

COWLITZ COUNTY, WASHINGTON
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 Year Ending December 31, 2005

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Independent Auditor's Report on Financial Statements

Cowlitz County
January 1, 2005 through December 31, 2005

Board of Commissioners
Cowlitz County
Kelso, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz County, Washington, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed on page 10. These financial statements are the responsibility of the County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz County, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4, during the year ended December 31, 2005, the County implemented Governmental Accounting Standards Board Statement 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 24 and budgetary comparison information on pages 68 through 73 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is stylized with large, sweeping loops.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 17, 2006

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, 2005. The discussion emphasizes results for calendar year 2005 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 172.1 million. Net assets invested in capital assets (net of depreciation and related debt) account for nearly 80% of this amount with a value of \$138.4 million. Of the remaining net assets, \$10 million of governmental activity net assets and \$10.3 million of business-type activity is available to meet County ongoing obligations to citizens and creditors, without legal restriction.
- Cowlitz County's total net assets increased by \$9.5 million in 2005. The net assets of business-type activities increased \$2.9 million. Net assets of governmental activities increased by \$6.6 million from 2005 operating activity.
- At December 31, 2005 Cowlitz County's governmental funds reported a combining ending fund balance of \$36.96 million, a decrease of \$.33 million compared to the prior year. The decrease is primarily due to the Capital Improvements Fund expending \$5.4 million in 2005 on construction of the new jail. Also, governmental funds paid the remaining balance owed on a note for the purchase of the Health Department's land and building of \$175,000.
- Unreserved fund balance of the General Fund at December 31, 2005 was \$8.3 million, a 78% increase compared to the December 31, 2004 total of \$4.7 million. The December 31, 2004 unreserved fund balance represents 27 percent of the 2005 General Fund expenditures and transfers out.
- The County Road Fund unreserved fund balance at December 31, 2005 totaled \$6.26 million, an increase of 8.7 % compared to the December 31, 2004 balance. The ending unreserved fund balance represents 45 percent of 2005 road fund expenditures and transfers out.
- Cowlitz County's total long-term debt as of December 31, 2005 totaled \$34.9 million, a net increase of \$193 thousand over the previous year. The County issued \$8.565 million in Limited Tax General Obligation Refunding Bonds to advance refunds \$8.025 million in County debt. Ignoring internal accounting costs the net present value savings was estimated at \$459,153. Also, the County received \$550,208 in notes payable to the State of Washington in November 2005 for improvements to the Ryderwood Water Treatment Plant.
- At December 31, 2005 the County's remaining capacity for non-voted debt is \$ 78.7 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 assets* presents information on all of the Cowlitz County's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases and decreases in net assets 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 assets 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 assets 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 flow 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 2005.)

Both of the government-wide financial statements (statement of net assets 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, operation of a solid waste landfill site, a 911 communication center, maintaining of law enforcement records, emergency services for the County and the exposition center used to host the County fair and other community-wide events.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate entity known as the Three Rivers Regional Wastewater Authority (TRRWA) for which the county has provided for the issuance of bonds to help there financing of construction projects and a legally separate Public Facilities District (PFD) that has a five member board appointed by the Board of County Commissioners and has some debt issued by the County. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The TRRWA board includes Cowlitz County, the cities of Longview and Kelso and the Beacon Hill Sewer District.

The government-wide financial statements can be found on pages 18 and 19 of this report.

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

Some funds are required to be established by state law and by bond covenants. The Board of Commissioners has established many other funds to help it control and manage money for particular purposes or to show that the County is meeting legal responsibilities for using certain taxes, grants and other 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 27 individual governmental funds at the beginning of 2005, which includes the Sheriff's Extradition, and Anti-profiteering Funds that were closed out in 2005. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following: the General Fund, Road Fund, Community Mental Health Fund, 1999 Limited G.O. Bond-debt service fund, the 2003 Limited G.O. and Refunding Bond-debt service fund and Capital Improvements Fund, all of which are classified as major funds, based on criteria established by GASB Statement #34. (GASB Statement #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 21 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. Although not required supplemental information we have provided the Capital Improvements Fund budget to actual in this section too.

The basic governmental fund financial statements can be found on pages 20 and 22 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 Water/Sewer Utility and the Solid Waste Landfill; both are identified as major funds. The 911 Communication Center, 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 on pages 24 through 27 in this report.

Fiduciary Funds of Cowlitz County are used to account for assets held by the county on behalf of other governmental 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 on pages 28 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 assets may serve, over time, as a useful indicator of a government's financial position. Cowlitz County, assets exceed liabilities by \$172.1 million at December 31, 2005 compared to \$162.5 million at December 31, 2004.

Statement of Net Assets. The largest portion of the County's net assets \$138.4 million, (80%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment and infrastructure consisting of roads, bridges, sidewalks and culverts), less depreciation and any related debt used to acquire those assets that is still outstanding.

Prior to 2002, infrastructure (roads, bridges, drainage systems, etc.) was not included in capital assets reported for Cowlitz County. GASB Statement #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, 2005 net of depreciation plus infrastructure construction in progress totals \$75.7 million (54%) of Cowlitz County's capital assets net of related debt.

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 Assets

	Governmental Activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 54,067,752	\$ 55,383,285	19,112,426	15,394,149	\$ 73,180,178	\$ 70,777,434
Capital assets (net of depreciation.	123,471,098	115,766,462	16,142,190	15,751,455	139,613,288	131,517,917
Total assets	<u>\$ 177,538,850</u>	<u>\$ 171,149,747</u>	<u>35,254,616</u>	<u>31,145,604</u>	<u>212,793,466</u>	<u>202,295,351</u>
Long-term liabilities	25,625,769	26,450,187	9,299,054	8,281,368	34,924,823	34,731,555
Other liabilities	5,090,468	4,520,700	657,243	444,824	5,747,711	4,965,524
Total liabilities	<u>30,716,237</u>	<u>30,970,887</u>	<u>9,956,297</u>	<u>8,726,192</u>	<u>40,672,534</u>	<u>39,697,079</u>
Net Assets:						
Invested in capital assets, net of related debt	123,471,098	115,591,462	14,994,232	15,085,008	138,465,330	130,676,470
Restricted	13,385,625	12,396,168	16,811	26,478	13,402,436	12,422,646
Unrestricted	9,965,890	12,190,230	10,287,276	7,307,926	20,253,166	19,498,156
Total net assets	<u>\$ 146,822,613</u>	<u>\$ 140,177,860</u>	<u>\$ 25,298,319</u>	<u>\$ 22,419,412</u>	<u>\$ 172,120,932</u>	<u>\$ 162,597,272</u>

At December 31, 2005 the County has positive balances in governmental and business-type activities and in total net assets. The same situation existed for 2004. Cowlitz County's net assets increased \$9.5 million in 2005 or 5.8% compared to December 31, 2004.

Statement of Changes in Net Assets. Key elements in the net increase of \$9.5 million in net assets for 2005 along with comparative amounts for 2004 follows:

Cowlitz County –Changes in Net Assets

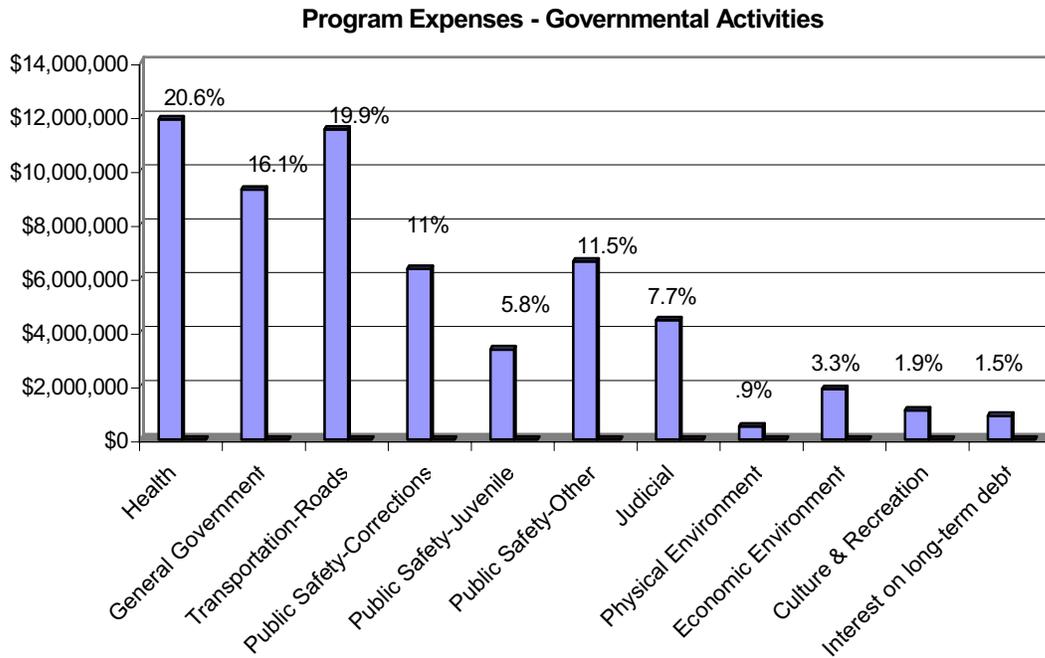
	Governmental Activities		Business-type activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
<i>Program Revenues</i>						
Charges for services	\$ 16,320,508	\$ 15,784,803	\$ 9,452,294	\$ 8,030,469	\$ 25,772,802	\$ 23,815,272
Operating grants & contributions	6,996,064	7,044,471	124,688	202,108	7,120,752	7,246,579
Capital grants and contributions	3,225,002	4,157,198	196,397	29,775	3,421,399	4,186,973
<i>General Revenues</i>						
Taxes	34,329,179	32,118,611	567,882	510,875	34,897,061	32,629,486
Gain on sale of assets	2,257,169	151,486	(14,663)	119,857	2,242,506	271,343
Interest earneds on investments	1,605,591	901,911	493,340	197,687	2,098,931	1,099,598
Total revenues	64,733,513	60,158,480	10,819,938	9,090,771	75,553,451	69,249,251
Program Expenses						
General Government	9,291,636	8,821,373			9,291,636	8,821,373
Public Safety	16,309,818	16,066,891	3,163,432	3,047,487	19,473,250	19,114,378
Judicial	4,437,661	4,305,044			4,437,661	4,305,044
Physical environment	493,548	631,868			493,548	631,868
Transportation-roads	11,514,583	9,766,202			11,514,583	9,766,202
Economic environment	1,883,139	1,965,421			1,883,139	1,965,421
Health	11,887,373	11,905,587			11,887,373	11,905,587
Culture & recreation	1,091,829	1,350,574	990,530	640,839	2,082,359	1,991,413
Solid Waste			2,990,910	2,669,793	2,990,910	2,669,793
Water			687,097	560,756	687,097	560,756
Sewer			402,430	416,118	402,430	416,118
Interest on long-term debt	885,805	1,042,078			885,805	1,042,078
Total Expenses	57,795,392	55,855,038	8,234,399	7,334,993	66,029,791	63,190,031
Excess (deficiency) of revenues over (under) expenses	6,938,121	4,303,442	2,585,539	1,755,778	9,523,660	6,059,220
Transfers	(293,368)	2,204,065	293,368	(2,204,065)	-	-
Change in Net Assets	6,644,753	6,507,507	2,878,907	(448,287)	9,523,660	6,059,220
Net assets January 1	140,177,860	132,477,183	22,419,412	22,729,999	162,597,272	155,207,182
Prior period adjustment		1,193,170		137,700	-	1,330,870
Net assets -December 31	\$ 146,822,613	\$ 140,177,860	\$ 25,298,319	\$ 22,419,412	\$ 172,120,932	\$ 162,597,272

Governmental activities net assets of Cowlitz County increased by \$6.6 million in 2005. It consists of governmental revenues in excess of governmental expenditures by \$6.9 million which is reduced by \$.293 million in governmental transfers out to business-type activities. Governmental activities for 2005 included \$2.25 million from the gain on sale of assets compared to \$.25 million in 2004. The big jump in the gain on sale of assets consisted of \$1.66 million in timber sales from County timberland managed by the State of Washington that benefits the General and Road funds of the County. Also, the Three Rivers Regional Wastewater Authority (TRRWA) paid for land originally purchased years ago by the County for the TRRWA for \$428,569, which was deposited into the Capital Improvements Fund.

Revenues for Cowlitz County totaled \$75.5 million for 2005. Governmental activities provided \$64.7 million (85.6%) while business activities provided \$10.8 million. Taxes of \$32.2 million account for 49.7 percent of 2005 governmental activity revenues compared to \$32.1 million in 2004.

Capital grants and capital contributions for 2005 totaled \$3.23 million in 2005 compared to \$4.15 million in 2004. The large decline was in contributions to roads. In 2004 the road fund received \$950,376 in roads contributed by developers whereas in 2005 donated assets to the road fund totaled \$29,740 representing a decrease of \$920,636.

County governmental activity expenses in 2005 totaled \$57.8 million a 3.4% increase compared to 2004. Program expenses for 2005 are presented in the following chart:



Business type expenses for Cowlitz County in 2005 totaled \$8.23 million in 2005 compared to \$7.33 million in 2004. Expenses included public safety programs consisting of 911 communications, law enforcement records and emergency management \$3.16 million; the garbage/ solid waste utility \$2.99 million; the Water Sewer Utility had \$1.09 million in expenses and the Exposition Center had \$.99 million of expenses in 2005.

Business type activities net assets increased \$2.8 million in 2005, an increase of 12.8% for the year. Charge for service revenues of \$9.4 million accounted for 90 percent of total business revenues.

Other business revenues consisted of \$567,882 in 911 communication taxes. And interest earnings on investments totaled \$493,340 in 2005 compared to \$197,687 in 2004.

The Solid Waste Utility revenue of \$5.19 million accounted for 49% of the business-type revenues reported in 2005. The Solid Waste charge for service revenues totaled \$4.6 million in 2005 an increase of \$.73 million or 18% over 2004. The tonnage handled in 2005 increased by 11 percent. Net assets of the Solid Waste Utility of \$14.8 million increased by \$2.2 million in 2005. Interest income in 2005 totaled \$.44 million compared to \$.18 million in 2004.

The Water-Sewer Utility charge for service revenues totaled \$1.1 million, an increase of 14.9% increase compared to 2004. The Water Sewer net assets increased \$.24 million in 2004 to \$6.5 million.

