,364,995</b></u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				(43,791)	
<b>Net position of business-type activities</b>				<u><b>\$ 68,117,644</b></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, 2012**

	<u>Business-type Activities-Enterprise Funds</u>				<b>Governmental Activities- Internal Service Funds</b>
	<b>Solid Waste</b>	<b>Three Rivers</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total Enterprise Funds</b>	
<b>OPERATING REVENUES</b>					
<i>Charges for Services:</i>					
Water - Sewer	\$ -	\$ -	\$ 1,439,121	\$ 1,439,121	\$ -
Sewer	-	8,352,239	-	8,352,239	-
Garbage & Solid Waste	3,751,848	-	-	3,751,848	-
Public Safety	-	-	3,132,018	3,132,018	-
Culture & Recreation	-	-	2,185,205	2,185,205	-
Other services	-	-	-	-	7,040,690
<b>Total operating revenues</b>	<u>3,751,848</u>	<u>8,352,239</u>	<u>6,756,344</u>	<u>18,860,431</u>	<u>7,040,690</u>
<b>OPERATING EXPENSES</b>					
Maintenance & operations	2,930,490	3,755,703	7,423,969	14,110,162	7,200,195
Closure & postclosure care	946,413	-	-	946,413	-
Depreciation	1,100,471	4,004,259	750,605	5,855,335	876,136
<b>Total operating expenses</b>	<u>4,977,374</u>	<u>7,759,962</u>	<u>8,174,574</u>	<u>20,911,910</u>	<u>8,076,331</u>
<b>Operating income (loss)</b>	<u>(1,225,526)</u>	<u>592,277</u>	<u>(1,418,230)</u>	<u>(2,051,479)</u>	<u>(1,035,641)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Taxes	-	-	964,214	964,214	-
Intergovernmental	42,164	-	942,214	984,378	12,400
Investment earnings	60,529	16,191	4,753	81,473	15,798
Interest expense	-	(1,437,226)	(16,132)	(1,453,358)	(2,460)
Gain (loss) on disposition of assets	(2,482)	(64,754)	24,543	(42,693)	85,379
Write off of gas to energy construction in progress	-	-	-	-	-
Miscellaneous nonoperating revenues	29,002	2,815	60,801	92,618	164,274
<b>Total nonoperating income (expense)</b>	<u>129,213</u>	<u>(1,482,974)</u>	<u>1,980,393</u>	<u>626,632</u>	<u>275,391</u>
<b>Income before contributions and transfers</b>	<u>(1,096,313)</u>	<u>(890,697)</u>	<u>562,163</u>	<u>(1,424,847)</u>	<u>(760,250)</u>
Capital contributions	-	98,829	126,160	224,989	311,894
Transfers in	-	-	208,180	208,180	301,275
<b>Change in net position</b>	<u>(1,096,313)</u>	<u>(791,868)</u>	<u>896,503</u>	<u>(991,678)</u>	<u>(147,081)</u>
<b>Net position--beginning</b>	<u>20,660,130</u>	<u>-</u>	<u>14,037,609</u>	<u>-</u>	<u>15,512,076</u>
Change in accounting principle	-	(1,728,843)	-	-	-
Prior period adjustment	-	36,184,217	-	-	-
<b>Net position--ending</b>	<u>\$ 19,563,817</u>	<u>\$ 33,663,506</u>	<u>\$ 14,934,112</u>	<u>\$ -</u>	<u>\$ 15,364,995</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				<u>(52,937)</u>	
<b>Change in net position of business-type activities</b>				<u>\$ (1,044,615)</u>	

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, 2012

	<u>Business-type Activities-Enterprise Funds</u>				<u>Governmental Activities- Internal Service Funds</u>
	<u>Solid Waste</u>	<u>Three Rivers</u>	<u>Nonmajor Enterprise. Funds</u>	<u>Total Enterprise Funds</u>	
<b><u>Cash flows from operating activities</u></b>					
Cash received from customers	\$ 3,928,578	\$ 7,934,067	\$ 6,807,276	\$ 18,669,921	\$ 6,879,671
Cash payments for goods and services	(2,248,256)	(1,732,030)	(3,640,578)	(7,620,864)	(5,233,075)
Cash payments to employees for services	(645,610)	(1,990,101)	(3,772,809)	(6,408,520)	(1,848,025)
Miscellaneous revenue	118,639	2,815	63,193	184,647	120,968
<i>Net cash provided (used) by operating activities</i>	<u>1,153,351</u>	<u>4,214,751</u>	<u>(542,918)</u>	<u>4,825,184</u>	<u>(80,461)</u>
<b><u>Cash flows from noncapital financing activities</u></b>					
Loans made to other funds	(5,000)	-	-	(5,000)	-
Repayment (pmt) of interfund loan principal	101,556	-	-	101,556	-
Operating grants received	-	-	829,988	829,988	12,400
Receipts from 911 tax	-	-	978,014	978,014	-
Payments of claims liability recognized prior yrs.	-	-	-	-	(34,500)
Transfers in from other County fund	-	-	208,180	208,180	301,275
<i>Net cash provided by noncapital financing activities</i>	<u>96,556</u>	<u>-</u>	<u>2,016,182</u>	<u>2,112,738</u>	<u>279,175</u>
<b><u>Cash flows from capital and related financing activities</u></b>					
State funding for 911 capital outlays	-	-	(145,128)	(145,128)	-
System development fees & hookup fees	-	98,829	15,871	114,700	-
Payment on interfund loan	-	-	(101,556)	(101,556)	-
Acquisition and construction of capital assets	(1,062,781)	(555,601)	(2,006,381)	(3,624,763)	(1,018,972)
Proceeds from interfund loans	-	-	5,000	5,000	-
Principal paid on note/lease/bonds	-	(3,114,021)	-	(3,114,021)	(23,372)
Proceeds from loans	-	-	607,036	607,036	-
Interest paid on capital debt	-	(1,603,824)	(14,401)	(1,618,225)	(2,460)
Proceeds from sale of capital assets	-	-	24,543	24,543	95,436
<i>Net cash provided (used) for capital and related financing activities</i>	<u>(1,062,781)</u>	<u>(5,174,617)</u>	<u>(1,615,016)</u>	<u>(7,852,414)</u>	<u>(949,368)</u>
<b><u>Cash flows from investing activities</u></b>					
Purchase of investments	(7,101,704)	-	-	(7,101,704)	-
Interest on investments	60,842	16,193	4,751	81,786	15,626
<i>Net cash provided (used) by investment activities</i>	<u>(7,040,862)</u>	<u>16,193</u>	<u>4,751</u>	<u>(7,019,918)</u>	<u>15,626</u>

Net increase (decrease) in cash and cash equivalents	(6,853,736)	(943,673)	(137,001)	(7,934,410)	(735,028)
<i>Cash and cash equivalents, January 1 (including \$13,529,359, \$5,391,364 and \$27,554 for the Solid Waste, Three Rivers and Nonmajor Enterprise funds, respectively, reported in restricted accounts)</i>	28,579,283	9,174,845	4,116,073	41,870,201	11,272,316
<i>Cash and cash equivalents, December 31 (including \$6,689,724, \$5,397,659 and \$36,130 Solid Waste, Three Rivers and Nonmajor Enterprise funds, respectively, reported in restricted accounts)</i>	\$ 21,725,547	\$ 8,231,172	\$ 3,979,072	\$ 33,935,791	\$ 10,537,288

**Reconciliation of operating income to net cash provided (used) by operating activities**

Operating income (loss)	\$ (1,225,526)	\$ 592,277	\$ (1,418,230)	\$ (2,051,479)	\$ (1,035,641)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	1,100,471	4,004,259	750,605	5,855,335	876,136
(Increase) decrease in accounts receivable	174,947	11,068	53,540	239,555	707
(Increase) decrease in due from other funds	(1,882)	(429,285)	119	(431,048)	(188,518)
(Increase) decrease in due from other governments	51,138	(30,443)	(5,015)	46,123	(58,860)
(Increase) decrease in inventory	(26,783)	(1,325)	-	(57,226)	(28,703)
(Increase) decrease in prepaid expense	(647)	(1,325)	8,077	6,105	(62,884)
Increase (decrease) in accounts payable and other accrued liabilities	1,009,387	63,133	39,547	1,112,067	(122,141)
Increase (decrease) in employee leave benefits	1,080	2,252	(29,720)	(26,388)	(15,988)
Increase (decrease) in customer deposits	-	-	(2,642)	(2,642)	-
Increase (decrease) in estimated future claims payable	-	-	-	-	349,176
Miscellaneous revenue	71,166	2,815	60,801	134,782	206,255
<i>Total adjustments</i>	2,378,877	3,622,474	875,312	6,876,663	955,180
<i>Net cash provided by operating activities</i>	\$ 1,153,351	\$ 4,214,751	\$ (542,918)	\$ 4,825,184	\$ (80,461)

**Noncash Investing, Capital and Financing Activities**

Contribution of infrastructure asset from Developer	-	-	59,372	-	-
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The notes to financial statements are an integral part of this statement

**Cowlitz County, Washington**  
**Statement of Fiduciary Net Position**  
**December 31, 2012**

<b>Assets</b>	<u><b>Agency Funds</b></u>
Cash, cash equivalents & pooled & pooled investments	\$ 162,799,602
Taxes Receivable	5,084,418
Assessments receivable, current	66,160
Total assets	<u><u>\$ 167,950,181</u></u>
<b>Liabilities</b>	
Due to other governments	\$ 158,524,640
Warrants payable	9,425,541
Total liabilities	<u><u>\$ 167,950,181</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** is a five-member board appointed by the Cowlitz County Commissioners. The members are volunteers and serve a four-year term. 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 are 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 except 60 days for property taxes. 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.
- *Community Mental Health Fund* accounts for state and federal restricted grant monies received by the county that is disbursed to various local agencies for services to the community involving community mental health, substance abuse, and developmental disabilities.
- *2006 Debt Service Fund* accounts for resources accumulated and payments made for principal and interest on the 2006 Special Sewer Revenue Bonds. See the prior period adjustment for dissolution of this fund.
- *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 site and the maintenance of the closed portion of landfill.
- *Three Rivers Regional Wastewater Authority* accounts for operations of wastewater treatment.