Exposition Center The Exposition Center operating revenues totaled \$634 thousand in 2005 compared to \$409 thousand in 2004. Operating revenues were higher in 2005 due to a full years operation of the conference center. The County General Fund provided \$196 thousand transfer to support the operations in 2005. The Exposition Center also received a payment from the Public Facilities District of \$151,000. The Exposition Center had a decrease in net assets of \$90 thousand for 2005.

The 911Communications Center operating revenues increased 13 percent in 2005 to \$1.9 million and received \$567 thousand in 911 taxes. The 911 net assets increased \$571 thousand in 2005 to \$2.1 million.

Law Enforcement Records operating revenues for 2005 totaled \$873 thousand, an increase of 10 percent over 2004. Operating expenses of \$892 thousand increased 14 percent over 2004. The Fund had an operating loss of \$19 thousand in 2005. Non-operating revenues totaled \$9 thousand. Net assets totaled \$681 thousand at December 31, 2005, a decrease of \$10 thousand compared to December 31, 2004.

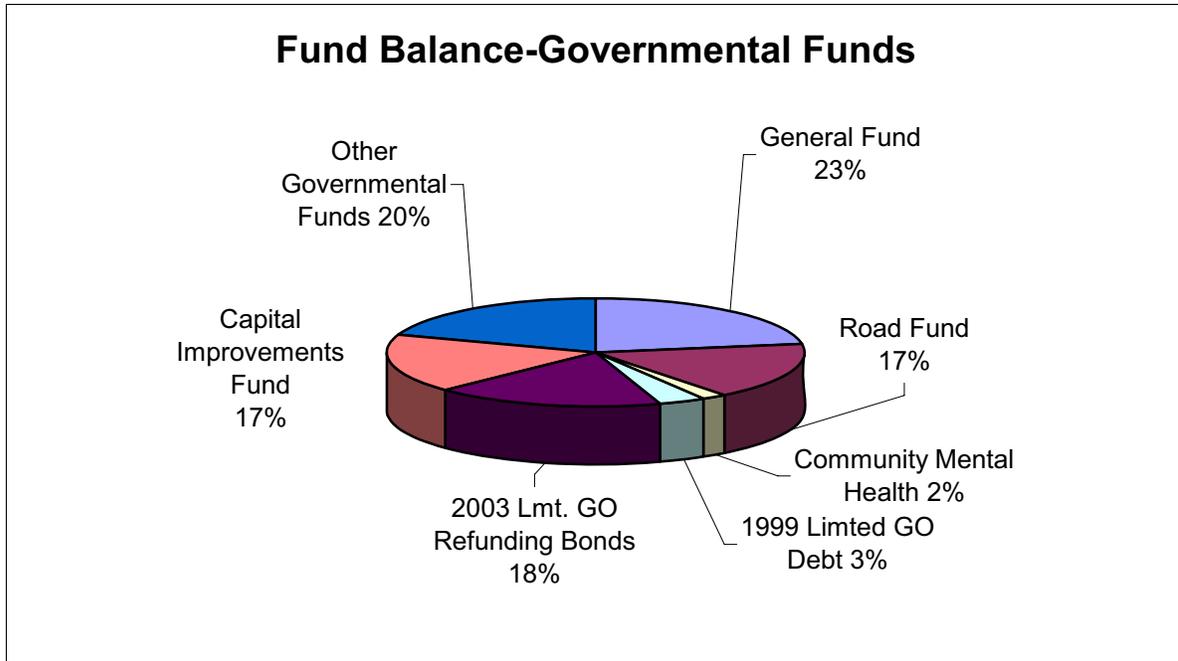
Emergency Management operating expenses of \$254 thousand exceeded operating revenues by \$33 thousand. Net assets totaled \$46 thousand at December 31, 2005 a decrease of \$32 thousand in comparison to December 31, 2004.

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 unreserved 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, Community Mental Health Fund, Debt Service-1999 Limited G.O. Bond, Debt Service 2003 Limited GO and Refunding Bond Debt Service and the Capital Improvements Fund are the County’s major funds. These funds account for 80% of the total governmental fund December 31, 2005 ending fund balance.

	Balance	Percent
General Fund	\$ 8,362,395	23%
Road Fund	6,259,766	17%
Community Mental Health	718,726	2%
1999 Limited GO Debt	1,250,877	3%
2003 Lmt. GO Refunding Bonds	6,665,000	18%
Capital Improvement Fund	6,402,984	17%
Other Governmental Funds	7,305,984	20%
Total Governmental Fund Balance	\$ 36,965,732	100%



The Capital Improvements fund balance was \$6.4 million at December 31, 2005; this represents 17% of the governmental funds fund balance. The Capital Improvements fund balance includes: \$2.3 million for the future construction of the Lexington Bridge traversing the Cowlitz River, \$2.4 million in the Rural County Public Facilities account for public facilities economic development, \$.6 million for completion of the new jail facility and \$1.1 million for other smaller projects.

The debt service funds combined has a \$7.9 million fund balance, which represent receivables owing from other districts for future debt principal. The fund balance for the debt service funds are on the modified accrual basis - the debt associated with those funds does not appear in the governmental funds but does appear on the entity wide statement of net assets offsetting the debt service positive fund balances.

Fund Balances: Discretionary vs. Restricted. As of the end of fiscal year 2005, Cowlitz County's governmental funds reported combined ending fund balances of \$36.9 million, a \$.33 million decrease compared to the previous year. The most significant decrease in governmental funds is due to \$5.4 million expended in 2005 on new jail construction project, which used monies existing at the beginning of the year for the project.

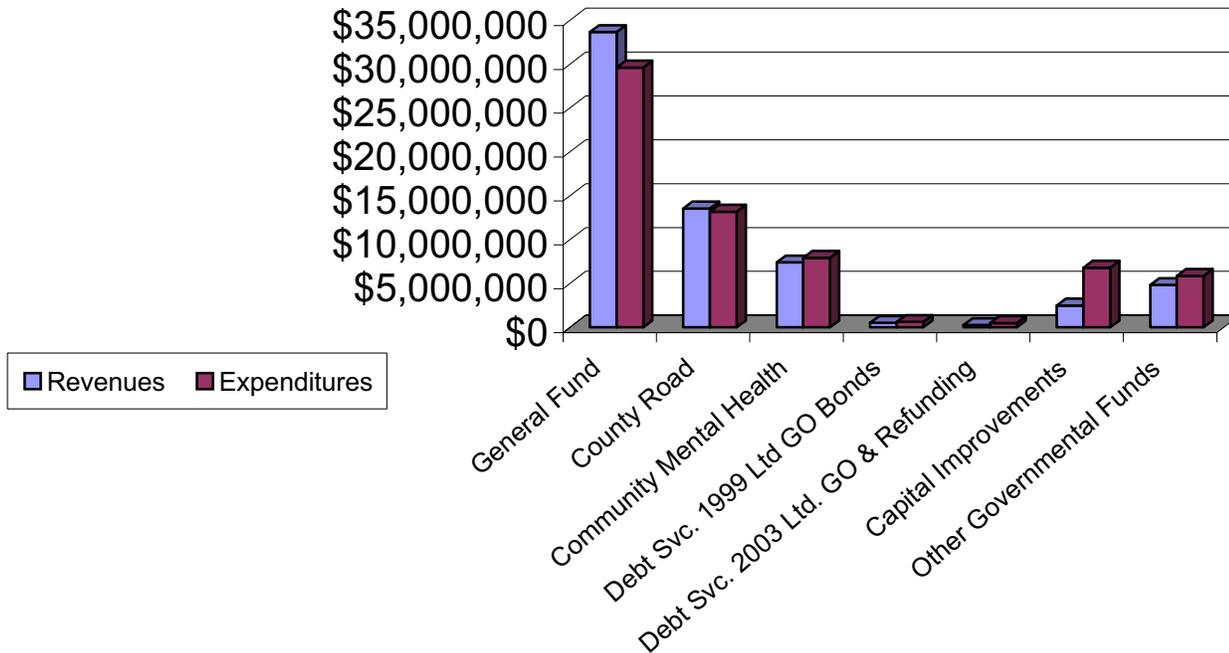
Approximately 65 percent of the governmental funds unreserved fund balance (\$24.3 million) constitutes the unreserved fund balance, which is available for spending within the designated funds. The remainder of fund balance is not available for new spending because it is committed: 1) to pay off bonds the County issued in its name that benefited other districts who have agreed to pay the County in future years (\$7.9 million) and 2) The Capital Improvements Fund has \$2.3 million for construction of the Lexington Bridge and \$2.4 million fund balance restricted for

economic development/public facilities and \$57 thousand received of Federal Forest Funds restricted for forest related education.

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 2005:

	Revenues	Expenditures
General Fund	\$30,043,680	\$29,213,949
County Road	13,010,117	11,630,068
Community Mental Health	7,105,145	7,112,193
Debt Svc. 1999 Ltd GO Bonds	593,290	798,628
Debt Svc. 2003 Ltd. GO& Refunding	249,680	474,680
Capital Improvements	3,129,897	9,781,762
Other Governmental Funds	3,713,371	5,295,801

Governmental Fund Revenues and Expenditures



Governmental fund expenditures for 2005 totaled \$64.48 million exceeding governmental fund revenues of \$62.64 million by \$1.84 million. The revenues above do not include the gain on sale of capital assets of \$2.12 million, which is shown as other financing sources. The gain on sale of

capital assets includes \$1.5 million from timber sales on County timberlands managed by the State of Washington. And the one time sale of land the County sold to the Three Rivers Regional Wastewater Authority \$.42 million. The sale of County timber can vary significantly from year to year. The 2005 timber sales of \$1.5 million were a very good year for the County. From the year 2000 on the only year timber sales exceeded 1 million was 2002 when the County received \$1.6 million. The estimate timber sales for 2006 were budgeted at \$575 thousand that benefit the General Fund and Road Fund of the County.

The General Fund is the chief operating fund of Cowlitz County. At December 31, 2005, the unreserved fund balance of the General Fund was \$8.3 million, which represents 23% of the governmental, funds fund balances total. The General Fund's year-end fund balance increased \$3.6 million in 2005 compared to \$1.2 million decrease for 2004. The General Fund had \$33.6 million in revenues in 2005 compared to \$30 million in 2004. Property tax revenue increased 8% to \$13.6 million, primarily due to a shift of some of the tax levy that had gone to the Road Fund. The 2005 General Fund sales tax revenues totaled \$4.7 million, a 25% increase over 2004. General Fund 2005 expenditures totaled \$29.6 million compared to \$29.2 million for 2004. Public Safety expenditures of the General Fund totaled \$14.9 million, 50 percent of the General Fund expenditures; the sheriff's department expenditures were \$6.7 million an increased 5.6 percent to \$6.07 million.

The General Fund transfers out in 2005 to support other County funds totaled \$1.2 million compared to \$2.38 million in 2004. Transfers out were higher in 2004 due to support for the Capital Improvements Fund of \$1.2 million whereas in 2005 only \$20,000 was transferred from the General Fund to support the Capital Improvements Fund.

The Capital Improvements Fund's 2005 expenditures of \$6.8 million exceeded revenues by \$4.3 million. The total of other financing sources (uses) resulted in a net decrease in the Capital Improvements fund balance of \$4.7 million for the year. The December 31, 2005 fund balance totaled \$6.4 million.

The County Road's fund balance increased \$.5 million to \$6.3 million at December 31, 2005. Total revenues in 2005 were \$13.5 million compared to \$13 million in 2004. Road Fund expenditures for 2005 totaled \$13.2 million in 2005 compared to \$11.6 million in 2004. Road construction expenditures totaled \$4.4 million in 2005 similar to 2004 road construction expenditures and it represents 33% of the road funds 2005 expenditures. Intergovernmental revenues were the primary increase in road revenues for 2005 compared to 2004 with an increase of \$.43 million. The Federal Highway Administration grant funds increased \$1.47 million to \$2.7 million in 2005 while state funding from the County Road Administration Board decreased \$1.2 million to \$.248 million in 2005.

The Community Mental Health's fund balance at December 31, 2005 totaled \$718 thousand a decrease of \$514 thousand in 2005. Revenues were \$7.4 million in 2005 compared to \$7.1 million in 2004. Expenditures were \$7.9 million in 2005 compared to \$7.1 million in 2004. The County contracts with outside parties to provide mental health, substance abuse and developmental disabilities programs.

The County acting as a Regional Services Network (RSN) spent down a portion of its excess risk reserve not contractual required by the state. The RSN did this to implement two hospital diversion programs in 2005 at a cost of \$1 million. The impact of these programs initially created a negative cash flow through 2005 but has generated a savings for 2006. During the 18 months

preceding the diversion program the RSN used the community hospitals and the utilization rate by the County was the highest in the state. The RSN revenues received from the state are reduced by the hospital utilization charges. With the inflated hospital utilization the amounts received from the State for RSN were reduced by the amounts the State paid directly to the hospital. In 2006 the utilization has shifted to reflect the diversion program and decrease actual hospital usage resulting in a positive cash flows in 2006 to the Community Mental Health Fund.

The 1999 Debt Service fund shows expenditures in excess of revenues by \$117 thousand; this difference is made up by transfers into the fund from other County Funds to support debt payments. Transfers in included \$554,925 of 1999 bond proceeds that were expended for Drainage District No. 1 out of the Capital Improvements Fund in 2005. Because the district had agreed to pay their share of the debt proceeds benefiting them the amount was shown as a transfer out of the Capital Improvements Fund and as a transfer into the 1999 Debt Service fund increasing the receivable owed to the debt service fund. Also, with the 2005 refunding of part of the 1999 bond funds a transfer out of \$3,305,000 of the amounts owed from other governments has been moved to the 2005 refunding bond debt service account.

The 2003 Debt Service fund expenditures exceeded revenues by \$235,000 decreasing fund balance to \$6.6 million. The fund balance represents funds owed from discretely presented component units for future debt service payments on the issue.

Proprietary Funds. Cowlitz County’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The December 31, 2005 unrestricted fund balances and changes in unrestricted net assets of the enterprise funds for 2005 were:

	Unrestricted Fund Balance 12/31/05	Increase (Decrease) for Year
Water Sewer	\$ 341,722	\$ (176,821)
Solid Waste	8,507,809	2,897,180
Exposition Center	(33,680)	(50,433)
911 Communications	1,169,673	258,389
Law Enforcement Records	287,621	93,904
Emergency Management	46,803	(31,929)

Net assets includes restricted and unrestricted fund balance. In 2005 the enterprise funds combined net assets increased \$2.87 million, representing 11 percent of the enterprise fund net asset balance as of December 31, 2005.

Enterprise Funds Net Assets Analysis. Cowlitz County has two major enterprise funds, the Solid Waste Fund and the Water Sewer Fund, that account for 84% of the \$25.3 million net assets for all enterprise funds at December 31, 2005.

IV. Budget Analysis

General Fund budgeted expenditures and transfers out for 2005 totaled \$32.29 million an increase \$472,281 over the original budget, a 1.5 percent increase.

General Fund Budgetary Highlights

The net difference between the original General Fund budget for 2005 and the final amended budget was a \$696,525 increase in appropriations, about two percent of the original budget of \$34.7 million. The amended changes to appropriations for 2005 were as follows:

<u>Increases to Budget</u>	<u>Activity</u>
\$ 20,151	General government
139,702	Public safety
17,050	Judicial
67,528	Economic environment
<u>227,600</u>	Transfers Out
472,031	
<u>224,494</u>	Estimated Ending Fund Balance
\$ 696,525	

General government increases represent wage increases of \$8,800 for auditor's department, \$8,986 for the prosecuting attorney's office. The prosecuting attorney diversion program had an increase of budget by \$2,615 for misc. expenses. Non-departmental general government had a net decrease of \$250 that was moved to non departmental physical environment.

Public safety had an increase to the budget of \$71,539 for wages and associated benefits. Also, there was an increase of \$22,563 to the sheriff and \$45,600 to the juvenile budget amending various categories therein.

Judicial budget increases -were for computer software of \$17,050.

Economic environment budget increased of \$67,778 for extra help wages in building and planning.

Transfers out budget increased \$227,600 consisting of \$89,100 for Central Services; \$49,000 for Expo Center; \$63,500 for Elections; \$31,000 for Graphic Information Systems; \$20,000 for Capital Improvements and \$6,000 for Auditor's Operation and Maintainance. Offsetting the increases in transfers out was a reduction of \$31,000 in transfers out to the Road Fund for weed control.

The General Fund estimated revenue budget increased \$730,405. The increase consisted of building permit revenues of \$463,000; grant revenues of \$26,949; charges for services of \$102,356; sales tax revenue of \$138,100. Also, budgeted transfer in increased \$16,370 from the closing of Sheriff Extradition into the General Fund.

During 2005 revenues exceeded budgetary estimates and expenditures were less than budgeted. The General Fund fund balance increased by \$3.6 million in 2005.

V. Capital Assets and Long-Term Debt Administration

Capital Assets. Cowlitz County's investment in capital assets for its governmental and business-type activities as of December 31, 2005 totals \$131.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, and bridges.

The total increase in Cowlitz County's investment in capital assets net of depreciation was \$8.1 million in 2005. This consisted of \$7.7 million in governmental activity capital assets and \$.4 million in business-type activity capital assets.

	COWLITZ COUNTY CAPITAL ASSETS (net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 8,105,999	\$ 8,053,217	\$ 1,148,600	\$ 1,148,600	\$ 9,254,599	\$ 9,201,817
Buildings& Syst. Improve other than Buildings	19,901,107	20,593,695	6,925,499	7,232,403	26,826,606	27,826,098
Machinery&Equip.	2,172,336	2,300,091	4,333,866	4,891,695	6,506,202	7,191,786
Infrastructure	4,860,270	3,882,924	2,126,232	1,960,043	6,986,502	5,842,967
Construction in Progress	70,832,732	69,412,252	-	-	70,832,732	69,412,252
Total	<u>17,598,653</u>	<u>11,524,283</u>	<u>1,607,994</u>	<u>518,714</u>	<u>19,206,647</u>	<u>12,042,997</u>
	<u>\$ 123,471,097</u>	<u>\$ 115,766,462</u>	<u>\$ 16,142,191</u>	<u>\$ 15,751,455</u>	<u>\$ 139,613,288</u>	<u>\$ 131,517,917</u>

Major Capital Asset Events. Major capital assets events during the current fiscal year included the following:

Governmental Type Activities:

The General Government Capital Projects Fund accounted for expenditures for the following projects:

Jail Construction - The construction of the jail was awarded in April 2004 to Woodburn Construction for \$10.2 million. Jail construction expenditures and engineering fees for 2005 totaled \$5.4 million bringing the total from inception to December 31, 2005 to \$12.5 million. Construction of the new jail was basically complete as of May 2006.

The County Road Fund expended \$4.4 million in capital additions in 2005. Some of the major outlays for 2005 were :

Abernathy Creek Bridge	\$832,631
Meeker Drive Bridge	536,707
Scott Hill Road (.22 miles)	321,811
Ventura Drive Pump Station	241,199
South Silver Lake Rd (1.35 Miles)	212,332
Lexington Bridge (engineering)	741,088

Business Type Activities:

The Water-Sewer utility had \$1.15 million of capital outlays in 2005. The major projects were for the Ryderwood water treatment plant with \$.85 million paid to the construction contractor in 2005. The other major project was the Ryderwood sewer collection system replacement with approximate \$.2 million in capital expenditures in 2005.

The 911 Communications Center has \$.49 million in 2005 for some repeater station equipment and microwave systems to be installed in 2006 at the various towers to improve there communications system.

Long-Term Debt. At December 31, 2005 Cowlitz County has \$25.5 million in long-term debt owed from *governmental activities* and \$9.2 million in long-term debt for *business type activities*. Of the governmental activities debt - districts other than the county for portions of the 1999, 2005 and all of the 2003 debt will pay \$13.3 million. The \$13.3 million to be paid by other districts includes \$2.4 million of special assessments owed by owners in the Port of Longview Industrial Park. In case of default by the other districts on the 1999 and 2003 bond issues the county has pledged it resources to pay that debt. The detail of that debt is provided in Note 9 to the financial statements.

The \$6,665,000 outstanding at December 31, 2005 on the 2003 bond issue will be paid from discretely presented component units of the Cowlitz County. The Public Facilities District will pay the \$6.045 million over the next 22 years from sales tax received by the district. And the Central Sewer District will pay \$620 thousand outstanding refunding bonds over the next 6 years.

State statutes limit the amount of general obligation debt the County can issue to 1.5% of assessed value without a vote of the people and to 2.5% with a vote of the people. Based on debt outstanding the county's remaining capacity for debt at December 31, 2005 is \$78.8 million without a vote of the people and \$147.8 million for debt with the vote of the people.

The County issued \$8.65 million in Limited Tax General Obligation Refunding Bonds in 2005 to advance refunds \$8.025 million in County debt. Cowlitz County had an A3 rating from Moody's for the 2005 issue.

COWLITZ COUNTY OUTSTANDING DEBT

General Obligation and Revenue Bonds

	Governmental activities		Business -type activities		Total	
	2004	2004	2004	2004	2004	2003
General obligation bonds	18,988,691	19,946,291	58,540	78,054	19,047,231	20,024,345
Special assessment Bonds with Governmental Commit	2,335,000	2,445,000			2,335,000	2,445,000
Total	21,323,691	22,391,291	58,540	78,054	21,382,231	22,469,345

VI. Economic Factors

The Board of Commissioners considered many factors when setting the 2005 budget, tax rates and fees that will be charged for the business-type activities. One of those factors is the economy.

The population of Cowlitz County for 2005 was estimated at 95,900 an increase of 600 over 2004. The total assessed valuation for the County for 2005 was \$6.89 billion and increase of 2.8 percent compared to the 2004 assessed value. The County property tax rate was \$1.835 per thousand assessed valuation for the County General Fund resulting in \$12.65 million in property taxes levied in 2005 compared to \$12.55 million levied in 2004 based on a \$1.871 per thousand tax rate in 2004. The 2005 County Road tax rate was \$1.983 per thousand assessed valuation, basically the same tax rate as 2004, resulting in \$7.5 million in property taxes billed

Through May of 2006 the County has experienced a faster pace of growth than it has had for a number of years. The median price of a house increased 21.5 percent in the first quarter of 2006 to \$158,000. And again jumped 10.8 percent in April to \$175,000. This is still below the statewide average for house prices. Because of better employment numbers, favorable housing prices in comparison to our neighbors to the south, and the infrastructure put in place for industrial growth the migration of jobs and families has seen a pronounced improvement in Cowlitz County.

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

Cowlitz County's General Fund ending fund balance at December 31, 2005 was \$8.36 million, an increase of \$4.69 million. The General Fund's 2005 expenditures and transfers out totaled \$30.6 million compared to \$31.5 million in 2004. This was a decrease of \$.9 million in 2005 as compared to 2004. Transfers out to support other County Funds decreased by \$1.1 million. Transfers out in 2004 included \$1.2 million to support the Capital Improvements Fund whereas in 2005 the amount transferred in was \$20 thousand accounting for the decrease in transfers out. Expenditures in 2005 were \$29.6 million and increase of \$.4 million or 1.4 percent compared to 2004. The 2006 budget projects a \$2.15 drawdown of General Fund fund balance during the year.

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 provide in this report or requests for additional financial information should be addressed to the Auditor's Office, Cowlitz County, 207 4th Avenue No., Kelso, Wa. 98626.

BASIC FINANCIAL STATEMENTS

The basic financial statements and note disclosures comprise the minimum acceptable fair presentation in conformity with Generally Accepted Accounting Principles (GAAP). Basic Financial Statements include:

Government –wide Financial Statements

(1) **Government-wide Statement of Net Assets-** presents information on all County governmental and business-type assets and liabilities, with the difference reported as net assets.

(2) **Government-wide Statement of Activities-** presents information on all County governmental and business-type revenues and expenses, with the difference reported as change in net assets.

Fund Financial Statements

(3) **Balance Sheet-Governmental Funds-** presents the balance sheet for major funds and aggregated amount for all other governmental funds.

(4) **Reconciliation of the Balance Sheet to the Government-wide Statement of Net Assets.**

(5) **Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds-** presents information for each major fund and aggregated amounts for all other governmental funds.

(6) **Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.**

(7) **Statement of Net Assets-Proprietary Funds-**presents information on all assets and liabilities, with the difference reported as change in net assets for each major enterprise fund and aggregated amounts for all other enterprise funds, as well as a separate column of information for internal service funds.

(8) **Statement of Revenues, Expenses, and Changes in Net Assets-Proprietary Funds-**presents information for each major fund and aggregated information for all enterprise funds as well as a separate column for all internal service funds combined.

(9) **Statement of Cash Flows-Proprietary Funds-**presents information on the sources and uses of cash for each major fund and aggregated information for all other enterprise funds and also a separate column for internal service funds combined.

(10) **Statement of Fiduciary Net Assets-Fiduciary Funds-** presents information on agency fund assets and liabilities.

(11) **Notes to Financial Statements**

Cowlitz County, Washington
Statement of Net Assets
December 31, 2005

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Three Rivers Regional Wastewater Authority	Public Facilities District
ASSETS					
Cash & cash equivalents	\$ 12,096,445	\$ 10,289,552	\$ 22,385,997	\$ 6,641,445	\$ 178,440
Investments	21,554,328	-	21,554,328		
Receivables (net)	13,690,342	783,896	14,474,238	53,690	38,002
Due from component unit	6,665,169	-	6,665,169		
Internal Balances	(79,521)	79,521	-		
Inventories	121,260	7,903	129,163		
Prepaid items	19,329	45,985	65,314	16,621	
Restricted cash and investments- cash and cash equivalents:					
Customer deposits	400	42,603	43,003		
Closure and postclosure		7,862,966	7,862,966		
<i>Capital Assets:</i>					
Land	8,105,999	1,148,600	9,254,599	586,540	
Depreciable assets (net)	26,933,714	13,385,596	40,319,310	52,389,145	7,117,294
Infrastructure (net)	70,832,732	-	70,832,732		
Construction in progress	17,598,653	1,607,994	19,206,647	1,494,348	
Total Assets	177,538,850	35,254,616	212,793,466	61,181,789	7,333,736
LIABILITIES					
Accounts payable & accrued exp.	3,250,978	614,640	3,865,618	657,292	234
Other current liabilities	1,839,090	-	1,839,090		
Customer Deposits	400	42,603	43,003		
Due to primary government					
Deferred revenue	-	-	-		
<i>Noncurrent Liabilities:</i>					
Due within one year	1,099,168	70,851	1,170,019	2,138,662	
Due primary gov. within one yr.				115,000	125,000
Due in more than one year	24,526,601	9,228,203	33,754,804	33,625,190	
Due primary gov. more than one year				505,000	5,817,470
Total Liabilities	30,716,237	9,956,297	40,672,534	37,041,144	5,942,704
NET ASSETS					
Invested in capital assets, net of related debt	123,471,098	14,994,232	138,465,330	17,968,067	1,072,291
Restricted for:					
Economic development	2,895,284		2,754,490		
Health	1,486,330		1,486,330		
Physical environment	126,744		126,744		
Transportation-roads	8,555,013		8,555,013		
Law Enforcement	380,744		380,744		
Culture & recreation	82,304	16,811	99,115		
Unrestricted	9,845,096	10,287,276	20,253,166	6,172,578	318,741
Total Net Assets	\$ 146,822,613	\$ 25,298,319	\$ 172,120,932	\$ 24,140,645	\$ 1,391,032