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.
- *Nonmajor enterprise funds* which provides services to customers and other agencies in the form of water sewer, 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 process 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.

#### **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.

##### ***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.

Special assessments are recorded when levied. The special assessments owed to Cowlitz County for the 1999 debt service bonds fund, a non-major fund, as of December 31, 2012 is \$342,342. The County has no delinquent special assessments at December 31, 2012.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). 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***

Deferred outflows of resources represents a consumption of net position by the government that is applicable to a future reporting period. This is an amount recognized as deferred amount on refunding of debt that will be amortized to interest expense over the life of the refunding bond issue.

### ***5. Restricted net position***

- a) for economic environment totals \$2,790,389 consisting of \$191,986 for emergency financial assistance to veterans and their surviving spouses; \$1,560,137 is restricted per RCW 36.22.178 for housing projects or units with housing projects for low income, operating costs for emergency shelters and rental assistance; \$6,369 for grants in the housing and essential needs fund, and \$1,031,897 provided from state 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 job in the County.
- b) For general government \$885,847 consisting of \$148,996 Treasurer’s Operation and Maintenance; \$468,192 Auditor’s Operation and Maintenance; \$113,035 for cumulative reserve; and \$155,624 for REET technology.
- c) for transportation \$3,010,100 consisting of Road Fund net position of \$2,797,024 and Paths & Trails Fund net position of \$213,076.
- d) for health \$351,731 in Community Mental Health Fund net position,.
- e) for culture and recreation \$218,594 which is restricted for promotion of tourism.
- f) for public safety \$96,105 consisting of \$14,251 for boat safety purposes; and the balance is to eradicate drug trafficking.
- g) for judicial \$79,950 for superior court law library.
- h) for physical environment \$812,644 consisting of \$499,520 for storm water, \$249,843 noxious weed programs and \$63,281 for capital improvement programs.

## 6. Capital Assets

Capital assets include land, land improvements, buildings, building improvements, vehicles, 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 estimated fair market value at the date of donation.

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 constructed. 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	15-70 years

## 7. Deferred inflows of Resources

Deferred inflows of resources are an acquisition of net position by the County that is applicable to a future reporting period. These are amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

## 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. 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, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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.

**10. Fund Balance Classification**

The County fund balances are classified into five categories in accordance with Statement 54 from the Governmental Accounting Standards Board: nonspendable, 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 is committed when the Board of County Commissioners commits a revenue source to a specific purpose by formal resolution. 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 nonspendable, restricted or committed.

**11. 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.

**12. Detailed Fund Balance Constraints**

Fund Balances:	General	County Road	Community Mental Health	Capital Improve- ments	Nonmajor Governmental Funds	Total
<b>Nonspendable for:</b>						
Long Term Receivable	\$ -	\$ -	\$ -	\$ 795,915	\$ -	\$ 795,915
<b>Restricted for:</b>						
Mental & Physical Health			351,731			351,731
Transportation		2,797,024				2,797,024
Debt Service	4,880,000				3,665,403	8,545,403
REET Technology				155,624		155,624
Physical Environment				63,281	749,363	812,644
Economic Environment				1,031,897	1,758,492	2,790,389
Transportation					213,076	213,076
Culture & Recreation					218,594	218,594
Judicial					79,950	79,950
Treasurer's O&M					148,996	148,996
Auditor's O&M					468,192	468,192
Public Safety					96,105	96,105
Utilities & Environment					113,035	113,035
<b>Assigned to:</b>						
Transportation		6,086,215				6,086,215
Capital Improvements				2,305,118	-	2,305,118
Utilities & Environment					453,434	453,434
Mental & Physical Health					1,507,961	1,507,961
Public Safety					601,746	601,746
<b>Unassigned</b>	<u>7,537,483</u>					<u>7,537,483</u>
	<u>\$ 12,417,483</u>	<u>\$ 8,883,239</u>	<u>\$ 351,731</u>	<u>\$ 4,351,835</u>	<u>\$ 10,074,347</u>	<u>\$ 36,078,635</u>

**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:

Gen'l. Obligation Bonds payable	\$ 15,512,750
Add: Deferred amounts for premiums/refundings	719,125
Special assessment bonds payable	1,470,682
Compensated absences	2,791,074
OPEB Liability	1,988,855
Notes Payable	367,500
Accrued interest payable	<u>83,765</u>

Net adjustment to reduce <i>fund balance governmental funds</i> to Arrive at <i>net position-governmental activities</i>	<u>\$ (22,933,751)</u>
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**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net *changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. 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)	\$(7,276,321)
Depreciation expense	4,520,819
Net adjustment to increase <i>net changes in fund balances- total Governmental funds</i> to arrive at <i>change governmental activities</i>	<u>\$2,755,502</u>

Another element in the reconciliation of long-term debt (e.g. bonds) provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of 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:

Amortization of charges for discount and premium	\$ 36,886
Principal receipts	(10,581,500)
Premium and deferred amounts on refunding	(326,847)
Principal repayments:	
General obligation bonds	9,700,000
Special revenue bonds	187,000
Note Payable	70,000
Special assessment bonds	
Net adjustments to decrease <i>fund balances-total governmental funds</i>	
To arrive at <i>changes in net position of governmental activities</i>	<u>\$ (914,461)</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.

Interest payable	\$ 230,603
OPEB Expense	(209,630)
Inventory	(48,738)
Compensated absences	<u>(46,025)</u>
Net adjustment to decrease <i>net changes in fund balances-total</i>	
<i>Governmental funds to arrive at changes in net position of governmental</i>	
<i>Activities</i>	<u>\$ (73,790)</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 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 a supplemental appropriation resolution approved by the Board of County Commissioners at a public meeting. Any revisions that alter total expenditures of a fund or that affect the number of permanent employee positions, salary ranges, hours or the county commission must approve other conditions of employment.

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 \$64,300 and transfers out to support other County funds by \$254,901. 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.

e. Deficit Net position/Fund Balance

Industrial Accident Insurance had a deficit net asset balance of \$306,046 at December 31, 2012. The deficit is due to recognition of an estimate for projected future year's pay out on the industrial accidents incurred of \$324,000. At December 31, 2012 the fund had \$19,865 in cash and investments as well as \$4,163 in current receivables to meet current payables of \$115,488.

Risk Management had a deficit net asset balance of \$244,377 at December 31, 2012. At December 31, 2012 the fund had \$1,275,332 in cash and investments to meet current payables of \$721,440.

**NOTE 4 – DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

The county's deposits and certificates of deposit are entirely covered by federal depository insurance FDIC or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All of the county's investments are held in the County's name.

As of December 31, 2012, Cowlitz County had the following investments:

	Maturities- Weighted Average Days	Fair Value			
		Fair Value County Investments	Investments held by County as agent for other local governments		Total
WA State Investment Pool	60	\$ 73,317,813	\$ 141,211,279	\$ 214,529,092	
Federal Home Loan Bank		\$ 7,101,704	\$ -	\$ 7,101,704	
Total Investments		\$ 80,419,517	\$ 141,211,279	\$ 221,630,796	

The County's investments in the Federal Home Loan Bank are rated AA+ as of December 31, 2012 by S&P. Investments were purchased for landfill post closure requirements.

	Fair Market Value	Interest Rate	Purchase Date	Maturity Date
Federal Home Loan Bank	\$ 7,101,704	2.4%	5/31/2012	8/8/2013

*Internally Pooled Investments* - County monies are invested by certain individual funds for the benefit of the respective fund. The remaining County monies are aggregated in a residual account, and invested in an internal pool for the benefit of the General fund.

Pooled investments, during 2012, included Certificates of Deposit, monies invested with the Washington State Local Government Investment Pool and money market accounts. The book value of the pooled investments on December 31, 2012 was \$12,674,127. All of which is classified as deposits. The interest earned on the pooled investments accrues to the County General Fund in accordance with state law.

*Interest Rate Risk* - The County does not have a formal written investment policy that limits the investment maturities as a mean of limiting exposure to fair value losses arising from increasing interest rates. However, the County has held investments to maturity therefore not being subject to loss due to current market values.

*Credit Risk* – State law limits investments to obligations of the U.S. Government, the State Treasurer’s Investment Pool, bankers acceptances, deposits with Washington State banks and savings and loan institutions and certain other governmental obligations. The County’s investment policy does not further limit its investment choices.

*Concentration Risk* – Concentration risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Treasurer’s policy requires that the portfolio be structured to diversity investments to reduce the risk of loss by over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. U.S. treasuries and federal agencies that have fixed rates are not limited because they carry little credit risk.