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, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				Component Units			
	Primary Government				Primary Government				Three Rivers			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Regional Wastewater Authority	Public Facilities District			
FUNCTIONS/PROGRAMS												
<i>Governmental Activities:</i>												
General Government	\$ 9,291,636	\$ 2,844,207	\$ 108,643	\$ 167,906	\$ (6,170,880)	\$ (6,170,880)	\$ (6,170,880)					
Public Safety-Corrections	6,336,671	2,088,740	150,799		(4,097,132)	(4,097,132)	(4,097,132)					
Public Safety-Juvenile	3,353,699	151,545	584,064		(2,618,090)	(2,618,090)	(2,618,090)					
Public Safety-Other	6,619,448	388,155	451,580		(5,779,713)	(5,779,713)	(5,779,713)					
Judicial	4,437,661	2,005,695	623,289		(1,808,677)	(1,808,677)	(1,808,677)					
Physical Environment	493,548	39,741	91,994		(361,813)	(361,813)	(361,813)					
Transportation - Roads	11,514,583	390,998	-	3,057,096	(8,066,489)	(5,937,480)	(5,937,480)					
Economic Environment	1,883,139	2,481,206	26,548		624,615	624,615	624,615					
Health	11,887,373	5,799,165	4,938,313		(1,149,895)	(1,149,895)	(1,149,895)					
Culture & Recreation	1,091,829	131,056	20,834		(939,939)	(939,939)	(939,939)					
Interest on long-term debt	885,805	-	-		(885,805)	(885,805)	(885,805)					
Total governmental activities	<u>57,795,392</u>	<u>18,500,348</u>	<u>6,996,064</u>	<u>3,174,171</u>	<u>(31,253,818)</u>	<u>(31,253,818)</u>	<u>(29,124,809)</u>					
<i>Business-type Activities:</i>												
Water	687,097	550,061	-	46,817		\$ (90,219)	(90,219)					
Sewer	402,430	570,111	-	149,580		317,261	317,261					
Garbage & Solid Waste	2,990,910	4,691,570	65,429		1,766,089	1,766,089	1,766,089					
Public Safety	3,163,432	2,997,501	-		(165,931)	(165,931)	(165,931)					
Culture & Recreation	990,530	643,051	59,259		(288,220)	(288,220)	(288,220)					
Total Primary Government	<u>8,234,399</u>	<u>9,452,294</u>	<u>124,688</u>	<u>196,397</u>	<u>(31,253,818)</u>	<u>1,538,980</u>	<u>(27,585,829)</u>					
Component Unit												
Central Sewer	5,906,347	6,002,133		347,975								443,761
Public Facilities District	582,493	113,118										(571,175)
GENERAL REVENUES:												
Property Taxes					20,871,297		20,871,297					
Sales Taxes					6,286,884		6,286,884					
911 Taxes					-		-					
Other Taxes					7,170,998		567,882					
Investment Earnings					1,605,591		5,041,989					
Gain (loss) on sale of capital assets					2,257,169		2,242,506					
					(293,368)		-					
TRANSFERS												
Total General Revenues & Transfers					<u>37,898,571</u>		<u>37,109,489</u>					<u>238,166</u>
Change in Net Assets					<u>6,644,753</u>		<u>9,523,660</u>					<u>681,927</u>
Net assets - January 1					140,177,860		162,597,272					22,578,304
Prior period adjustment												1,388,648
Net Assets- December 31					<u>\$146,822,613</u>		<u>\$ 172,120,932</u>					<u>\$ 24,140,645</u>
					<u>\$ 25,298,319</u>		<u>1,391,032</u>					<u>(4,509)</u>

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

Cowlitz County, Washington
Balance Sheet
Governmental Funds
December 31, 2005

	Major Funds							Total
			Debt Service					
	General	County Road	Community Mental Health	Debt Service 1999 Lmt. G.O. Bonds	Debt Service 2003 Lmt. G.O. & Ref. Bonds	Capital Improvements	Other Governmental Funds	
ASSETS								
Cash	\$ 1,094,597	\$ 719,901	\$ 340,825	\$ -	\$ 942,957	\$ 1,474,794	\$ 4,573,074	
Investments	7,995,000	4,968,700	1,100,000	330,877	4,782,344	2,377,407	21,554,328	
Receivables (net)	2,510,298	1,881,812	594,305	3,393,795	1,184,017	3,870,248	13,434,475	
Due from other funds	21,990	3,970	-	-	-	5,290	31,250	
Due from component unit	-	169	-	-	6,665,000	-	6,665,169	
Customer deposits	400	-	-	-	-	-	400	
Total assets	\$ 11,622,285	\$ 7,574,552	\$ 2,035,130	\$ 3,724,672	\$ 6,665,000	\$ 7,727,739	\$ 46,258,696	
LIABILITIES								
Accounts payable and other current liabilities	448,969	514,930	1,187,463	-	208,839	173,426	2,533,627	
Payable to other governments	-	-	128,756	-	-	14,481	143,237	
Due to other funds	65,577	114,021	171	-	2,318	10,689	192,776	
Matured bond & interest payable	-	-	-	-	-	-	-	
Deferred revenue	1,566,494	357,986	-	2,473,795	-	-	4,398,275	
Other current liabilities	1,178,450	327,849	14	-	-	223,161	1,729,474	
Customer deposits payable	400	-	-	-	-	-	400	
Interfund loans payable	-	-	-	-	295,177	-	295,177	
Total liabilities	3,259,890	1,314,786	1,316,404	2,473,795	506,334	421,757	9,292,966	
FUND BALANCE								
<i>Reserved for:</i>								
Interfund loans	-	-	-	-	-	-	-	
Long-term loans receivable	-	-	-	700,000	6,425,000	3,305,000	10,430,000	
Capital improvements	-	-	-	-	4,720,320	-	4,720,320	
Physical environment	-	-	-	-	184,262	-	184,262	
<i>Unreserved, reported in</i>								
General Fund	8,362,395	-	-	-	-	-	8,362,395	
Debt Service	-	-	-	550,877	240,000	14,996	805,873	
Special revenue funds	-	6,259,766	718,726	-	-	3,985,988	10,964,480	
Capital project funds	-	-	-	-	1,498,402	-	1,498,402	
Total fund balance	8,362,395	6,259,766	718,726	1,250,877	6,665,000	7,305,984	36,965,732	
Total liabilities and fund balance	\$ 11,622,285	\$ 7,574,552	\$ 2,035,130	\$ 3,724,672	\$ 6,665,000	\$ 7,727,741	\$ 46,258,696	

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 Assets
December 31, 2005

Total fund balances as shown on the Governmental Funds Balance Sheet		\$ 36,965,730
Capital assets 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.)	161,610,736	
Less: accumulated depreciation on the capital assets above	<u>(42,567,696)</u>	
Capital assets net of depreciation		119,043,040
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 assets.		10,506,955
Allocation to enterprise funds share of net (income) loss of internal service funds.		10,940
Prior Years allocation		21,732
Accrued interest receivable was less than interest receivable modified accrual		(39,278)
Assets deferred in governmental funds until they are available for current year expenditure .		4,398,275
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>(24,084,781)</u>
Net assets of governmental activities		\$ 146,822,613

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

Cowlitz County, Washington
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2005

	Major Funds							Total
	General	County Road	Community Mental Health	Debt Service		Capital Improvements	Other Governmental Funds	
				1999 Lmt. G.O. Bonds	G.O. Bonds			
REVENUES								
<i>Taxes:</i>								
Property	\$ 15,151,462	\$ 6,894,676	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,046,138
Sales	4,702,171	-	-	-	1,167,498	-	417,215	6,286,884
Timber Harvest Tax	663,188	704,314	-	-	-	-	-	1,367,502
Other	350,437	54,541	-	-	886,462	254,432	249,400	1,545,872
Licenses & Permits	1,462,799	-	-	-	226,344	2,814,592	681,839	1,712,199
Intergovernmental	3,904,621	5,570,601	7,356,557	-	-	-	48,854	19,872,715
Charges for Services	4,969,844	79,657	-	-	-	-	-	5,731,340
Fines & Forfeitures	1,169,279	-	-	-	-	-	-	1,218,133
Investment Earnings	893,004	149,778	39,926	88,163	200,055	72,875	-	1,443,801
Rents & Leases	255,960	2,584	-	269,545	-	-	-	258,544
Special Assessments	135,019	84,804	-	142,515	245,180	2,986	280,457	269,545
Miscellaneous Revenues	33,657,784	13,540,955	7,396,483	500,223	2,483,345	4,819,664	890,961	62,643,634
Total revenues								
	7,768,329	-	-	-	295,026	534,544	-	8,597,899
	6,079,937	-	-	-	78,373	-	-	6,158,310
	3,053,094	-	-	-	30,629	942,297	-	3,053,094
	5,747,686	-	-	-	-	-	-	6,720,612
	4,340,317	-	-	-	-	-	-	4,340,317
	87,959	-	-	-	365,848	-	-	453,807
	1,623,726	-	-	-	17,375	211,822	-	1,852,923
	16,000	8,809,180	-	-	104,016	4,795	8,933,991	8,933,991
	233,649	-	7,922,375	-	-	3,062,522	-	11,218,546
	660,207	-	-	-	24,935	212,767	-	897,909
<i>Debt Service:</i>								
Principal	-	-	-	345,000	175,000	390,000	-	1,145,000
Interest	-	-	-	272,377	5,363	319,183	-	842,103
Other	-	-	-	-	4,323	122,945	-	127,268
<i>Capital Outlay:</i>								
	-	4,383,991	-	-	5,700,498	56,120	-	10,140,609
Total expenditures	29,610,904	13,193,171	7,922,375	617,377	6,801,386	5,856,995	-	64,482,388
Excess (deficiency) of revenues over (under) expenditures	4,046,880	347,784	(525,892)	(117,154)	(4,318,041)	(1,037,331)	(1,838,754)	
OTHER FINANCING SOURCES (USES)								
Transfers in	20,926	10,882	11,132	636,148	715,915	4,993,776	-	6,388,779
Transfers out	(1,209,705)	(711,215)	-	(3,354,375)	(1,567,564)	(287,346)	-	(7,130,205)
Payment refunded bond escrow agent	-	-	-	-	-	(8,600,032)	-	(8,600,032)
Premium on bonds sold	-	-	-	-	-	165,789	-	165,789
Refunding Bonds Issued	-	-	-	-	-	8,565,000	-	8,565,000
Sale of capital assets	804,782	857,300	-	-	459,457	-	-	2,121,539
Total other financing sources (uses)	(383,997)	156,967	11,132	(2,718,227)	(392,192)	4,837,187	-	1,510,870
Net change in fund balance	3,662,883	504,751	(514,760)	(2,835,381)	(4,710,233)	3,799,856	-	(327,884)
Fund balances--beginning	4,699,512	5,755,015	1,233,486	4,086,258	11,113,217	3,506,128	-	37,293,616
Fund balances--ending	\$ 8,362,395	\$ 6,259,766	\$ 718,726	\$ 1,250,877	\$ 6,402,984	\$ 7,305,984	\$ -	\$ 36,965,732

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, 2005**

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 (page 24) (327,884)

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 the current period. 6,692,273

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. 1,078,347

Change in accrual interest earnings 2005 versus on modified accrual basis (19,545)

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 2005. (1,444,386)

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 and accrued compensation payable for year. 73,730

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. 592,218

Change in net assets-governmental activities- on the Statement of Activities (page 21) 6,644,753

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

Cowlitz County
Statement of Net Assets
Proprietary Fund
December 31, 2005

	Business-type Activities--Enterprise Funds				Governmental
	Water		Nonmajor	Total	Activities-
	Sewer	Solid Waste	Enterprise	Enterprise	Internal
			Funds	Funds	Service Funds
ASSETS					
<i>Current assets:</i>					
Cash & cash equivalents	\$ 478,757	\$ 7,963,510	\$ 1,847,285	\$ 10,289,552	\$ 7,523,371
Investments	-	-	-	-	-
Receivables (net)	62,463	455,683	38,195	556,341	308
Interest receivable	91	6,650	373	7,114	25,172
Due from other funds	-	3,376	-	3,376	179,502
Interfund loan receivable	-	125,573	-	125,573	169,604
Due from other governments	86,600	133,128	713	220,441	269,665
Inventories	-	7,903	-	7,903	121,260
Prepaid items	5,018	10,182	30,785	45,985	19,329
Customer deposits-restricted cash and cash equivalents			25,923	25,923	
<i>Total Current Assets</i>	<u>632,929</u>	<u>8,706,005</u>	<u>1,943,274</u>	<u>11,282,208</u>	<u>8,308,211</u>
<i>Noncurrent assets:</i>					
Restricted cash, cash equivalents & investments:					
Customer deposits	16,680	-	-	16,680	-
For closure & postclosure		7,862,966	-	7,862,966	
<i>Capital assets:</i>					
Land	122,635	389,392	636,573	1,148,600	20,795
Buildings and system	10,143,541	3,768,831	555,865	14,468,237	422,920
Improvements other than bldgs.	-	8,260,677	267,328	8,528,005	-
Machinery and equipment	-	1,415,356	2,982,643	4,397,999	12,636,314
Construction in progress	1,326,026	281,968	-	1,607,994	-
Less accumulated depreciation	(4,269,151)	(7,734,911)	(2,004,583)	(14,008,645)	(8,651,971)
Total capital assets (net of accum depr.)	<u>7,323,051</u>	<u>6,381,313</u>	<u>2,437,826</u>	<u>16,142,190</u>	<u>4,428,058</u>
Total assets	<u><u>7,972,660</u></u>	<u><u>22,950,284</u></u>	<u><u>4,381,100</u></u>	<u><u>35,304,044</u></u>	<u><u>12,736,269</u></u>
LIABILITIES					
<i>Current liabilities:</i>					
Accounts payable and accrued exp.	252,508	135,357	223,134	610,999	458,759
Payable to other governments	-	-	-	-	16,022
Due to other funds	4,832	8,111	3,813	16,756	4,596
Accrued interest payable	3,641	-	-	3,641	-
Claims and judgments	-	-	-	-	394,168
Limited G.O. Bonds Payable	20,000	-	-	20,000	-
Notes payable	34,623	-	16,228	50,851	-
Customer deposits payable from restricted assets			25,923	25,923	
Total current liabilities	<u>315,604</u>	<u>143,468</u>	<u>269,098</u>	<u>728,170</u>	<u>873,545</u>
<i>Noncurrent liabilities:</i>					
Compensated absences	33,867	54,728	203,176	291,771	167,437
Customer deposits payable from restricted assets	16,680	-	-	16,680	-
Landfill closure and postclosure costs	-	7,862,966	-	7,862,966	-
Claims and judgments	-	-	-	-	1,188,332
Limited G.O. Bonds (net of unamortized discount)	38,541	-	-	38,541	-
Notes payable	1,034,925	-	-	1,034,925	-
Total non current liabilities	<u>1,124,013</u>	<u>7,917,694</u>	<u>203,176</u>	<u>9,244,883</u>	<u>1,355,769</u>
Total liabilities	<u><u>1,439,617</u></u>	<u><u>8,061,162</u></u>	<u><u>472,274</u></u>	<u><u>9,973,053</u></u>	<u><u>2,229,314</u></u>
NET ASSETS					
Invested in capital assets, net of related debt	6,191,321	6,381,313	2,421,598	14,994,232	4,428,058
Restricted -donations pigeon/horse purposes			16,811	16,811	
Unrestricted	341,722	8,507,809	1,470,417	10,319,948	6,078,897
Total net assets	<u><u>\$6,533,043</u></u>	<u><u>\$ 14,889,122</u></u>	<u><u>\$ 3,908,826</u></u>	<u><u>25,330,991</u></u>	<u><u>\$ 10,506,955</u></u>
				(32,672)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				<u><u>(32,672)</u></u>	
Net assets of business-type activities				<u><u>\$ 25,298,319</u></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 Assets
Proprietary Funds
For the Year Ended December 31, 2005

	<u>Business-type Activities-Enterprise Funds</u>				Governmental Activities- Internal Service Funds
	<u>Water Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor</u>	<u>Total</u>	
			<u>Enterprise</u>	<u>Enterprise</u>	
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	
OPERATING REVENUES					
<i>Charges for Services:</i>					
Water	\$ 547,613	\$ -	\$ -	\$ 547,613	\$ -
Sewer	568,300	-	-	568,300	
Garbage & Solid Waste	-	4,675,295	-	4,675,295	
Public Safety	-	-	2,994,144	2,994,144	
Culture & Recreation	-	-	634,567	634,567	
Other services					5,639,222
Grant revenue					
Total operating revenues	<u>1,115,913</u>	<u>4,675,295</u>	<u>3,628,711</u>	<u>9,419,919</u>	<u>5,639,222</u>
OPERATING EXPENSES					
Maintenance & operations	810,386	1,646,778	3,828,252	6,285,416	5,262,334
Closure & postclosure care	-	524,166	-	524,166	
Depreciation	234,433	814,763	329,915	1,379,111	807,587
Total operating expenses	<u>1,044,819</u>	<u>2,985,707</u>	<u>4,158,167</u>	<u>8,188,693</u>	<u>6,069,921</u>
Operating income (loss)	<u>71,094</u>	<u>1,689,588</u>	<u>(529,456)</u>	<u>1,231,226</u>	<u>(430,699)</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes	-	-	567,882	567,882	-
Intergovernmental	-	65,429	59,259	124,688	
Investment earnings	12,037	449,039	32,264	493,340	181,335
Interest expense	(10,261)	-	(2,761)	(13,022)	-
Debt issuance costs	(21,744)	-	-	(21,744)	
Gain (loss) on disposition of assets	-	(14,663)	-	(14,663)	123,420
Miscellaneous nonoperating revenues	4,259	16,275	11,841	32,375	41,945
Total nonoperating income (expense)	<u>(15,709)</u>	<u>516,080</u>	<u>668,485</u>	<u>1,168,856</u>	<u>346,700</u>
Income before contributions and transfers	55,385	2,205,668	139,029	2,400,082	(83,999)
Capital grants	138,236	-		138,236	148,729
Capital contributions	58,161	-	105,776	163,937	64,108
Transfers in	-	-	196,533	196,533	575,165
(Transfers out)	(5,941)	-	(3,000)	(8,941)	(127,107)
Change in net assets	<u>245,841</u>	<u>2,205,668</u>	<u>438,338</u>	<u>2,889,847</u>	<u>576,896</u>
Net assets--beginning	<u>6,287,202</u>	<u>12,683,454</u>	<u>3,470,488</u>		<u>9,925,677</u>
Net assets--ending	<u>\$ 6,533,043</u>	<u>\$ 14,889,122</u>	<u>\$ 3,908,826</u>		<u>\$ 10,502,573</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				(10,940)	
Change in net assets of business-type activities - (page 19)				<u>\$ 2,878,907</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, 2005

Page 1 of 2

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Sewer	Solid Waste	Nonmajor Enterprise Funds	Total Enterprise Funds	
<u>Cash flows from operating activities</u>					
Cash received from customers	\$ 1,108,645	\$ 4,682,049	\$ 3,646,563	\$ 9,437,257	\$ 5,572,834
Cash payments for goods and services	(460,712)	(936,913)	(1,308,475)	(2,706,100)	(3,095,884)
Cash payments to employees for services	(364,425)	(700,257)	(2,515,153)	(3,579,835)	(1,493,866)
Receipts for grants					4,382
Customer deposits	1,600		21,492	23,092	
Miscellaneous revenue	4,339	14,814	11,841	30,994	35,395
<i>Net cash provided (used) by operating activities</i>	<u>289,447</u>	<u>3,059,693</u>	<u>(143,732)</u>	<u>3,205,408</u>	<u>1,022,861</u>
<u>Cash flows from noncapital financing activities</u>					
State fair funds received			39,270	39,270	
Interfund loan received			43,000	43,000	
Repayment of interfund loan principal received		62,787	(43,000)	19,787	-
Interest received (paid) on interfund loan		4,269	(364)	3,905	
Repayment on loan to other government		2,417,484		2,417,484	21,948
Interest received on loan to other govt.					2,962
Operating grants received		73,580	41,770	115,350	
Receipts from 911 tax			558,091	558,091	
Payment of claims liability recognized prior yrs.					(416,944)
Transfers in from other County fund			196,533	196,533	137,000
Transfer out to other County fund			(3,000)	(3,000)	(21,331)
<i>Net cash provided by noncapital financing activities</i>	<u>-</u>	<u>2,558,120</u>	<u>832,300</u>	<u>3,390,420</u>	<u>(276,365)</u>
<u>Cash flows from capital and related financing activities</u>					
System development fees & hookup fees	58,161			58,161	
Proceeds from State of Washington loan	528,951			528,951	
Acquisition and construction of capital assets	(965,735)	(137,914)	(492,908)	(1,596,557)	(1,298,065)
Federal grant funds	56,270			56,270	180,218
Payment on note/installment contracts			(15,081)	(15,081)	
Principal paid on note	(34,623)			(34,623)	
Principal paid on bonds	(20,000)			(20,000)	
Interest paid on capital debt	(9,740)		(2,397)	(12,137)	
Contributed capital (to) from county fund			105,776	105,776	(105,776)
Proceeds from sale of capital assets				-	103,812
<i>Net cash provided (used) for capital and related financing activities</i>	<u>(386,716)</u>	<u>(137,914)</u>	<u>(404,610)</u>	<u>(929,240)</u>	<u>(1,119,811)</u>
<u>Cash flows from investing activities</u>					
Purchase of investments	(4,887,000)	(162,261,500)	(12,934,415)	(180,082,915)	(65,858,225)
Proceeds from sale and maturities of investments	4,887,000	162,261,500	12,934,415	180,082,915	65,858,225
Interest on investments	12,000	446,014	32,086	490,100	172,243
<i>Net cash provided (used) by investment activities</i>	<u>12,000</u>	<u>446,014</u>	<u>32,086</u>	<u>490,100</u>	<u>172,243</u>
Net increase (decrease) in cash and cash equivalents	(85,269)	5,925,913	316,044	6,156,688	(201,072)
<i>Cash and cash equivalents, January 1</i>	580,706	9,900,563	1,557,164	12,038,433	7,724,443
<i>Cash and cash equivalents, December 31</i>	<u>\$ 495,437</u>	<u>\$ 15,826,476</u>	<u>\$ 1,873,208</u>	<u>\$ 18,195,121</u>	<u>\$ 7,523,371</u>

Cowlitz County, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

Page 2 of 2

	<u>Water Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	\$ 71,094	\$ 1,689,588	\$ (529,456)	\$ 1,231,226	\$ (426,337)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	234,433	814,763	329,915	1,379,111	807,587
(Increase) decrease in accounts receivable	(7,447)	(78,827)	376	(85,898)	428
(Increase) decrease in due from other funds		(2,999)	3,217	218	(16,600)
(Increase) decrease in due from other governments	179	88,580	14,259	103,018	(89,743)
(Increase) decrease in due from component unit				-	71
(Increase) decrease in inventory		(2,822)		(2,822)	(39,583)
(Increase) decrease in prepaid expense	(14)	(733)	(699)	(1,446)	(2,841)
Increase (decrease) in accounts payable and other accrued liabilities	(16,993)	13,570	(384)	(3,807)	27,696
Increase (decrease) in due to other funds	(2,199)	(1,757)	262	(3,694)	(2,695)
Increase (decrease) in retainage payable		(1,280)		(1,280)	
Increase (decrease) in employee leave benefits	4,455	2,630	5,445	12,530	(4,984)
Increase (decrease) in customer deposits	1,600		21,492	23,092	
Increase (decrease) in estimated future claims payable					734,467
Provision for closure & postclosure care costs		524,166		524,166	
Construction in progress written off to expense				-	
Miscellaneous revenue	4,339	14,814	11,841	30,994	35,395
<i>Total adjustments</i>	<u>218,353</u>	<u>1,370,105</u>	<u>385,724</u>	<u>1,974,182</u>	<u>1,449,198</u>
<i>Net cash provided by operating activities</i>	<u>\$ 289,447</u>	<u>\$ 3,059,693</u>	<u>\$ (143,732)</u>	<u>\$ 3,205,408</u>	<u>\$ 1,022,861</u>
Noncash investing, capital, and financing activities:					
Contribution of capital assets fr. County Funds	5,941		-		502,273
Gain (loss) on trade in of capital asset		(14,663)			

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

Cowlitz County, Washington
Statement of Fiduciary Net Assets
December 31, 2005

	Agency Funds
Assets	
Cash and petty cash	\$ 16,218,960
Deposits with fiscal Agent	95,000
Investment Trust Fund	65,825,639
Taxes Receivable	3,937,722
Assessments receivable, current	219,784
Total assets	<u>\$ 86,297,105</u>
Liabilities	
Warrants payable	\$ 6,977,093
Due to other governments	79,320,012
Total liabilities	<u>\$ 86,297,105</u>

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

**COWLITZ COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS**

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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 two discretely presented component units.

Discretely presented component units: The **Three Rivers Regional Wastewater Authority** (previously titled the Central Sewer Operating Board) consisting of the City of Kelso, City of Longview, Beacon Hill Sewer District and Cowlitz County govern the wastewater utility. It is legally separate from Cowlitz County and is presented in a separate column on the government-wide financial statements. However; it is fiscally dependent on the county in that the County issues bonded debt on its behalf. Cowlitz County has two bond issues that were issued for the Three Rivers Wastewater Plant improvements. The most recent is the 2002 Special Revenue Funding Bond issue for \$35.4 million; this debt issue is paid from the users of the system, which are the Cities of Kelso and Longview and Beacon Hill Sewer District. The other outstanding bond issue by the County for the Wastewater Utility is the 2003 GO Refunding Bonds with \$620 thousand outstanding at December 31, 2004. The users of the system pay the 2003 bond issue and the County has pledged its taxes and resources in case of default by the users for the 2003 bond issue only. Separate financial statements for the component unit may be obtained from Cowlitz County at 207 4th Avenue North, Kelso, Wa. 98626. Because Cowlitz County has issued material bond debt under the Cowlitz County's name for the Central Sewer Utility and occupies one of the four board positions it is presented as a component unit of the County.

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. Construction began in the later part of 2003 on Cowlitz County Exposition grounds with modification and expansion to the existing commercial building. Cowlitz County issued \$6,565,000 in July of 2003 to pay part of the cost of the center. The Public Facilities District has agreed to pay for the bond issue through the allocation of .033 percent share of state sales tax it receives for the duration of the bond issue. Also, the voters approved a 1% lodging tax to be used for construction and operation of the district's public facilities. Separate financial statements are available from Cowlitz County Auditor's Office at 207 4th Ave. No. Kelso, Washington 98626.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from the statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent

on fees and charges for support. 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 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 31 days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual are interest earnings, and sales tax. Intergovernmental revenues such as grants are recognized as revenues when grant expenditures are incurred and grant requirements have been met. If the governmental funds have special assessments receivable only that portion that is due within the current fiscal period is recognized as revenue of the current period. 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 separately.

County Road Fund accounts for the design, construction and maintenance of county roads and bridges.

Community Mental Health Fund accounts for state and federal 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.

1999 Debt Service Fund accounts for resources accumulated and payments made for principal and interest on the 1999 Limited General Obligation Bond Debt.

2003 Debt Service Fund accounts for resources accumulated and payments made for principal and interest on the 2003 Limited Tax General Obligation Improvement and Refunding Bonds.

Capital Improvements 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:

Water Sewer Fund accounts for water and sewer services to county customers.

Solid Waste Fund accounts for operations of the solid waste landfill site and the maintenance of the closed portion of landfill.

Additionally, Cowlitz County reports the following fund types:

Special revenue funds are governmental funds that account for specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt service funds account for resources accumulated for principal and interest on long-term general obligation debt of governmental funds.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following private-sector guidance for their business type activities and enterprise activities from December 1, 1989 forward. The county has chosen from that date forward to apply GASB pronouncements and not private-sector guidance.

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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, (charge for service revenues also include fines and forfeitures) 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. General revenues also include all taxes collected for the County.

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 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 ASSETS OR EQUITY***1. Deposits and Investments***

The county's cash and cash equivalents for proprietary 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.

Investments - See (Note 4a Deposits and Investment)

2. Receivables and payables

Taxes receivable consist of property taxes and related interest and penalties. See (Note 4 b 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 of \$2,473,794 are deferred. Deferred assessments on the statements are unbilled assessments that are liens on the property benefited. The County has no delinquent special assessments at December 31, 2005.

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 at cost using the first in first out method. 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. Restricted net assets

a) for economic environment totals \$2,895,284 consisting of \$2,425,071 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. And \$329,419 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. Also, \$140,794 is restricted for emergency financial assistance to veterans and their surviving spouses.

b) for transportation \$8,555,013 consisting of Road Fund net assets of \$6,259,765 and \$2,295,248 placed in the capital improvements fund intended for Lexington Bridge construction.

c) for health \$1,486,330 consisting of \$718,726 in Community Mental Health Fund net assets, \$479,468 of net assets for public health purposes and \$288,136 in net assets of the Human Services fund for the administrative services for mental health, drug abuse, alcoholism and developmental disabilities.

d) for culture and recreation \$82,304 which is restricted for promotion of tourism.

e) for law enforcement \$380,744 consisting of \$11,428 for boat safety purposes and the balance is to control drug traffic.

f) for physical environment \$126,744 for shorelines management

5. 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.

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

6. 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.

7. 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 assets. 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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. 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 \$24,084,781 difference are as follows:

Bonds payable	\$ 19,755,000
Less: deferred amounts for issuance/discounts	(602,055)
Special assessment bonds payable	2,335,000
Compensated absences	2,387,887
Accrued interest payable	<u>208,949</u>
Net adjustment to reduce <i>fund balance governmental funds</i> to Arrive at <i>net assets-governmental activities</i>	\$ 24,084,781

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*

assets 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 (\$6,692,273) difference are as follows:

Capital Outlay	\$10,140,609
Contributed Capital –Right of Way Roads	29,740
Capital outlay present as operating expenditures	420
Park's department contributed tractor to Motor Pool	(44,931)
Depreciation expense	(3,445,775)
Disposition of capital assets & gain on trade in	<u>12,210</u>
Net adjustment to increase <i>net changes in fund balances- total</i>	
<i>Governmental funds</i> to arrive at <i>change governmental activities</i>	<u>\$ 6,692,273</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 assets. 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 (\$1,078,347) difference are as follows:

Bonds issued in 2005	\$ 8,565,000
Issuance costs to amortize	(122,945)
Deferred charges for issuance costs (amortized over life of debt)	165,789
Amortization of deferred charge for issuance and discount	58,841
Payment to Escrow for refunded bonds	(8,600,032)
Principal repayments:	
General obligation bonds	(860,000)
Special assessment bonds	(110,000)
Notes payable principal	<u>(175,000)</u>
Net adjustments to decrease <i>fund balances-total governmental funds</i>	
To arrive at <i>changes in net assets of governmental activities</i>	\$ (1,078,347)

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.