As of December 31, 2012, the county’s investment in the state investment pool was not rated.

*Washington State Investment Pool* - The State Treasurer’s Investment Pool was created by the Washington State Legislature in 1986 and is administered by the State Treasurer. Additionally, the State Finance Committee adopts and administers appropriate rules relating to the State Treasurer’s Investment Pool. The State Treasurer created the Local Government Investment Pool Advisory Committee to give advice on the operation of the pool. The committee is comprised of 12 members selected from active pool participants. Washington statutes and the federal Single Audit Act of 1984 require an annual single audit of the state including the State Treasurer’s Office. In addition, the pool contracts with the State Auditor’s Office for an outside independent audit of the pool’s financial statements.

*Total Cash, Cash Equivalents, Pooled Investments, and Investments* - Total cash and cash equivalents, and investments at fair value (excluding discretely presented component units) on December 31, 2012 of \$240,642,802.

A reconciliation of cash, cash equivalents, pooled investments, and investments as shown on the fund statements is as follows:

Checking Accounts	\$ 16,861,791
Petty Cash	76,590
Deposits Held in Trust	114,408
Certificate of Deposits (classified as deposits)	208,528
State Investment Pool (classified as deposits)	215,567,765
Money Market (Pooled investments classified as deposits)	1,750,689
Investments, FMV	7,101,704
	<u>\$ 241,681,475</u>
Cash, cash equivalents, pooled investments	\$ 57,927,257
Cash, cash equivalents, pooled investments - restricted	19,915,943
Cash, cash equivalents, pooled investments - component unit	559,895
Cash, cash equivalents, pooled investments - component unit - restricted	478,778
Cash, cash equivalents, pooled investments - fiduciary	162,799,602
	<u>\$ 241,681,475</u>

**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 when levied. Property taxes collected in advance are recorded as deferred revenue and recognized in the period to which they apply. The county may levy up to \$1.80 per \$1,000 of assessed valuation for general government services and \$2.25 per \$1,000 for roads. However, any county is authorized to increase its general levy from \$1.80 to \$2.475 per \$1,000 of assessed valuation if the total levies for both the general and road district levies do not exceed \$4.05 per \$1,000 of assessed valuation. Levies are subject to the following limitations.

- a. Washington State law in RCW 84.55.0101 limits the growth of regular property taxes to 1 percent per year of the amount of regular property taxes lawfully levied for such district.
- b. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, junior taxing districts' levies are reduced by order of seniority, beginning with cemetery districts.

The county assessed valuation, levy and taxes for 2012 were:

<u>Purpose</u>		<u>Valuation</u>	<u>Rate Per \$1,000</u>	<u>2012</u>
General Fund	\$	9,196,853,386	\$1.829	\$ 16,816,722
Human Svcs/Mental Hlth	\$	9,196,853,386	\$0.025	\$ 229,921
Veterans Relief	\$	9,196,853,386	\$0.011	\$ 103,465
County Roads	\$	4,848,724,012	\$2.039	\$ 9,884,250

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

In 2012 the General Fund for law enforcement purposes as permitted by state law codified in RCW 36.33.220 used \$558,321 of the road taxes. Special levies approved by the voters are not subject to the limitations listed above.

**C. RECEIVABLES**

Receivables as of year-end including "Due From Component Unit" for the government's individual major funds and non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for non-collectible accounts; and excluding interfund receivables, are as follows:

Fund	Taxes	Accounts	Special Assessments	Due From other Gov'ts	Interest & Penalties	Due From Component Unit	Total
General	1,771,749	1,541,052	-	1,303,404	1,407,933	4,880,000	10,904,138
County Road	841,413	7,276	-	963,891	-	-	1,812,580
Community Mental Health	-	-	-	484,014	-	-	484,014
Capital Improvements	234,004	-	-	842,725	-	-	1,076,729
Non-Major Gov't	20,783	22,409	342,342	3,085,496	-	-	3,471,030
Internal Service Funds	-	1,976	-	239,863	-	-	241,839
Solid Waste	-	265,170	-	405,056	453	392,736	1,063,415
TRRWA	-	1,790	-	499,399	-	-	501,189
Non-major Enterprise Funds	-	179,112	-	330,210	-	-	509,322
<i>Total Receivables</i>	<u>2,867,949</u>	<u>2,018,785</u>	<u>342,342</u>	<u>8,154,058</u>	<u>1,408,386</u>	<u>5,272,736</u>	<u>20,064,256</u>

The due from other government's column includes intergovernmental loans, and notes receivable owed to the Capital Improvements Fund (rural county public facilities department) of \$795,915 at December 31, 2012. These notes receivable are long-term and consist of the following:

Capital Improvement Fund - Notes Receivable					12/31/2012
	Int. rate	Qtrly/Annual Pmts	Final Pmt.	Balance	
Port of Woodland	3.20%	\$ 6,250.50	3/31/2026	\$291,146	
Port of Woodland	4.00%	5,916.21	3/31/2022	173,448	
Port of Longview	3.00%	22,954.79	7/1/2024	227,903	
City of Kalama	1.00%	7,602.15	1/31/2031	67,694	
City of Castle Rock	1.00%	5,309.60	1/31/2019	35,724	
Total Notes Receivable				\$795,915	

The Due from Component unit represents receivable for bond issued by Cowlitz County that the Public Facilities District received the proceeds on and have agreed to pay the principal and interest on the debt service as it becomes due.

Governmental funds report *deferred flows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also, defer revenue recognition in connection with resources that have been received, but not yet earned. At year-end, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	\$ 957,675	
Interest & penalty on taxes receivable (Gen. Fund)	1,407,934	
Court Receivables (Gen Fund)	1,295,266	
Property taxes receivable (Road Fund)	418,281	
Non major governmental funds		
Special Assessments receivable	342,342	
Property taxes receivable	18,752	

## D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Land	\$ 11,305,666	\$ 357,939	\$ -	\$ 11,663,605
Construction in progress	1,248,651	6,980,689	3,922,236	4,307,104
Total capital assets, not being depreciated	<u>12,554,317</u>	<u>7,338,628</u>	<u>3,922,236</u>	<u>15,970,709</u>
Capital Assets, being depreciated				
Buildings	48,589,103	211,769	-	48,800,872
Improvements other than buildings	6,816,127	267,548	-	7,083,675
Machinery and equipment	17,185,532	1,662,946	752,794	18,095,684
Intangible	1,087,512	-	-	1,087,512
Infrastructure	132,666,661	3,073,582	40,907	135,699,336
Total capital assets being depreciated	<u>206,344,935</u>	<u>5,215,845</u>	<u>793,701</u>	<u>210,767,079</u>
Less accumulated depreciation for:				
Buildings	16,726,605	1,133,467	-	17,860,072
Improvements other than buildings	3,387,061	217,806	-	3,604,867
Machinery and equipment	10,875,291	1,012,168	742,739	11,144,720
Intangible	1,016,631	13,598	-	1,030,229
Infrastructure	42,409,199	3,019,916	11,344	45,417,771
Total accumulated depreciation	<u>74,414,787</u>	<u>5,396,955</u>	<u>754,083</u>	<u>79,057,659</u>
Total capital assets being depreciated, net	<u>131,930,148</u>	<u>(181,110)</u>	<u>39,618</u>	<u>131,709,420</u>
Governmental capital assets, net	<u>\$ 144,484,465</u>	<u>\$ 7,157,518</u>	<u>\$ 3,961,854</u>	<u>\$ 147,680,129</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 1,735,140	\$ -	\$ -	\$ 1,735,140
Construction in progress	1,189,042	3,392,992	1,021,262	3,560,772
Total capital assets, not being depreciated	<u>2,924,182</u>	<u>3,392,992</u>	<u>1,021,262</u>	<u>5,295,912</u>
Capital assets, being depreciated:				
Buildings and system	112,972,520	1,159,617	-	114,132,137
Improvements other than building	10,515,200	-	-	10,515,200
Machinery and equipment	5,359,855	-	202,922	5,156,933
Intangible	1,455,614	264,776	-	1,720,390
Total capital assets, being depreciated	<u>130,303,189</u>	<u>1,424,393</u>	<u>202,922</u>	<u>131,524,660</u>
Less accumulated depreciation for:				
Buildings and system	37,021,983	4,400,559	-	41,422,542
Improvements other than buildings	7,591,324	962,110	-	8,553,434
Machinery and equipment	3,231,492	442,498	173,223	3,500,767
Intangible	1,439,161	50,169	-	1,489,330
Total accumulated depreciation	<u>49,283,960</u>	<u>5,855,336</u>	<u>173,223</u>	<u>54,966,073</u>
Total capital assets, being depreciated, net	<u>81,019,229</u>	<u>(4,430,943)</u>	<u>29,699</u>	<u>76,558,587</u>
Business-type activities capital assets, net	<u>\$ 83,943,411</u>	<u>\$ (1,037,951)</u>	<u>\$ 1,050,961</u>	<u>\$ 81,854,499</u>

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

**Governmental activities:**

General Government	\$ 150,238
Public Safety	952,221
Judicial	84,885
Transportation	3,082,922
Economic Environment	3,734
Health	48,057
Culture & Recreation	198,762
Capital assets held by the government's Internal Service funds are charged to the various functions based on their usage of the assets	876,136
	<u>\$ 5,396,955</u>

**Business-type activities:**

Water/Sewer	\$ 361,741
Three Rivers	4,004,259
Solid Waste-Landfill	1,100,471
Public Safety	369,110
Expo Center	19,755
Total depreciation expense-business-type activities	<u>\$ 5,855,336</u>

Commitments: In 2011, a \$2.5 million contract for the purchase of a new dispatch system for 911 Communications was approved with work to start in 2012. Additionally, the County embarked on an energy upgrade project in 2012 for \$2.6 million which is projected to decrease utility costs. The Water Sewer Fund began work on the Toutle Sewer Pump Station Rehabilitation project in 2012 with an awarded contract amount of \$671,726.

At the end of December 31, 2012, Three Rivers Region Wastewater had construction projects in process. Project costs through December 31, 2012 were \$235,426. Existing funds of the utility are used to fund project costs. Accumulated costs for the individual projects are as follows:

- Vactor Pumping Bed Facility \$27,957. Bids were received and opened in May 2013, but not yet awarded. Lowest construction bid was approximately \$886,000.
- Energy Project Blowers \$196,340. Project is essentially complete.
- RDP Platform Access \$11,129. The bid process is anticipated for mid 2013. Engineer's estimate is approximately \$130,000.

**Discretely Presented Component Unit – Public Facilities District**

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning	Increases	Decreases	Ending
Capital Assets being depreciated:				
Buildings	\$ 5,923,279	\$ -	\$ -	\$ 5,923,279
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	18,319,722	-	-	18,319,722
Less: accumulated depreciation for:				
Buildings	770,026	118,466	-	888,492
Leasehold improvements	889,506	507,605	-	1,397,111
Improvements other than buildings	247,711	33,680	-	281,391
Machinery and equipment	317,913	40,648	-	358,561
Total accumulated depreciation	2,225,156	700,399	-	2,925,555
Total capital assets, being depreciated net	\$ 16,094,566	\$ (700,399)	\$ -	\$ 15,394,167
<b>Total capital assets, net</b>	<b>\$ 16,094,566</b>	<b>\$ (700,399)</b>	<b>\$ -</b>	<b>\$ 15,394,167</b>

**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 2012:

	General Fund	Capital Improv.	Non-major Govt.	Total
<b>Transfers in:</b>				
General Fund	\$ -	\$ 220,733	\$ 107,460	\$ 328,193
Community Mental Health	-	-	4,085	4,085
Capital Improvement	-	-	21,144	21,144
Nonmajor Governmental	1,096,062	404,824	348,808	1,849,694
Governmental	1,096,062	625,557	481,497	2,203,116
Nonmajor Enterprise	150,000	24,500	33,680	208,180
Internal Service Funds	301,275	-	-	301,275
Total Transfers	\$ 1,547,337	\$ 650,057	\$ 515,177	\$ 2,712,571

**Interfund receivables and payables** consisted of the following as of December 31, 2012:

	Due From:								
	General Fund	Roads	Capital Improv.	Non-major Govt.	Solid Waste	Three Rivers	Non-major Enterprise	Internal Service	Total
<b>Due To:</b>									
General Fund		3,750	13,036	51,460	525		32	30,160	98,963
Road Fund	7,116			1,607	16,374	940	5,177	15,523	46,737
Nonmajor Governmental		1,957		3,894					5,851
Solid Waste	482	201				1,692	65,829		68,204
Nonmajor-Enterprise	406				381			6,668	7,455
Internal Service Funds	56,497	147,767		53,290	149,518	173	8,437	134,555	550,237
Total	64,501	153,675	13,036	110,251	166,798	2,805	79,475	186,906	777,447

## **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**

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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

### **Public Employees' Retirement System (PERS) Plans 1, 2, and 3 Plan Description**

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a

Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

**There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:**

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
<b>Total</b>	<b>261,705</b>

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee’s age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

- \* The employer rates include the employer administrative expense fee currently set at 0.16%.
- \*\* The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
- \*\*\* Plan 3 defined benefit portion only.
- \*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
- \*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.16%.

\*\* Plan 3 defined benefit portion only.

\*\*\*Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$ 58,798	\$ 1,312,698	\$ 284,668
2011	\$ 48,500	\$ 1,128,898	\$ 262,726
2010	\$ 51,250	\$ 974,043	\$ 263,358

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

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<b>Term of Service</b>	<b>Percent of Final Average Salary</b>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

**There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:**

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
<b>Total</b>	<b>27,658</b>

**Funding Policy**

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS’ fiscal year 2012, the state contributed \$52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
Employer*	0.16%	5.24% **
Employee	0.00%	8.46%
State	N/A	3.38%

\*The employer rates include the employer administrative expense fee currently set at 0.16%.  
\*\* The employer rate for ports and universities is 8.62%.

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

	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
2012	\$ 0	\$ 168,010
2011	\$ 0	\$ 170,274
2010	\$ 0	\$ 161,507

**Public Safety Employees’ Retirement System (PSERS) Plan 2  
Plan Description**

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

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

A *covered employer* is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

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

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

**There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:**

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Nonvested	4,020
<b>Total</b>	<b>4,203</b>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	<b>PSERS Plan 2</b>
Employer*	8.87%
Employee	6.36%

\*The employer rate includes an employer administrative expense fee of 0.16%.

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

	<b>PSERS Plan 2</b>
2012	\$ 357,421
2011	\$ 317,205
2010	\$ 390,142

**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 24 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 \$480,775 but only contributed \$271,146 at December 31, 2012. 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, 2012, the most recent valuation date, the liability for benefits was \$6,082,679.

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 two preceding years were as follows:

Year Ending December 31	Annual OPEB		Percentage of Annual OPEB	
	Cost	Contribution	Cost Contributed	Net OPEB Obligation
2012	\$ 480,775	\$ 271,146	56.40%	\$ 1,988,855
2011	\$ 527,742	\$ 250,761	47.52%	1,779,226
2010	538,181	196,013	36.42%	1,437,058

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, 2012, the amount actually contributed to the plans, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 566,381
Interest on net OPEB obligation	80,065
Adjustments to the annual required contribution	(165,671)
Annual OPEB cost (expense)	<u>480,775</u>
Employer Contributions made	<u>271,146</u>
Increase in the net OPEB obligation	209,629
Net OPEB obligation, beginning of year	<u>1,779,226</u>
Net OPEB obligation, end of year	<u>\$ 1,988,855</u>

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	12/31/2012
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	4.50%
Projected Payroll Growth	N/A
Investment Return	N/A
Amortization Method	Open
Amortization Period - Open	15

Additionally, a single retirement age of 56.24 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, 2009 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 2011. 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 one of twenty-seven member counties of the Washington Counties Risk Pool ("Pool"). Other members include: Adams, Benton, Chelan and Clallam, Clark, Columbia and Douglas, Franklin, Garfield, Grays Harbor and Island, Jefferson, Kittitas, Lewis and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Kitsap, Klickitat and Whitman Counties are former Pool members, having terminated their memberships September 30<sup>th</sup> of 2010, 2002 and 2003 respectively.

**Contingent Liability:** The Pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits resulting from any of the Pool's fiscal years are financed by proportional reassessments (aka retroactive assessments) amongst the deficient year's membership. The Pool's reassessments receivable balance at December 31, 2012 was ZERO (\$0) as no contingent liabilities were known to exist at that time.

**Joint Self-Insurance Liability Program:** The Pool has provided its member counties occurrence-based, jointly self-insured and/or jointly purchased liability coverage since October 1, 1988 for 3<sup>rd</sup>-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, including public officials' errors and omissions. Total coverage limits have grown over time, from the \$1 million limit during the Pool's initial two months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million limit existing the past eight years. (Note: Additional limits of \$5 million were offered the past several years for acquisition as a member-by-member option.)

Except for the Pool's self insured retention (the greater of the member's deductible or \$100,000), the initial coverage of at least \$10 million has been fully reinsured since October 1994 by superior-rated commercial carriers. Members annually select a deductible amount of \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000 for each occurrence. The remaining insurance (up to \$15 million) is acquired as "following form" excess insurance, also from superior-rated commercial carriers. There are no aggregate limits to the payments made for any one member county or all member counties combined.

The Pool's claims database increased during Py2012 with the addition of 634 new claims (and lawsuits) raising the 3<sup>rd</sup>-party liability claims to-date total submitted by member counties to 18,616. Estimates of total incurred losses (payments made plus reserved estimates for *open* claims) increased \$5.4 million during the year to \$242.8 million. The Py2012 amount represents just 34% of the corresponding \$16.0M increase in Py2011, 30% of the \$17.8M in Py2010, and only 26% of the \$20.8M annual average during Py2007 – Py2009.

**Washington Counties Property Program (“WCPP”):** Since the Pool began offering the jointly-purchased, fully-insured property insurance coverage to its membership as an individual county option in October 2005, participation has grown by more than 50% and the total value of covered properties has nearly doubled. Twenty six member counties with covered properties totaling nearly \$2.67 billion participated in this program during Py2012.

Coverage is for structures, vehicles, mobile equipment, EDP equipment, etc., and composite limits include \$500 million for normal (All Other Perils) exposures and \$200 million for catastrophe (Flood / Earthquake) exposures. Occurrence deductibles, which the participating counties select annually and which the counties are solely responsible for paying, range between \$5,000 and \$50,000 for the AOP coverage.