Accrued interest	\$ (15,139)
Compensated absences	<u>(58,591)</u>

Net adjustment to decrease <i>net changes in fund balances-total</i>	
<i>Governmental funds</i> to arrive at <i>changes in net assets of governmental</i>	
<i>Activities</i>	<u>\$ (73,730)</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. 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 that 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 General Fund budgeted appropriations for expenditures by \$244,681 and an increase in transfers out to support other County funds of \$227,600. 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.

The Treasurer’s Operation & Maintenance Fund and the Antiprofitereing Fund, special revenue funds do not require budgets and therefore no budget to actual data for those funds are presented. The Anitprofitereing Fund was closed out in 2005 with a transfer of the \$4,556 to the prosecuting attorney’s department within the General Fund.

e. Deficit Net Assets

Risk Management (Internal Service Fund) - The fund had deficit net assets of \$211,801 at December 31, 2005. The deficit is due to recognition of an estimate for projected future years pay out of \$561,518 for claims incurred but not reported. At December 31, 2005 the Fund had \$1,200,325 in cash and investments to meet the other payables of \$852,586.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

In 2005 Cowlitz County implemented GASB 40 which concentrates disclosure of risk of investments.

The counts 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).

As of December 31, 2005 Cowlitz County had the following investments:

	Maturities- Weighted Average <u>Days</u>	Fair Value		<u>Total</u>
		Investments held		
		<u>Fair Value</u> <u>County Investments</u>	<u>by County as agent</u> <u>for other local govts.</u>	
U.S. Government Securities	382	\$ 14,744,405	\$ 23,914,847	\$ 38,659,252
Bankers' Acceptances	102	174,996	3,463,527	3,638,523
Subtotal		14,919,401	27,378,374	42,297,775
Investments not subject to categorization:				
Wa. State Investment Pool	31	13,969,816	37,539,478	51,509,294
Total Investments		<u>\$ 28,889,217</u>	<u>\$ 64,917,852</u>	<u>\$ 93,807,069</u>

The investment of agency funds includes \$15.45 million of cash flow that by State Law the County can invest with interest earned on same accruing the the County General Fund.

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.

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 they are intended to finance. 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. (On June 13, 2006 the King County Superior Court declared Initiative 747 limiting the growth in property taxes to 1 percent unconstitutional. It has been appealed to Washington State Supreme Court)
- 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 2005 were:

<u>Purpose</u>	<u>Assessed Valuation</u>	<u>2005 Levy Rate Per \$1,000</u>	<u>Property Taxes 2005</u>
General Fund	\$ 6,708,418,045	\$1.87	\$ 12,554,697
County Roads	\$ 3,702,528,935	\$1.99	\$ 7,362,652

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

In 2005 the General Fund for law enforcement purposes as permitted by state law codified in RCW 36.33.220 used \$702,113 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, are as follows:

Funds	<u>Taxes</u>	<u>Accounts</u>	<u>Special Assessments</u>	<u>Due from Other Govts.</u>	<u>Interest & Penalties</u>	<u>Due from Component Unit</u>	<u>Total</u>
General	\$ 711,321	\$ 39,392		\$ 773,015	\$ 986,570		\$ 2,510,298
County Road	357,986	1,160		1,503,649	19,017	169	1,881,981
Community Mental Health				590,700	3,605		594,305
1999 Ltd GO Bond			2,473,795	920,000			3,393,795
2003 Ltd GO Bond						6,665,000	6,665,000
Capital Improvements				1,158,202	25,815		1,184,017
Non-major governmental		12,041		3,847,687	10,520		3,870,248
Water/Sewer		62,463		86,600	91		149,154
Solid Waste		455,683		133,128	6,650	-	595,461
Nonmajor-business		38,195		713	373		39,281
Internal Service		308		269,665	25,172		295,145
Fiduciary	3,937,722	2	219,784				4,157,508
Total Receivables	\$ 5,007,029	\$ 609,244	\$ 2,693,579	\$ 9,283,359	\$ 1,077,813	\$ 6,665,169	\$ 25,336,193

The due from other government's column includes intergovernmental loans from Capital Improvements (rural county public facilities department) of \$1,005,450.

Governmental funds report *deferred revenue* 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)	\$ 711,321	
Interest & penalty on taxes receivable (Gen. Fd)	855,173	
Property taxes receivable (Road Fund)	357,986	
Special assessments receivables from other governments. Not yet due (Debt svc. funds)	2,473,795	

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

Primary Government	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 8,053,217	\$ 52,782		\$ 8,105,999
Construction in progress	11,524,283	9,940,129	3,865,759	17,598,653
Total capital assets, not being depreciated	<u>19,577,500</u>	<u>9,992,911</u>	<u>3,865,759</u>	<u>25,704,652</u>
Capital Assets, being depreciated			56	
Buildings	31,608,829	172,554		31,781,383
Improvements other than buildings	4,189,013	51,026		4,240,039
Machinery and equipment	13,456,036	1,995,236	672,731	14,778,541
Infrastructure	94,492,944	3,693,206		98,186,150
Total capital assets being depreciated	<u>143,746,822</u>	<u>5,912,022</u>	<u>672,731</u>	<u>148,986,113</u>
Less accumulated depreciation for:				
Buildings	11,015,134	865,142		11,880,276
Improvements other than buildings	1,888,922	178,781		2,067,703
Machinery and equipment	9,573,112	936,710	591,551	9,918,271
Infrastructure	25,080,692	2,272,726		27,353,418
Total accumulated depreciation	<u>47,557,860</u>	<u>4,253,359</u>	<u>591,551</u>	<u>51,219,668</u>
Total capital assets being depreciated, net	<u>96,188,962</u>	<u>1,658,663</u>	<u>81,180</u>	<u>97,766,445</u>
Governmental capital assets, net	<u>\$ 115,766,462</u>	<u>\$ 11,651,574</u>	<u>\$ 3,946,939</u>	<u>\$ 123,471,097</u>

Business-type activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 1,148,600	\$ -	\$ -	\$ 1,148,600
Construction in progress	518,714	\$ 1,169,204	\$ 79,924	1,607,994
Total capital assets, not being depreciated	<u>1,667,314</u>	<u>1,169,204</u>	<u>79,924</u>	<u>2,756,594</u>
Capital assets, being depreciated:				
Buildings and system	14,421,631	84,959	38,353	14,468,237
Improvements other than building	8,528,005			8,528,005
Machinery and equipment	3,880,675	691,546	174,222	4,397,999
Total capital assets, being depreciated	<u>26,830,311</u>	<u>776,505</u>	<u>212,575</u>	<u>27,394,241</u>
Less accumulated depreciation for:				
Buildings and system	7,189,228.00	385,923	32,412	7,542,739
Improvements other than buildings	3,636,310	557,829		4,194,139
Machinery and equipment	1,920,632	490,020	97,188	2,313,464
Total accumulated depreciation	<u>12,746,170</u>	<u>1,433,772</u>	<u>129,600</u>	<u>14,050,342</u>
Total capital assets, being depreciated, net	<u>14,084,141</u>	<u>(657,267)</u>	<u>82,975</u>	<u>13,343,899</u>
Business-type activities capital assets, net	<u>\$ 15,751,455</u>	<u>\$ 511,937</u>	<u>\$ 162,899</u>	<u>\$ 16,100,493</u>

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

Governmental activities:

General Government	\$ 116,239
Public Safety-Corrections	229,124
Public Safety-Juvenile	321,458
Public Safety-Other	79,592
Judicial	86,266
Transportation	2,332,355
Economic Environment	11,148
Health	57,499
Culture & Recreation	212,094
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>807,587</u>
	<u>\$ 4,253,362</u>

Business-type activities:

Water	\$ 114,691
Sewer	119,742
Solid Waste-Landfill	814,763
Public Safety (911 Communications)	209,358
Public Safety (Law Enforcement Records)	104,318
Expo Center	<u>30,138</u>
Total depreciation expense-business-type activities	<u>\$ 1,393,010</u>

Construction commitments

Cowlitz County has active construction projects as of December 31, 2005. At year end The projects are as follows:

	<u>Spent to date</u>	<u>Remaining Commitment</u>
Admin Building – Cooling Tower	\$ 12,949	\$ 142,387
Funding from existing Capital Improvement Funds.		
Hall of Justice - Fire Alarm System Architect	\$ 154,865	5,753
Funding from existing Capital Improvement Funds		
Jail Construction		
(Includes \$532,000 for equipment)	\$ 12,512,501	\$ 600,000
Capital Improvements has \$600,000 on hand designated for project.		
Road Projects	\$ 4,918,328	\$ 933,670
Funding for projects will come from grant funds and existing Road funds.		
Solid Waste –Landfill Gas to Energy	\$ 281,968	\$ 83,577
The engineering design costs will come from existing funds.		
Water Sewer Construction	\$ 1,326,026	\$ 33,668
Funding for projects from existing funds of water sewer.		

Discretely Presented Component Unit – Three Rivers Regional Wastewater Authority

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 157,971	428,569		\$ 586,540
Construction in progress	427,705	1,359,373	\$ 292,730	1,494,348
Total capital assets not being depreciated	<u>585,676</u>	<u>1,787,942</u>	<u>\$ 292,730</u>	<u>2,080,888</u>
Capital Assets, being depreciated:				
Buildings & system	65,692,808	357,829		66,050,637
Improvements other than buildings	7,297			7,297
Machinery and equipment	710,028	36,059		746,087
Total capital assets being depreciated	<u>66,410,133</u>	<u>393,888</u>		<u>66,804,021</u>
Less: accumulated depreciation for				
Buildings & system	(12,277,629)	(1,568,235)		(13,845,864)
Improvements other than buildings				
Machinery and equipment	(516,350)	(52,662)		(569,012)
Total accumulated depreciation	<u>(12,793,979)</u>	<u>(1,620,897)</u>		<u>(14,414,876)</u>
Total capital assets, being depreciated net	<u>53,616,154</u>	<u>(1,227,009)</u>		<u>52,389,145</u>
Central Sewer-capital assets net	<u>\$ 54,201,830</u>	<u>\$ 560,933</u>	<u>\$ 292,730</u>	<u>\$ 54,470,033</u>

Commitments The Three Rivers Regional Waste Water Authority had three construction projects ongoing at the end of 2005. The costs through December 2005 were \$1,434,963 for a bio-solids project, \$44,835 for laboratory office and \$14,541 for an on-line manual. The remaining commitment for those projects totals \$220,283. Existing funds of the utility will pay for these projects.

Discretely Presented Component Unit – Public Facilities District

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Construction in Progress	\$ 7,180,800	\$ 44,426	\$ 7,225,226	\$ -
Total capital assets not being depreciated	<u>7,180,800</u>	<u>44,426</u>	<u>7,225,226</u>	<u>\$ -</u>
Capital Assets, being depreciated:				
Buildings		5,991,566		5,991,566
Improvements other than building		566,565		566,565
Machinery and Equipment		662,587		662,587
Total capital assets, being depreciated	<u>-</u>	<u>7,220,718</u>	<u>-</u>	<u>7,220,718</u>
Less: accumulated depreciation for:				
Buildings	-	(59,914)		(59,914)
Improvements other than buildings	-	(19,055)		(19,055)
Machinery and Equipment	-	(24,455)		(24,455)
Total accumulated depreciation	<u>-</u>	<u>(103,424)</u>	<u>-</u>	<u>(103,424)</u>
Total capital assets, being depreciated net	<u>\$ -</u>	<u>\$ 7,117,294</u>	<u>\$ -</u>	<u>\$ 7,117,294</u>

Commitments The Public Facilities District, a component unit, has expended \$7,220,718 for a community convention center. Funding for the project is from the 2003 bond issue and \$600,000 from the County’s 1999 bond issue. Debt on the bond issue will be paid from a share of state sales tax collected and remitted to the Public Facilities District.

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 2005:

	Transfers Out - 2005								
	General Fund	Road Fund	Capital Improv.	Debt Svc 1999 Ltd. GO Bonds	Water Sewer	Non- major Govt.	Non- major Enterprise	Internal Service	Total
Transfers in:									
General Fund						\$ 20,926			\$ 20,926
Road Fund	\$ 10,882								10,882
Community Mental Hlth	11,132								11,132
1999 Ltd. GO Bond			636,148						636,148
Capital Improvements	20,000	\$ 500,000				174,584		21,331	715,915
Water Sewer									-
Geographic Info. Svcs	167,994	198,994							366,988
Human Services	169,691								169,691
Health Department	375,725								375,725
Auditor's O&M	16,308								16,308
Tourism						12,650			12,650
Drug Task Force	50,470								50,470
Low Income Housing						70,054			70,054
1998 Ltd GO Bond Fd.			130,370						130,370
2002 Ltd GO Bond Fd.			374,263						374,263
2005 Ltd GO Refdgd Bd			72,882	3,354,375					3,427,257
Total Nonmajor									-
Governmental	780,188	198,994	577,515	3,354,375		82,704		-	4,993,776
Nonmajor-Enterprise:									-
Exposition Center	196,533							105,776	302,309
Internal Service Funds	190,970	12,221	353,901		\$ 5,941	9,132	\$ 3,000		575,165
Total Transfers	\$1,209,705	\$ 711,215	\$1,567,564	\$3,354,375	\$ 5,941	\$ 287,346	\$ 3,000	\$127,107	\$ 7,266,253

Interfund receivables and payables consisted of the following as of December 31, 2005:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	General (depts. owe other depts.)	\$ 150
	Road	17,850
	Solid Waste	3,990
		<u>21,990</u>
Road	General	1,701
	Capital Improvements	2,269
		<u>3,970</u>
Solid Waste	General	502
	Road	671
	Nonmajor enterprise	2,002
	Internal Service funds	200
		<u>3,375</u>
Internal Svc Funds	General	63,224
	Road	95,500
	Community Mental Health	171
	Capital Improvements	49
	Nonmajor governmental funds	5,399
	Water Sewer	4,832
	Solid Waste	4,121
	Nonmajor enterprise funds	1,811
Internal service funds	4,395	
		<u>179,502</u>
Nonmajor Governmental Fds.	Nonmajor governmental funds	<u>5,290</u>
	Total	<u>\$ 214,127</u>

Advances (Interfund loans) – Long- term loans between County funds to be repaid in more than one year.