Superior-rated commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. There were 7 claims filed during Py2012 by participating counties with incurred loss estimates totaling \$0.35 million. During the WCPP's first seven years as a WCRP optional insuring program, there have been 85 property claims filed with incurred-to-date losses totaling slightly more than \$11 million. With to-date premiums for this coverage totaling nearly \$16.5 million, the program's cumulative loss ratio is 0.667.

**Other Insurances:** Several member counties also use the Pool's producer (broker) for other insurance placements. Public officials bonds, crime (& fidelity), special events/concessionaires, Underground Storage Tanks and other environmental hazards insurance coverages are examples.

**Background:** The Pool was formed August 18, 1988 when several Washington counties approved an Interlocal (Cooperative) Agreement under Chapter 39.34 RCW to provide its member counties with “joint” programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling and risk management. Washington's pools operate under Washington's “pooling” laws, more specifically Chapters 48.62 RCW and 200.100 WAC. They are overseen by the State Risk Manager and subject to fiscal audits performed annually by the State Auditor.

The Pool's mission is: To provide comprehensive and economical risk coverage; to reduce the frequency and severity of losses; and to decrease costs incurred in the managing and litigation of claims. The Pool's core values include: being committed to learn, understand and respond to the member counties' insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool's board of directors and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

The enabling Interlocal Agreement was amended once (in 2000) to add a Membership Compact, a commitment to strengthen the Pool by helping its member counties implement and/or enhance local risk management efforts to reduce losses and support the best management of the Pool and its resources. The intent of the Compact was to obligate member counties to support these goals through three major elements; membership involvement, risk control practices, and a targeted risk management program.

A new member may be asked to pay modest admittance fees to cover that member's share of the Pool's organizational expenses and costs to analyze its loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed

automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for its proportional shares of any unresolved, unreported, and in-process claims for the periods that former member was a signatory to the Interlocal Agreement.

**Governance / Oversight:** The Pool is governed by a board of directors consisting of one director (and at least one alternate director) appointed by each member county. The Pool's board of directors, made up of both elected and appointed county officials, meets three times each year, with the summer meeting being the Pool's Annual Meeting. The board of directors is responsible for determining the 3<sup>rd</sup>-party liability coverage to be offered (approving the insuring document or coverage form), the reinsurance program(s) to acquire and the excess insurance(s) to be jointly purchased or offered for optional purchase by the member counties, for approval of the Pool's annual operating budget(s) and work program(s), and for approval of the member deposit assessment formulas applicable to the ensuing policy year.

Regular oversight of the Pool's operations is furnished by an 11-person executive committee. The committee members are elected by the Pool's board of directors from its membership to staggered, 3-year terms. The committee meets several times throughout the year to approve all Pool disbursements and examine the Pool's financial health; to approve any case settlement exceeding the member's deductible by at least \$50,000, and to review all claims with incurred loss estimates exceeding \$100,000; to evaluate the Executive Director and the Pool's operations and program deliverables; and to participate in the board's standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization's policies and coverage documents.

**Staffing and Support Teams:** The Pool's 6-person claims staff with more than ninety years of combined claims-handling experience handles or oversees the handling of the several hundred liability cases filed upon the Pool's member counties each year. This includes establishing reserves for covered events and estimating undiscounted future cash payments for losses and their related claims adjustment expenses. Other Pool staffers provide various member services, e.g. conducting risk assessments and compliance audits, coordinating numerous trainings, researching other coverages and marketing. Some address and support the organization's administrative needs.

Also, professionals from some of the most respected organizations worldwide are called upon regularly to address specific needs of the Pool. For example, independent actuarial services are furnished by PricewaterhouseCoopers, LLP; independent claims auditing is performed by Startegic Claims Direction with special claims audits frequently performed by the Pool's commercial reinsurers / insurers; insurance producer (broker) and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; and coverage counsel is provided by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend Pool cases, as well as the examinations by and services from the State Risk Manager and the State Auditor.

**Financial Summary:** The following constitute the most significant highlights from the Pool's most recently completed Policy (Fiscal) Year (October 2011 through September 2012):

- **Net Operating Income** realized was \$1.8 million, a 132% year-over-year increase and nearly triple the annual average from the past ten years, 2002-11.
- **Total Assets** grew \$1.0 million (2%) to \$42.1 million. Current assets increased \$1.2 million (3%) while non-current assets decreased \$0.2 million (16%).
- Total **Claims Reserves** for the Pool's direct reserving exposures decreased 2% to \$14.7 million. This total includes: \$4.3 million for losses in the coverage layer retained by the Pool, down 23%; \$9.4 million for the aggregated stop losses in the retained layers associated with the "corridor" program for automobile and general liabilities, up 10%; and \$1.0 million for unallocated loss adjustment expenses, up 17% from one year ago. *NOTE: The corridor program referenced is now six years old yet still not fully matured. Further, its occurrence coverage maximum was increased to \$1.0 million beginning with Py2010, up from the \$0.5 million level that existed during the program's first three years, while the program's occurrence minimum remains the greater of the applicable member's deductible or \$100,000.*

- *Net Position* (formerly referred to as *Net Assets* and also known as *Members' Equity*) increased \$1.8 million to nearly \$12.9 million as of September 30, 2012. Of that total, \$4.8 million is classified as *Restricted Net Position* — \$0.8 million to satisfy the State's solvency provisions (WAC 200.100.03001) plus \$4.0 million for the Pool's Underwriting Policy requirements — and another \$1.0 million is held as *Capital Assets* (net of debt). The remaining \$7.1 million held as *Non-Restricted Net Position*, up from \$4.4 million one year before, is available for use as directed by the Pool's Board of Directors.

Claims and Judgments

1) The County Risk Management Fund provides monies to cover the \$100,000 deductible on general liability insurance and automobile liability. Amounts in excess are covered as described in Note 8 through the Washington Counties Risk Pool. The County based the liability on information provided in year-end information from the Insurance Risk Pool and management judgment.

2) The Industrial Insurance Safety Fund provides payments for workers compensation. The estimated claims payable at December 31, 2012 is based on information provided from State Industrial Tables.

**B. SELF-INSURANCE**

The County maintains insurance against most normal hazards. For general liability and workers compensation the County has elected to retain for losses up to \$100,000 per occurrence. General liability losses in excess of the retention are insured through the Washington Counties Risk Pool to \$500,000. 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, 2012 were \$1,470,782 for general liability and \$324,000 for workers compensation.

The county's changes in aggregate liability were as follows:

	<b>Risk Management</b>	<b>Industrial Insurance</b>	<b>Total</b>
Claims Payable 12-31-10	\$ 882,403	\$ 595,000	\$ 1,477,403
Provision for 2011	341,788	286,138	627,926
Increase (Decrease) in			
Provision for Prior Years	(90,902)	(284,898)	(375,800)
Less:			
Payment of Claims in Current Year Events	53,034	55,740	108,774
Payment of Claims in Prior Year Events	13,149	127,500	140,649
Claims Payable 12-31-11	<u>1,067,106</u>	<u>413,000</u>	<u>1,480,106</u>
Provision for 2012	495,500	137,947	633,447
Increase (Decrease) in			
Provision for Prior Years	235,402	(115,354)	120,048
Less:			
Payment of Claims in Current Yr. Events	25,481	37,404	62,885
Payment of Claims in Prior Yr. Events	301,745	74,189	375,934
Claims Payable 12-31-12	<u>\$ 1,470,782</u>	<u>\$ 324,000</u>	<u>\$ 1,794,782</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 in the amount of \$19,865 at December 31, 2012 available to meet the projected future estimate of claims to be paid out of \$324,000. This results in a December 31, 2012 total net position of (\$306,046).

The Risk Management Fund has \$1,275,332 at December 31, 2012 in net cash and investments to meet actual and projected claims to be paid of \$1,470,782. This results in a December 31, 2012 total net position of (\$244,377).

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, 2012 the fund has a total net position balance of \$86,826 compared to total net position of \$114,517 at December 31, 2011.

## 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) Capital lease information.

#### *1. Description of Primary Government Individual Long-term Liabilities*

<i>Bonds and Other Long Term Liabilities – Governmental Activities</i>	<i>Debt Outstanding</i>
\$700,000 <b>Public Work Building Note Payable</b> 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.	\$367,500
\$6,740,000 of the \$8,565,000 <b>2005 Limited GO Refunding Bonds</b> issued September 9, 2005 to refund certain of the Limited Tax General Obligation Bonds 1998 and Limited Tax General Obligation Bonds 1999 and pay the administrative costs of refunding, issuance and sale of bonds. The 2005 bonds have interest rates of 3% to 4.25% on principal installments of \$50,000 to \$855,000 through November 1, 2023. The remaining \$1,825,000 of this issue is classified as special assessment debt.	\$4,850,000
\$2,500,000 <b>2011 Limited Tax General Obligation Bond</b> 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. \$2,011,500 was drawn down in 2012. The interest rate on the outstanding principal is 3.4% through November 30, 2016. On December 1, 2016, the bond has an interest rate of 4.55% on principal installments. Semiannual principal payments will begin December 1, 2013 through December 1, 2021.	\$2,092,750
\$3,690,000 <b>2012A Limited Tax General Refunding Bond</b> 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 will begin April 1, 2013 through April 1, 2024.	\$3,690,000
\$4,880,000 <b>2012B Limited Tax General Refunding Bond</b> 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 will begin April 1, 2013 through April 1, 2027.	\$4,880,000