At December 31, 2005 the Capital Improvements Fund has interfund loan payables of \$125,573 to the Solid Waste Fund, and \$169,604 to the Equipment Rental and Revolving Fund.

NOTE 5-INTERGOVERNMENTAL GRANTS AND ENTITLEMENTS

The accompanying Schedule of Financial Assistance Provides a listing of all federal and state assistance programs in which Cowlitz County participates and summarizes the County's grant activity for 2005:

**SCHEDULE OF FINANCIAL ASSISTANCE
For the Year Ending December 31, 2005**

Grantor	Program Name	Identification Number	Current Year Expenditures
<u>Federal Direct:</u>			
USDA	National Forest Dependent Rural Communities	10.67	\$10,699
USDOJ	NW HIDA	16.579	29,706
USDOJ	Local Law Enforcement Grant	15.592	5,715
USDOJ	St Criminal Alien Assistance Program	16.606	37,382
USDOJ	Bullet Poroo Vest Prtnership	16.607	5,712
USDOJ	Community Prosecution & Project Safety	16.609	11,342
<u>Federal Indirect:</u>			
USDA-SPI	National School Breakfast Program	10.553	18,059
USDA-SPI	National School Luch Program	10.555	27,472
USDA-FNS	Basic Food Nutrition Education Program	10.561	65,316
USDA-FS	Title I & II Federal Forest	10.665	187,076
SRFB/IAC	Pacific Coast Salmon Recovery	11.438	25,978
ST CTED	CDBG Grant	14.228	138,559
WSDSHS	Violence Against Women	16.588	22,993
WSP	Drug Cont. & Syst. Imprv. Marij. Eradication	16.579	11,834
ST CTED	Byrne Grant	16.579	267,296
WASPC	Public Safety Partnership & Comm Policing	16.71	46,578
WSDOT	Road Projects	20.205	2,714,792
WTSC	Safety Incentive Grants	20.604	30,993
WSSEC	Election Reform Payments	39.011	79,909
WSDH	Capitalization Grants for Drinking Water	66.468	1,875
WSSEC	Help America Vote Act	90.401	73,203
WSHS	Public Health Soc Service Emerg Fund	93.003	2,680
WSHHS	Projects for Asst In Transition Frm Homeless	93.15	28,221
WSDHS	Childhood Immunization	93.268	410,274
WSDH	Prevention Investigation & Technical Asst	93.283	103,671
WSHHS	Promoting Safe and Stable Families	93.556	20,563
WSHHS	Temporary Assist for Needy Families	93.558	3,150
WSDCS	Child Support Enforcement	93.563	421,280
WDHHS	Child Care and Development Block Grant	93.575	24,003
WSHHS	Natural Bioterorism Hospital Preparedness	93.889	2,000
WSHHS	Medicaid Title-19	93.778	431,815
WSHHS	HIV Care Formula Grant	93.917	56,708
WSHHS	MH Federal Block Grant	93.958	76,236
WSHHS	Alcohol & Other Drug Abuse Prevention	93.959	196,586
WSHHS	Prev Health & Health Services Block Grant	93.991	48,481
WSHHS	Maternal Child Health Block Grant	93.994	127,347
WSMD	Terrorist Threat and Needs Assessment	97.004	21,464
Total Federal Assistance			\$ 5,786,968

State Grants

Grantor	Title of Grant	Identification Number	Current Year Expenditures
DSHS	Support Enforcement		\$ 151,816
DSHS	RSN/PHP Services MH ECS	0569-79693	1,250,480
DSHS	Developmental Disabilities	0363-36083	949,629
DSHS	Cowlitz Co. Juvenile Prosecutor	0463-59821	10,000
DSHS	Chemical Dependency Disposition Alter	0363-42446	61,599
DSHS	Comm Juvenile Accountability Act	0563-84975	69,764
DSHS	Diagnostice Program	0563-84975	26,800
DSHS	Consolidated Contracts	0563-84974	65,607
DSHS	DDD Crisis Stabilization Services	0369-29027	29,019
DSHS	SSODA	0563-87974	59,271
DSHS	Plan of Cooperation	2110-80610	15,473
DSHS	HB3900 Impact	0563-84975	50,161
DSHS	DSHS/JRA Room Board	0363-42538	1,870
DSHS	Mental Health Disposition Alternative	0563-85968	10,760
DSHS	Substance Abuse GIA	0563-73235	615,890
State Department of Corrections	Violent Incarc Offend & Truth in Sentencing	CSEC5768	36,561
State Community College	Work Study Reimbursement		901
State Legislature	Prosecuting Attorney's Salary		48,090
State Department of Agriculture	U.S.D.A. Grant	IA-04-16-01	19,989
State Department of Outdoor Recreation	Baxter/Monahan/Riverside Projects	03-1371D	23,773
St Off of the Admin for the Court	Becca Impact Funds	ICA-2004-431	294,320
State County Road Admin Board	Arterial Preservation		248,096
State Dept. of Ecology	Coordinated Prevention	G0400293	79,477
State Dept. of Ecology	Community Litter Cleanup Program	C0400019	31,324
State Dept. of Health	Child Oral Health	C13030	18,000
State Dept. of Health	Tabacco Prevention Control	C13030	39,061
State Dept. of Health	Local Capacity Funds	C13030	115,856
State Dept. of Health	DOH Safe Drinking Water	C13030	8,643
State Dept. of Health	Region VI AIDS Prevention	HDC-1219	94,031
State Dept. of Health	Immumination-Vaccine		217,459
State Dept. of Comm. Devel.	Growth Management Services Grant	G0400293	12,500
State Dept. of Traffic Safety	DUI/Traffic Safety Task Force	05ST-18	28,709
Total State and Local Assistance			\$ 4,684,929

NOTE 6 – PENSION PLANS

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington issues a comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the Department of Retirement Systems, Administrative Services Division, and P.O. Box 48380, Olympia, Wa. 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and local Government Employers*.

A. PUBLIC EMPLOYEES RETIREMENT SYSTEMS (PERS) Plans 1 and 2 and 3Plan Description

PERS is a cost sharing multiple employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a

judicial retirement system); employees of legislative committees; college and university employees (not in national higher education retirement programs); judges of district and municipal courts; non-certificated employees of school districts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefits are financed from a combination of employee and employer contributions and investment earnings. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. Average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66 a cost-of-living allowance is granted, capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan II members may retire at the age of 65 with 5 years of service, or at age 55 with 20 years of service. The annual benefit is 2 percent per year of service of the final average compensation. The final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan II retirements prior to 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to age 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,169 participating employers in PERS. Membership in PERS as of the latest actuarial valuation date for the plans totaled 244,133 and consisted at September 30, 2004 of: retirees and beneficiaries receiving benefits 66,846; terminated plan members entitled to but not yet receiving benefits 21,031; active plan members vested 103,039, active plan members non-vested 53,217.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and 7.5 percent for state government elected officials. The employer and employee contribute rates for Plan 2 and 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. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contributions rates. Six rates are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee’s age. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contributions rates expressed as a percentage of current year covered payroll, as of December 31, 2005 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	2.44%	2.44%	2.44%**
Employee	6.00%	1.18%	***

* The employer rates include a .19% administrative expense.

** Plan 3 defined benefit portions only.

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

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2005	\$ 60,936	\$ 330,146	\$ 38,021
2004	\$ 19,296	\$ 154,404	\$ 17,850
2003	\$ 44,044	\$ 234,056	\$ 12,207
2002	\$ 52,878	\$ 256,994	\$ 378
2001	\$ 137,414	\$ 553,603	
2000	\$ 476,663	\$ 1,004,710	

B. LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS (LEOFF)

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the exception of the Dept. of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003. LEOFF participants who joined the system by September 30, 1977 are Plan I 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 to provide governance of LEOFF Plan 2 including adopting contribution rates and recommending policy changes to the legislature. Effective January 1, 2003 firefighter emergency medical technicians (EMT’s) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed the city, town, or district, the EMT’s job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from employee and employer contributions, investment earnings, and a special funding situation in which the state pay the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after completion of five years of eligible service. Plan I participants are eligible to retire with 5 years of service at age 50. The benefit per year of service is as follows:

<u>Term Of Service</u>	<u>Percent of Final Average</u>
20+ years	2.0%
10 – < 20 years	1.5
5 – <10 years	1.0

The final average salary 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. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A Cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 369 participating employers in LEOFF. Membership in LEOFF totaled 24,672 as of actuarial valuation date for the plans of September 30, 2003 and consisted of: retirees and beneficiaries receiving benefits 8,542 terminated plan members entitled to but not receiving benefits 528; active plan members vested 12,079; active plan members non-vested 3,523.

Funding Policy

Starting on July 1, 2000 Plan 1 employers and employee will contribute zero percent as long as the plan remains fully funded. Employer and employee rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated 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 requirements of the Pension Funding Council. 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. The methods used to determine the contribution rates are established under state statute in accordance with chapter 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of covered payrolls, as of December 31, 2005 were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
Employer	.19% *	4.29% **
Employee	.0%	5.09%
State	N.A.	2.79%

* The employer rate includes .19% administrative fee.

** The employer rate for ports and universities is 7.18%.

The County and the employees made the required contributions. The county’s required contributions for the years ended December 31, were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
2005	\$ 453	\$ 88,829
2004	\$ 587	\$ 71,153
2003	\$ 610	\$ 62,395
2002	\$ 735	\$ 57,441
2001	\$ 755	\$ 67,841
2000	\$ 22,426	\$ 169,655

NOTE 7 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

In addition to the pension benefits described in Note 7B, the County provides health benefits for retired employees of the sheriff’s department that qualified for Law Enforcement Officers and Firefighters (LEOFF) Plan I under RCW Chapter 41.26.

Sheriff’s employees qualified for LEOFF Plan I if the employees were full time, fully compensated and hired prior to October 1, 1977. Retirees must attain the age of fifty and have at least five years of service to be eligible for medical benefits or twenty years of service and benefits deferred to age fifty.

Twenty-Four retirees are eligible and received health care benefits in 2005. There are four active employees under LEOFF I that will be eligible for health care benefits when they retire. Payments for post employee medical benefits including Medicare B Premiums were:

1997	\$ 169,643	2000	\$ 228,396	2003	\$ 277,276
1998	\$ 121,295	2001	\$ 145,808	2004	\$ 243,750
1999	\$ 112,460	2002	\$ 141,954	2005	\$ 250,552

Net assets available for future benefits, recorded in the Benefits Administration Fund total \$882,430 at December 31, 2005.

An independent actuary study done twelve years ago estimated present value of future medical benefits to LEOFF I retirees at \$6,683,824. The estimate was based on an annual interest rate of 4 percent, and a 12 percent increase in annual health care costs reduced to an ultimate health trend of 6 percent by 2008 fiscal year. Based on that estimate a present value unfunded liability of \$6,068,747 existed at December 31, 2005.

NOTE 8 - RISK FINANCING

A. WASHINGTON COUNTIES RISK POOL

Cowlitz County is a member of the Washington Counties Risk Pool. Revised Code of Washington (RCW) Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or join self-insuring, or hiring for risk management services to the same extent that they may individually purchase insurance, self-insure or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provision of RCW 39.34, the Interlocal Cooperation Act. The Risk Pool was formed on August 18, 1988 when counties in the State of Washington signed an

Interlocal Agreement to pool their self-insurance losses and jointly purchase insurance, and administrative services. Twenty-eight counties are currently members of the pool.

The pool allows member counties to establish a plan of self-insurance, jointly purchase excess insurance coverage, and provide related services. All pool joint self-insurance liability coverage, including public officials’ errors and omissions, are on an “occurrence” basis. The pool also provides the following optional group purchased insurance coverage for its members: special event/concessionaires insurance coverage purchased as group purchase options for its member counties.

Members contract to remain in the pool a minimum of five years, and must give notice one year before terminating participation. The Interlocal Agreement is renewed automatically each year until terminated. Even after termination, a member is still responsible for any unresolved, unreported, and in process claims for the period it was a signatory to the Interlocal Agreement. The pool is fully funded by its member participants.

The pool is governed by a board of directors comprised of one designated representative from each participating member. An executive committee that is responsible for overseeing the business affairs of the Pool is selected by the Pool’s board of directors from its membership, including alternate directors, during each annual meeting.

Since the Pool is a cooperative program, there is a contingent liability among the participating member counties. Claims that are filed with the Pool are subject to the deductible amount selected by the county. Member deductibles range from \$10,000 to \$500,000 per occurrence. The Pool, which is primarily funded by the annual assessments contributed by its member counties, acquires reinsurance and excess insurance policies from unrelated underwriters with a self-insured retention of \$100,000 per occurrence. The member countries are responsible for amounts within their deductibles for each claim and the Pool is responsible for any difference remaining up to the \$100,000 self-insured retention. The reinsurance and excess insurance carriers cover all losses exceeding the Pool’s \$100,000 retention or the member county’s deductible; whichever is greater, to the maximum limits of their policies, presently either \$20 million or \$25 million depending on the member county. Cowlitz County’s deductible is \$100,000 per occurrence.

Claims reserves are established for the Pool’s retention layer for both reported and unreported insured events and include estimates of the undiscounted future cash payments of losses and related claims adjustment expenses. The following table presents the changes in the Pool’s aggregate claim reserves:

FOR YEARS ENDING SEPTEMBER 30,	<u>2005</u>	<u>2004</u>
Unpaid claims and claims adjustment expenses at year's beginning	\$ 11,349,474	\$ 10,182,042
Incurred claims and claim adjustments expenses:		
Provision for insured events of the current year	1,327,012	1,442,149
Change in provision for insured events of prior year	(1,057,001)	1,610,619
Total incurred claims and claim adjustments expenses	<u>11,619,485</u>	<u>13,234,810</u>
Payments for claims and claim adjustment expenses:		
Attributable to insured events of the current year	-	68,432
Attributable to insured events of prior events	1,927,885	1,816,904
Total Payments	<u>1,927,885</u>	<u>1,885,336</u>
Total unpaid claims and claim adjustment expenses at year end	\$ 9,691,600	\$ 11,349,474

RCW 48.62.141 and the Inter local Agreement provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program’s liabilities. Deficits of the pool are financed through retroactive assessments to member counties, including the following that are pertinent to Cowlitz County. The Pool’s overall reassessment receivable balance as of

December 31, 2005 is \$1,621,429. Cowlitz County's reassessment balance outstanding is \$117,636 and is explained hereafter.