<i>Special Assessment Debt</i>	<i>Debt Outstanding</i>
\$172,038 <b>Road Improvement District Special Assessment Bond</b> 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.	\$95,682
\$1,825,000 of the \$8,565,000 <b>2005 Limited GO Refunding Bonds</b> issued September 9, 2005 to refund certain of the Limited Tax General Obligation Bonds 1998 and Limited Tax General Obligation Bonds 1999 and pay the administrative costs of refunding, issuance and sale of bonds. The special assessment portion of the 2005 bonds have interest rates of 3% to 4.25% on principal installments of \$140,000 to \$230,000 through November 1, 2019. The remaining \$6,470,000 of this issue is classified as general obligation bonds.	\$1,375,000

<i>Revenue Debt – Business Type Activity</i>	<i>Debt Outstanding</i>
\$7,000,000 <b>1999 TRRWA Public Works Trust Fund Loan</b> 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.	\$ 2,627,303
\$3,000,000 <b>2001 TRRWA Public Works Trust Fund Loan</b> 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.	\$ 1,425,000
\$653,050 <b>2002 Water Sewer Washington State Department of Community Development Public Works Trust Fund (PWTF) Loan.</b> 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.	\$276,980
\$35,400,000 <b>2002 Special Revenue Refunding Bonds-</b> 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.	\$ 16,720,000
\$1,084,158 <b>2005 Water Sewer PWTF Loan.</b> 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.	\$662,541
\$13,760,000 <b>Special Sewer Revenue Bonds 2006</b> issued June 1, 2006 to provide construction improvements to the wastewater treatment plant. Interest varies from 4.25% to 5.25% with future principal payments of \$470,000 to \$1,090,000 through March 1, 2025. The debt is paid from revenues collected by the Three Rivers Regional Wastewater Authority (TRRWA), an enterprise fund of the County.	\$10,630,000
\$776,287 <b>2006 TRRWA City of Longview</b> , a public works trust fund loan. September 21, 2006 TRRWA received \$750,000 and \$26,387 from the City in June 2007. Interest is .05% per annum with future annual principal payments of \$40,487 beginning June 30, 2007 through June 30, 2025.	\$ 531,144
\$322,035 <b>2008 Water-Sewer PWTF Loan</b> . The funds were for County Water Systems Reservoir Coating The loan has an interest rate of .50% with annual principal payments of 16,949 through July 1, 2027.	\$270,089
\$6,630,750 <b>2008 TRRWA Public Works Trust Fund Loan</b> from State of Washington by TRRWA to replace two clarifiers and associated piping. Interest is 0.5% per annum with future annual principal payments of \$331,538 beginning July 1, 2009 through July 1, 2027.	\$ 5,616,635
\$535,500 <b>2012 Water-Sewer PWTF Loan</b> . 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 bi-annually in the amount of \$28,184.21. The term of the loan is 20 years. As of December 31, 2012, \$535,500 has been drawn from the \$595,000 available.	\$535,500
\$211,719 <b>2010 Water-Sewer DOE Loan</b> . 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 \$6,344.70. The term of the loan is 20 years. As of December 31, 2012, \$211,719 has been drawn from the \$223,157 available.	\$211,719

## 2. DEBT SERVICE REQUIREMENTS TO MATURITY

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

Year Ending <u>December 31</u>	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,080,306	\$ 565,065
2014	1,231,270	556,634
2015	1,279,029	509,437
2016	1,332,054	459,262
2017	1,381,179	420,098
2108-2022	6,208,912	1,213,095
2023-2027	3,000,000	225,725
<b>Total</b>	<u>\$ 15,512,750</u>	<u>\$ 3,949,316</u>

Annual debt service requirements for notes payables are as follows:

<b>Year Ending December 31</b>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2013	\$ 70,000	\$ 551
2014	70,000	446
2015	70,000	341
2016	70,000	236
2017	70,000	131
2018	17,500	26
<b>Total</b>	<b>\$ 367,500</b>	<b>\$ 1,731</b>

Annual debt service requirements for **special assessments bonds** are as follows:

<b>Special Assessment Debt</b>		
<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 165,000	\$ 78,306
2014	180,000	69,231
2015	185,000	59,331
2016	195,000	49,156
2017	205,000	38,431
2018-2021	540,682	52,660
<b>Total</b>	<b>\$ 1,470,682</b>	<b>\$ 347,115</b>

Annual debt service requirements for the **special sewer revenue bonds**, which are paid from revenues collected by Three Rivers Regional Wastewater Authority enterprise fund, are as follows:

<b>Special Sewer Revenue Bonds</b>		
<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 2,635,000	\$ 1,428,719
2014	2,765,000	1,295,900
2015	2,910,000	1,151,063
2016	3,045,000	998,944
2017	3,225,000	835,350
2108-2022	9,655,000	1,820,794
2023-2027	3,115,000	240,106
<b>Total</b>	<b>\$ 27,350,000</b>	<b>\$ 7,770,876</b>

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

<b>Business Type Activites - Intergovernmental Loans</b>		
<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest</b>
2012	1,077,386	79,050
2013	1,077,162	71,898
2014	1,077,268	64,104
2015	1,077,375	56,316
2016	1,077,485	48,516
2017-2021	4,035,518	124,583
2022-2026	2,227,893	47,025
2027-2031	506,824	4,032
	<b>\$ 12,156,911</b>	<b>\$ 495,524</b>

**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.

<b>Public Facilities Dist. – Due to Primary Government (Cowlitz County)</b>	<b>Debt Outstanding</b>
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.	\$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 sales and hotel taxes imposed March 20, 2002 of .033 percent. The interest rate on the outstanding principal ranges from 2% to 4%. Annual principal payments will begin April 1, 2013 through April 1, 2027.	\$4,880,000

<b>Public Facilities Dist. - Notes Payable due to City of Longview</b>	<b>Debt Outstanding</b>
\$6,130,000 from City of Longview, that issued bonds on December 27, 2007 to provide funding for improvements to Columbia Theater for the Performing Arts in Longview received by the District January 8, 2008. Sales and use tax received under EHB2388, effective July 22, 2007 are received to repay this loan. Interest varies from 4.0 % to 5.0% with future annual principal payments of \$85,000 to \$510,000 beginning December 01, 2008 through June 01, 2032.	\$5,685,000

At December 31, 2012, annual Debt service for debt categorized as Due to Primary Government (Cowlitz County) for the Public Facilities District follows:

**Public Facilities District  
Due to Primary Government - Cowlitz County**

	Principal	Interest	Total
2013	\$ 215,000	\$ 164,000	\$ 379,000
2014	230,000	159,550	389,550
2015	245,000	154,800	399,800
2016	260,000	148,450	408,450
2017	275,000	140,425	415,425
2018-2022	1,660,000	548,200	2,208,200
2023-2027	1,995,000	188,900	2,183,900
	<u>\$ 4,880,000</u>	<u>\$ 1,504,325</u>	<u>\$ 6,384,325</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>
2013	\$ 120,000	\$ 239,325	\$ 359,325
2014	130,000	234,325	364,325
2015	145,000	228,825	373,825
2016	155,000	222,050	377,050
2017	175,000	213,800	388,800
2018-2022	1,115,000	942,625	2,057,625
2023-2027	1,595,000	670,408	2,265,408
2028-2032	2,250,000	260,700	2,510,700
	<u>\$ 5,685,000</u>	<u>\$ 3,012,058</u>	<u>\$ 8,697,058</u>

The PFD's bond covenants require the district to maintain a rate stabilization fund for the regional events center, and a revenue stabilization and depreciation reserve account for the Columbia Theater Project. At December 31, 2012, these funds were as follows:

<u>Purpose</u>	<u>Amount</u>
Regional Events Center Rate Stabilization	\$ 288,911
Columbia Theater Revenue Stabilization	41,669
Columbia Theater Depreciation Reserve	148,199
	<u>\$ 478,779</u>

**4. CHANGES IN LONG-TERM DEBT**

**Changes in Governmental Activities General Long Term Debt**

	<u>Balance 1/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2012</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 14,631,250	\$ 10,581,500	(9,700,000)	\$ 15,512,750	\$ 1,080,306
Special Assessment Bonds with governmental commitment	1,657,682	-	(187,000)	1,470,682	165,000
Less amounts: for premium	108,988	647,022	(36,885)	719,125	56,657
	<u>16,397,920</u>	<u>11,228,522</u>	<u>(9,923,885)</u>	<u>17,702,557</u>	<u>1,301,963</u>
Notes Payable	437,500	-	(70,000)	367,500	70,000
Capital Lease					
Other post employee benefits	1,779,226	480,775	(271,146)	1,988,855	-
Compensated Absences	2,745,049	2,509,439	(2,463,414)	2,791,074	-
Capital Lease - Int Svc.	47,489	-	(23,373)	24,116	16,889
Comp. Absences - Int Svc.	162,386	152,876	(172,852)	142,410	-
Claims/Judgements-Int Svc.	1,480,106	753,495	(438,819)	1,794,782	842,194
Total Gen'l Long-Term Debt	<u>\$ 23,049,676</u>	<u>\$ 15,125,107</u>	<u>\$ (13,363,489)</u>	<u>\$ 24,811,294</u>	<u>\$ 2,231,046</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>Balance</u>	<u>Due Within</u>
	<u>1/31/2012</u>	<u>Additions</u>	<u>Reductions</u>		<u>12/31/2012</u>	<u>One Year</u>
Revenue Bonds	\$ 29,870,000	\$ -	\$ (2,520,000)		\$ 27,350,000	\$ 2,635,000
Less:						
premium on bond issuance	1,236,692	-	(141,350)		1,095,342	141,351
Total bonds payable	<u>31,106,692</u>	<u>-</u>	<u>(2,661,350)</u>		<u>28,445,342</u>	<u>2,776,351</u>
Notes Payable-Other Govts.	12,289,025	938,574	(1,070,688)		12,156,911	1,077,386
Landfill Closure and Postclosure Care	13,529,359	842,172	-		14,371,531	6,902,691
Compensated Absences	546,336	459,241	(470,240)		535,337	-
Total Debt	\$ <u>57,471,412</u>	\$ <u>2,239,987</u>	\$ <u>(4,202,278)</u>		\$ <u>55,509,121</u>	\$ <u>10,756,428</u>

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

	<u>1/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u>	<u>Due Within</u>
					<u>One Year</u>
Due to Primary Government Bonds	\$ 5,130,000	\$ 4,880,000	\$ 5,130,000	\$ 4,880,000	\$ 215,000
Notes Payable	392,736	-	-	392,736	-
Less:				0	
For issuance discounts	(58,543)	-	(58,543)	-	
For issuance premiums		388,350	15,102	373,248	25,890
Due to Primary Government (net)	<u>5,464,193</u>	<u>5,268,350</u>	<u>5,086,559</u>	<u>5,645,984</u>	<u>240,890</u>
Notes Payable	5,790,000	-	105,000	5,685,000	120,000
Less deferred amounts:					
For issuance discounts	(42,360)	-	(2,017)	(40,343)	(2,017)
Due to Other Governments (net)	<u>5,747,640</u>	<u>-</u>	<u>102,983</u>	<u>5,644,657</u>	<u>117,983</u>
Total Long Term Debt	\$ <u>11,211,833</u>	\$ <u>5,268,350</u>	\$ <u>5,189,542</u>	\$ <u>11,290,641</u>	\$ <u>358,873</u>

**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)	\$ 109,841,573
General Government (Vote required)	\$ 86,798,764

**6. PRIOR YEAR DEFEASANCE OF DEBT:**

The County defeased certain general obligations bonds by placing the proceeds of the new bonds and/or cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the County's financial statements. At December 31, 2012, \$8,795,000 of bonds outstanding is considered to be defeased.

**7. ADVANCE AND CURRENT REFUNDINGS:**

The County issued \$3,690,000 and \$4,880,000 of 2012A and 2012B general obligation bonds, respectively, to provide resources to purchase securities that were place in an irrevocable trust. The 2012 issue was for the purpose of generating resources for refunding the callable portions of the County's Limited Tax General Obligation Improvement and Refunding Bonds, Series 2003 and 2002, and to pay costs of issuance and sale of the bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities

column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by a net present value savings of \$841,925.

**8. 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 not met at December 31, 2012. The aggregate annual debt service when system development charges are included in revenue was 1.16 and excluding system development charges coverage was 1.14 times the 2012 debt service on bonds. The ratio was not met in 2012 due to decreased charges for services and system development fees. In accordance with Bond Covenants, TRRWA transferred \$305,000 during May 2013 from the rate stabilization fund to satisfy this deficiency.

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, 2012 and 2011, respectively, \$2,965,625 and \$2,961,111 is being held to satisfy this debt service covenant.

In June of 2009, Standard & Poor’s (S&P) lowered its rating on MBIA to A from AA which affects the 2006 Bonds. Over the next five years, Three Rivers will need to establish a reserve account for \$1,120,633. As of December 31, 2012 and 2011, respectively, Three Rivers has \$844,896 and \$543,531 in reserves to begin to satisfy this requirement

**B. CAPITALIZED LEASES**

The County has entered into two separate lease agreements as lessee for computer servers and related equipment. These lease agreements qualify as capital leases for accounting purposes, as, 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 \$40,849 (\$111,607 less accumulated depreciation of \$70,758).

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

2013	17,885
2014	7,454
Total minimum lease payments	<u>25,339</u>
Less amount representing interest	<u>(1,223)</u>
Present value of minimum lease payments	<u>\$ 24,116</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 up to thirty 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.

The County reported \$14.4 million as landfill closure and post closure care liability at December 31, 2012. 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.

The County's 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 twenty year monitoring period. This landfill was treated separately under Washington State regulations. As a result, 100% of the postclosure care costs have been included as a liability, in the amount of \$1.3 million. Although monitoring requirements for this section are 20 years, the County is recognizing 30 years of postclosure monitoring voluntarily, due to the difficulties of monitoring this site separately from the lined site. The voluntary postclosure costs for the additional ten years is included in the liability.

The lined landfill is at 92.5 percent of the estimated refuse capacity at December 31, 2012. As a result, \$13.1 million is reported as landfill closure and post closure care liability, related to this section of the landfill. The county will recognize the remaining estimated costs of closure and post closure care of \$646,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care at the end of 2012. The estimated life for the landfill is 1 years, with final closure in 2013. This landfill will close 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.

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, 2012 the County had \$14.4 million in cash and investments held for these purposes. The amounts are reported as restricted cash and investment on the balance sheet.

## **NOTE 11 – 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 12 – OTHER DISCLOSURES**

### **A. RELATED PARTY TRANSACTIONS**

The Cowlitz County Solid Waste fund currently has a loan receivable issued to the County's discretely presented component unit PFD (Public Facility District) up to \$810,000 to cover shortfalls in retained sales tax receipts. The balance is currently \$392,736. 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 (and is paid annually) at the Washington State Local Government Investment Pool rate.

Additionally, 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 in the amount of \$6.565 million for the construction of the center. 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 2012 was \$183,772. Additionally, in-kind match is provided by Cowlitz County from lodging and sales tax in the amount of \$582,468.

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 \$140,000 for 2012.

## **B. SUBSEQUENT EVENTS**

Landfill Purchase: Cowlitz County is preparing to issue approximately \$31,290,000 of tax-exempt bonds to finance the acquisition of and improvements to a new solid waste landfill, during October 2013. Bond proceeds will be used to (i) pay or reimburse the costs of acquiring and improving a solid waste landfill and constructing associated infrastructure, (ii) pay the costs of issuance and sale of the bonds and (iii) other lawful County purposes. The general indebtedness to be incurred shall be within the limit of up to 1-1/2% of the value of the taxable property within the County permitted for general municipal purposes without a vote of the qualified voters therein.

The County expects to issue the bonds as qualified private activity bonds under Section 142 of the Internal Revenue Code in order to provide the County maximum flexibility in negotiating use terms with Weyerhaeuser and other potential private wholesale customers of the new solid waste landfill. The County will pledge its full faith and credit for repayment of the bonds. It will agree to include debt service payments (both principal and interest) as an expense in annual budgets until the debt is fully retired. The County will agree to levy taxes within its constitutional and statutory tax limitations without a vote of the people and plans to use other money legally available to it for debt service payments on the bonds. Even though the bonds will be secured by the County’s general obligation pledge, the County does not expect to use General Fund dollars for the bond payments since operating revenues from the landfill are expected to be sufficient. The County expects to make two semi-annual payments: June and December each year. The payment in June will be for interest only and the payment in December will include interest and principal. The bonds will be fully paid in twenty (20) years - on or before December 2033.

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.

## C. ACCOUNTING AND REPORTING CHANGES

### GASB 63

The county implemented GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows on Resources, and Net Position issued by the Government Accounting Standards Board in June 2011. This statement identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Further it adds deferred flows to the statement of net position.

### GASB 65

The county implemented GASB Statement 65, Items Previously Reported as Assets and Liabilities, during the year ended December 31, 2012. The statement is effective for financial statements for periods beginning after December 15, 2012. The County refunded debt in 2012 and debt issuance costs are recorded as an expense in the period incurred.

Additionally, the unamortized bond issue costs of \$81,907 (governmental activities) and \$1,728,843 (*Three Rivers Regional Wastewater Authority* (TRRWA) – Proprietary Major Fund) were eliminated as a result of the implementation of GASB 65.

## D. Prior Period Adjustments

The following prior period adjustments were made to the 2012 financial statements:

Reason	Fund Statements	Government Wide Statements
<i>Governmental Activities</i>		
Receivable related to Special Sewer Revenue Bonds, reclassified from due to component unit, now part of business type activities	(11,205,000)	(11,205,000)
Debt related to Special Sewer Revenue Bonds - previously reported as long term bond payable, now presented in Business Type Activities	-	11,205,000
County Road taxes understated in prior year	203,714	203,714
General Fund tax understated in prior year	206,614	206,614
Long-term receivable related to component unit was reclassified into the General Fund	5,130,000	-
Long-term receivable related to component unit was removed from the 2003 LTGO Non Major fund into the General Fund	(5,130,000)	-
Non Major correction of revenue accrual	(15,140)	(15,140)
<b>Total governmental funds/activities</b>	<b>(10,809,812)</b>	<b>395,188</b>
<i>Business Type Activity</i>		
Three Rivers Regional Wastewater Authority (TRRWA) was previously accounted for as a discretely presented component unit of the County. The Washington State Auditor's Office determined TRRWA should be reported as a County fund.	36,184,217	36,184,217
<b>Total proprietary funds / business type activities</b>	<b>36,184,217</b>	<b>36,184,217</b>

### Special Item

The State of Washington Division of Behavioral Health and Recovery (DBHR) proposed in November 2011 to reduce the number of Regional Support Networks (RSNs) across the state from thirteen to six as a way to save the state money and to prepare for health care reform. Legislature

then passed HB 2139 calling for RSNs to be reduced on a voluntary basis and without having to compete with private entities. In August 2012, the Cowlitz County Board of County Commissioners entered into an interlocal agreement with Clark, Cowlitz and Skamania counties to combine administration and coordination of the public mental health services for Cowlitz, Clark, and Skamania counties. On October 1, 2012, the RSN portion of the Cowlitz County Human Services Department known as the Southwest Regional Support Network (SWRSN) was merged into the new agency called Southwest Washington Behavioral Health (SWBH). All contracts, as well as cash reserves in the amount of \$ 2,228,847 held by the SWRSN portion of the Human Services Department (Fund 141-280) were transferred to the new agency on December 31, 2012. Cash reserves transferred were “Operating Cash Advances” used by the SWRSN by contract with DBHR as well as “Risk Reserves” held by SWRSN as required by state law.

**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)
<b>(Note 1 &amp; 2)</b>						
12/31/2007	\$ -	\$ 7,772,118	\$ 7,772,118	0%	\$ 202,510	3838%
12/31/2010	\$ -	\$ 6,379,253	\$ 6,379,253	0%	-	0%
12/31/2012	\$ -	\$ 6,082,679	\$ 6,082,679	0%	-	0%

Note 1 = Actuary valuation conducted every three years.

Note 2 = Alternative method used for valuation.

**COWLITZ COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For the Year Ended December 31, 2012

FEDERAL AGENCY PASS-THRU GRANTOR	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES		NOTE REFERENCE
				FROM PASS THRU AWARDS	FROM DIRECT AWARDS	
					Total	
<b>U.S. Department of Agriculture</b>						
SPI	School Breakfast Program	10.553	none provided	15,702		15,702
SPI	National School Lunch Program	10.555	none provided	23,327		23,327
	Schools and Roads - Grants to States	10.665	none provided	99,359		99,359
	<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>39,029</b>	<b>99,359</b>	<b>138,388</b>
<b>U.S. Department of Commerce</b>						
WA RCO	Pacific Coast Salmon Recovery Pacific Salmon Treaty	11.438	334027 40201	9,615		9,615
	<b>TOTAL DEPARTMENT OF COMMERCE</b>			<b>9,615</b>	<b>-</b>	<b>9,615</b>
<b>U.S. Department of Housing and Urban Development</b>						
WA Commerce	Community Development Block Grant	14.228	12-54000-15	70,765		70,765
	<b>TOTAL DEPARTMENT OF HOUSING</b>			<b>70,765</b>	<b>-</b>	<b>70,765</b>
<b>U.S. Department of Justice</b>						
WA Commerce	Drug Court Discretionary Grant Program	16.585	2010DCBX0063	96,538		96,538
	Violence Against Women Formula Grant	16.588	none provided	30,955		30,955
	State Criminal Alien Assistance Program	16.606	none provided	19,561		19,561
	Bulletproof Vest Partnership Program	16.607	2008-2010 BVP Program	5,796		5,796
WA CJTC	Project Safe Neighborhoods	16.609	none provided	66,267		66,267
WA Commerce	Edward Byrne Memorial Justice Assistance Program	16.738	M1134021007;M1234021007	189,497		189,497
WA Commerce	ARRA Edward Byrne Memorial Justice Assistance Program	16.803	G12NNW0011A	13,385		13,385
	<b>TOTAL DEPARTMENT OF JUSTICE</b>			<b>300,104</b>	<b>121,895</b>	<b>421,999</b>
<b>U.S. Dept of Transportation</b>						
WSDOT	Highway Planning and Construction	20.205	Various	1,582,938		1,582,938
	<b>TOTAL DEPARTMENT OF TRANSPORTATION</b>			<b>1,582,938</b>	<b>-</b>	<b>1,582,938</b>
<b>U.S. Dept of National Highway Traffic Safety Administration</b>						
WASPC	State and Community Highway Safety	20.600	Traffic Safety Equipment	760		760
WTSC	Alcohol Impaired Driving Countermeasures	20.601	DUI	2,874		2,874
WTSC	Occupant Protection Incentive Grants	20.602	Click It or Ticket	899		899
	<b>TOTAL DEPARTMENT OF NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</b>			<b>4,533</b>	<b>-</b>	<b>4,533</b>
<b>U.S. Dept of Environmental Protection</b>						
WA DOE	Activities Relating to the Clean Air Act	66.034	00J67501	337		337
WA DOE	AARA Capitalization Grants for Clean Water State Revolving Funds	66.458	L1050021	77,499		77,499
WA DOE	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C16882	5,193		5,193
	<b>TOTAL DEPARTMENT OF ENVIRONMENTAL PROTECTION</b>			<b>82,692</b>	<b>337</b>	<b>83,029</b>
<b>U.S. Dept of Energy</b>						
WA Commerce	ARRA Energy Efficiency and Conservation Block Grant Program	81.128	F10-52110-023	445,420		445,420
	<b>TOTAL DEPARTMENT OF ENERGY</b>			<b>445,420</b>	<b>-</b>	<b>445,420</b>
<b>Office of Elementary and Secondary Education</b>						
ESD112	Safe and Drug Free Schools	84.184L	Various	245,616		245,616
	<b>TOTAL OFFICE OF ELEMENTARY &amp; SECONDARY EDUCATION</b>			<b>245,616</b>	<b>-</b>	<b>245,616</b>

Note 3

Note 3, 4

Note 3

**COWLITZ COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012**

FEDERAL AGENCY PASS-THRU GRANTOR	FEDERAL PROGRAM NAME	CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES		NOTE REFERENCE
				FROM PASS THRU AWARDS	FROM DIRECT AWARDS	
				Total		
<b>U.S. Dept. of Health &amp; Human Services</b>						
WA Secretary of State	Help America Vote Act Requirements	90.401	G2833	3,153		3,153
WA DSHS	Public Health Emergency Preparedness	93.069	C14945	56,696		56,696
WA DSHS	Environmental Public Health and Emergency Response	93.070	Various	21,623		21,623
WA DSHS	Projects for Assistance in Transition from Homelessness (PATH)	93.150	Various	34,607		34,607
WA DSHS	Substance Abuse and Mental Health Services (ACA)	93.243	Various		292,707	292,707
WA DSHS	Immunization Cooperative Agreements	93.268	C16882	15,173		15,173
WA DSHS	The Affordable Care Act	93.283	C16882	25,000		25,000
WA DSHS	Pregnancy Assistance Fund Program	93.500	C16882	62,650		62,650
WA DSHS	Maternal, Infant and Early Childhood Home Visiting Program (ACA)	93.505	FY13C6ICA	3,102		3,102
WA DSHS	PPHF 2012 Public Health Immunization Infrastructure	93.539	C16882	1,362		1,362
WA DSHS	Temporary Assist for Needy Families	93.558	1163-23151	4,775		4,775
WA DCS	Child Support Enforcement	93.563	Various	560,621		560,621
WA DSHS	Voting Access Individuals With Disabilities	93.617	Various	7,068		7,068
WA DSHS	Medical Assistance Program	93.778	0963-53325	353,719		353,719
WA DSHS	HIV Care Formula Grant	93.917	C16882	2,491		2,491
WA DSHS	Block Grants for Community Mental Health	93.958	1169-35530	60,527		60,527
WA DSHS	Substance Abuse Prevention Block Grant	93.959	1163-27298	214,929		214,929
WA DSHS	Maternal and Child Health Services Block Grants	93.994	C16882	135,519		135,519
<b>TOTAL HEALTH &amp; HUMAN SERVICES</b>				<b>1,563,015</b>	<b>292,707</b>	<b>1,855,722</b>
<b>Executive Office of the President</b>						
	High Intensity Drug Trafficking Areas Program	95.001	G11NW0011A;G12NW0011A	-	75,812	75,812
<b>TOTAL EXECUTIVE OFFICE OF THE PRESIDENT</b>					<b>75,812</b>	<b>75,812</b>
<b>U.S. Dept of Homeland Security</b>						
WSMD	Disaster Grants-Public Assistance PDD	97.036	Various	381,845		381,845
WSMD	Hazard Mitigation Grant	97.039	E10-014	13,109		13,109
WSMD	Emergency Management Performance Grants	97.042	Various	39,106		39,106
	Assistance to Firefighters Grants	97.044	Various		800,000	800,000
WSMD/Clark County	Homeland Security Grant Program	97.067	Various	358,856		358,856
<b>TOTAL DEPT. OF HOMELAND SECURITY</b>				<b>792,916</b>	<b>800,000</b>	<b>1,592,916</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>				<b>\$ 5,136,643</b>	<b>\$ 1,390,110</b>	<b>\$ 6,526,753</b>

**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 federal, state or local grant portion of the program costs. Entire program costs including the county's portion may be more than shown.

**Note 3 - American Recovery And Reinvestment Act (ARRA) of 2009**

Expenditures for this program were funded by ARRA.

**Note 4 - FEDERAL LOANS**

In 2010 the county was approved by the Department of Ecology to receive a loan of \$223,157 for water sewer improvements. The loan is reported on the county's Schedule of Long-term Liabilities.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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

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

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

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

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

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

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**Chief of Staff**  
**Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
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