A funding shortfall of \$6.5 million was projected in 1999 by the Pool for its 1993-97 loss years. In response, the board of directors adopted a reassessment plan requiring additional contributions from each member who participated in those years. The reassessments were to be billed and collected from member counties over the course of ten years starting in October 1999. In addition, the plan required terminating members to pay their reassessments for these years as if those counties had remained members of the Pool. Four annual installments were billed and collected (1999-2002).

With adverse claims development, the funding shortfall by the close of 2002 from the 1993-97 and 1998 policy years had grown. The residual balance was \$11.9 million. Yet, the claims and lawsuits from the first five years (1988-93) were concluded and closed with \$4.3 million in surplus.

During 2003, the board of directors voted to (a) fix surplus earnings as of October 1, 2002 from the 1993-97 and 1998 policy years, (b) calculate credits according to the proportionate amounts that the counties had paid into the Pool's loss fund for each of the separate policy years, and (c) transfer (surplus earnings) credits for qualifying current members (those that did not have subsequent break in Pool membership) to partially fund the 1993-98 policy years deficits. Additionally, the board revised the residual from the 1999 reassessment to \$7.6 million (applying the credits) and approved a new reassessment to \$7.6 million (applying credits) and approved a new reassessment formula being the proportionate amounts that a member counties paid into the Pool loss fund with each policy year calculated separately, and having a repayment schedule of six equal annual installments with the first billing in April 2003.

Member counties were offered advance payment discounts of 2% for each additional annual installment paid initially. Thirteen member counties paid their discounted reassessments in full, two counties paid several annual installments with only partial discounting, and ten counties paid the annual installment due. The twelve member counties with reassessment balances have each paid their 2004 and 2005 annual installments.

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, 2005 were \$1,250,000 for general liability and \$332,000 for workers compensation.

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

	<u>Risk Management</u>	<u>Industrial Insurance</u>	<u>Total</u>
Claims Payable 12-31-03	\$ 796,668	\$ 432,000	\$ 1,228,668
Provision for 2004	279,088	140,404	419,492
Increase(Decrease) in Provision for Prior Years	44,423	(7,038)	37,385
Less:			
Payment of Claims Current Yr. Events	11,670	37,505	49,175
Payment of Claims Prior Yr. Events	<u>202,532</u>	<u>168,861</u>	<u>371,393</u>
Claims Payable 12-31-04	\$ 905,977	\$ 359,000	\$ 1,264,977
Provision for 2005	230,049	166,400	396,449
Increase(Decrease) in Provision for Prior Years	309,949	88,687	398,636
Less:			
Payment of Claims Current Yr. Events	8,291	52,327	60,618
Payment of Claims Prior Yr. Events	<u>187,684</u>	<u>229,260</u>	<u>416,944</u>
Claims Payable 12-31-05	\$ 1,250,000	\$ 332,500	\$ 1,582,500

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, for protection of the Workers compensation fund, \$100,000. The Industrial Insurance Fund has \$339,763 at December 31, 2005 available to help meet the projected future estimate of claims to be paid out of \$332,500.

The Risk Management Fund has \$1,036,221 at December 31, 2005 in net cash and investments to meet projected claims to be paid of \$1,250,000. The projected claims liabilities as of 12/31/05 were significantly higher than as of December 31, 2004. This resulted in negative net assets of \$211,801 at December 31, 2005. The County has budgeted an additional \$104,981 more in interfund charges in 2006 than was collected in 2005 to fund part of the deficit.

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, 2005 the fund has a net assets balance of \$227,711 compared to \$172,768 at December 31, 2004.

NOTE 9 – LONG-TERM DEBT AND CAPITAL LEASES

A. LONG-TERM DEBT

Note 9 summarizes long-term debt as follows: 1) General Obligation Bonds and General Obligation Notes 2) is a schedule summarizing debt service requirements to maturity on general obligation bonds and notes and information on claims and judgments payable 3) Discretely Presented Component Units – Three Rivers Wastewater Authority, and Public Facilities District and their long-term debt 4) is a summary of changes in general long-term debt and proprietary long-term debt and 5) presents the County's legal debt margin.

1. General Obligation Bonds**A. Bonds and Other Long-Term Liabilities**

Debt Outstanding
December 31,
2005

General Obligations Bonds:

\$2,060,000 **1998 Limited Tax General Obligation Bonds** issued August 1, 1998 to assist the Port of Woodland construction of a rail line and related improvements. Interest varies from 4.0% to 4.4% with annual principal installments of \$65,000 to \$100,000 through November 1, 2008. The debt is serviced by sales and use tax authorized for distressed counties. If this sales tax falls short of the annual debt service requirements the Port guarantees repayment to the County. The County is generally obligated in event of default by Port of Woodland.

\$ 285,000

\$7,080,000 **1999 Limited Tax General Obligation Bonds** issued August 1, 1999. Interest varies from 4.0% to 5.5% with annual principal installments of \$295,000 to \$865,000. Final maturity is November 1, 2023. The debt is to finance the street improvements for the City of Longview, a bridge for Port Kalama's industrial park, restrooms for Port of Woodland, and improvements to the commercial building at the County Exposition Center. That debt is paid from sales tax authorized for distressed counties. **Some projects financed from this issue have the debt service paid by districts other than the County and represents \$920,000 of the \$1,055,000 outstanding.** That debt is paid from assessments collected by the following districts and consist of a conveyance and pumping system for Drainage Improvement District No. 1, a conveyance pump and emergency generator for Lexington Flood District, a pump station for Consolidated Diking District No. 2. The County is generally obligated in event of default from the revenue sources; however, should the distressed sales tax the county has dedicated to certain projects be insufficient the district's benefiting from proceeds have agreed to provide for their portion of the debts.

\$ 1,055,000

\$5,695,000 **2002 Limited General Obligation Bonds** issued September 10, 2002. Interest varies from 2.5% to 5.0% with annual principal installments of \$235,000 to \$435,000 through April 1, 2024. 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. And the County has purchased an insurance policy insuring the payment of principal and interest when due on the bonds. The issue provided \$2 million for a new rail line to Port of Longview; other projects were the wastewater treatment improvements to the cities of Castle Rock and Kalama, upgrade to City of Longview's water distribution system, a commercial building for the Port of Woodland, a shipping berth and commercial building for Port of Kalama and carried out other portions of the County's Facilities Plan.

\$ 5,165,000

\$235,00 **1993 Limited Tax Obligation Bonds** issued October 1 1993 to finance the relocation of a water main on state right of way. Interest varies from 2.8% to 4.5% on principal installments of \$10,000 to \$20,000 through December 31, 2008. **The debt is paid from users of the County Water System** and is backed by County property taxes.

\$ 60,000

\$6,565,000 **2003 Limited Tax General Obligation Bonds** issued July 8, 2003 to provide construction of a regional center for special events and conventions. **The debt will be paid from sales and hotel taxes received by the Cowlitz County Public Facilities District, a component unit of Cowlitz County.**

\$ 6,045,000

\$860,000 **2003 GO Refunding Bonds** issued July 8, 2003 to refund the 1994 limited general obligation bond debt of \$830,000 of Three Rivers Wastewater Plant, a component unit of the County. Interest varies from 2% to 3% on future

principal payments of \$110,000 to \$130,000 through October 1, 2010. **This debt is paid by Three Rivers Regional Wastewater Plant a component unit of Cowlitz County.** \$ 620,000

\$2,850,000 in R.I.D. #10 and L.I.D. #16 **1999 Special Assessment Bonds** issued August 1, 1999 interest varies from 4% to 5.25% on principal installments of \$105,000 to \$135,000 through November 1, 2009. The bonds are for sewer and road improvements on Port of Longview property. The Port of Longview is the debtor on all special assessments owing. The County has pledged its resources to pay principal and interest on the debt in case of default by the Port. In 2005 the 2005 Refunding Assessment Bond refunded \$1,825,000 of the debt. \$ 510,000

\$8,565,000 **2005 Limited GO Refunding Bonds** 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. \$ 8,410,000

This debt is paid from the following: principal paid from assessments is \$1,825,000 to be paid through 2019; other governments are to pay \$3,305,000 of the principal leaving \$3,345,000 as the County's portion of this debt..

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		Business Type Activities (Enterprise Funds- Water Sewer)	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	785,000	861,135	20,000	3,180
2007	840,000	834,630	20,000	2,140
2008	870,000	805,770	20,000	1,080
2009	900,000	774,649		
2010	955,000	642,896		
2011-2015	4,745,000	2,720,691		
2016-2020	5,585,000	1,747,628		
2021-2025	4,330,000	652,770		
2025-2027	745,000	43,255		
Total	\$ 19,755,000	\$ 9,083,424	\$ 60,000	\$ 6,400

1/ Enterprise debts paid from Water/Sewer user fees.

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

Special Assessment Debt		
Year Ending <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	120,000	122,790
2007	125,000	117,090
2008	130,000	111,340
2009	135,000	105,230
2010	140,000	98,750
2011-2015	840,000	367,800
2016-2019	845,000	114,413
Total	\$ 2,335,000	\$ 1,037,413

Advance Refunding

On September 9, 2005 Cowlitz County issued \$8,565,000 in Limited Tax G.O. Bonds to purchase U.S. Government securities that were placed in a trust account and are irrevocably pledged for future debt service to advance refund \$6,770,000 of the County’s 1999 Limited General Obligation Bonds and advance refund \$1,255,000 of Cowlitz County’s 1998 Limited General Obligation Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government wide statement of net assets.

The advance refunding resulted in the reacquisition price exceeding the net carrying amount of the old debt by \$575,031. This amount is being netted against the new debt and amortized over the remaining life of the old debt.

Claims and Judgements

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 9 through the Risk Insurance Pool. The County based the liability on information provided in year-end information form the Insurance Risk Pool and management judgment. The County liability consists of \$688,482 estimated pay out for claims reported and \$561,518 for claims incurred but not reported that is probable to be asserted. Total claims liability - \$1,250,000.

2) The Industrial Insurance Safety Fund provides payments for workers compensation. The estimated claims payable at December 31, 2005 based on information provided from State Industrial Tables - \$332,500.

Water-Sewer Notes Payable to State of Washington –

The entity has \$653,050 of Public Works Trust Fund Money from Wa. State Department of Community Development. The funds are for improvements to the Toutle Wastewater Treatment Facility. An advance was received in June 2000 of \$102,072 and an additional \$510,360 was received in May 2002 with the final payment of \$40,618 received February 2004. The loan was authorized for \$680,460; however total received was \$653,060. 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. Principal balance at December 31, 2005 is \$519,338.

Also the Water-Sewer fund received \$550,208 in November 2005 from Wa. State Department of Community Development. The funds are for improvements to the Ryderwood Water Treatment Plant. The note included a financing fee of \$21,258 that was deducted by the State. The loan has a 1% interest rate. Eighteen equal annual principal payments of \$30,567 are due beginning October 1, 2006 with final maturity October 1, 2023.

Annual debt service requirements payable to the State on the water-sewer notes are as follows:

Water Sewer - Notes Payable - St. of Wa.		
<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	65,190	10,063
2007	65,190	10,044
2008	65,190	9,392
2009	65,190	8,740
2010	65,190	8,088
2011-2015	325,948	30,661
2016-2020	325,948	14,363
2021-2023	91,701	1,834
Total	<u>\$ 1,069,547</u>	<u>\$ 93,185</u>

Solid Waste Enterprise Fund -Landfill 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 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 \$7.8 million reported as landfill closure and post closure care liability at December 31, 2005 represents the cumulative amount reported to date based on the use of 60.3 percent of the estimated refuse capacity of the landfill. The county will recognize the remaining estimated costs of closure and post closure care of \$5.2 million 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 2005. The estimated life for the landfill is 7 years 3 months. With final closure in March 2013. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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, 2005 the County had \$7.8 million in cash and investments held for these purposes. The amounts are reported as restricted cash and investment on the balance sheet.

3. Discretely presented component unit – Three Rivers Regional Wastewater Authority

Discretely presented component unit- Three Rivers Regional Wastewater Authority

The two bond issues were issued by Cowlitz County for improvements to the Regional Wastewater Sewer Plant in 1994 and 2002. Both bond issues are paid by the users of the Regional Wastewater Plant consisting of the cities of Kelso, and Longview and the Beacon Hill Sewer District. The 2002 Special Revenue Refunding issue had insurance policy purchased when the users issued the bonds to insure payment of the debt in case of default. Should the users of the system not comply with the bond covenants the County will precede to cause such noncompliance to be corrected and take such actions, as it deems necessary, including seeking an order of specific performance from an appropriate court. In 2003 the County issued refunding bonds that refunded the 1994 bonds. The Regional Wastewater Plant now pays the primary government for their share of the 2003 refunding issue.

Debt Outstanding	
<p>\$35,400,000 2002 Special Revenue Refunding Bonds- issued September 5, 2002 to pay the costs of the Central Sewer’s portion of the County’s outstanding Limited Tax General Obligation Bonds-1999. Interest varies from 2.5% to 5.5% on principal installments of \$2.1 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. The debt was issued in the County’s name; however, bond resolution legally transferred debt to Regional Wastewater Utility.</p>	<p>December 31, 2005</p> <p>\$ 29,030,000</p>

<p><u>Component Unit – Three Rivers Regional Wastewater Authority Notes</u></p>	
<p><u>Payable:</u></p>	
<p>\$7,000,000 1999 Public Works Trust Fund Loan from State of Washington - \$6,300,000 issued August 23, 1999 and \$700,00 issued May 12, 2004.for improvements to the sewer facilities. Interest is 1% per annum with future annual principal payments of \$375,329 beginning June 30, 2005 through June 30, 2019.</p>	<p>\$ 5,254,605</p>
<p> </p>	

\$3,000,000 2001 Public Works Trust Fund Loan from State of Washington - 2,850,00 issued May 26, 2001 and \$150,00 issued May 10, 2004 for improvements to treatment plant. Interest is .05% per annum with future annual principal payments of \$158,333 beginning June 30, 2005 through June 2020 and 8,333 principal payments in June 2021.	\$ 2,533,333
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Component Unit –Three Rivers Regional Wastewater Authority –Due to Primary Government	
\$860,000 from Cowlitz County which issued bonds on July 8, 2003 to refund the 1994 Regional Wastewater Bonds of \$830,000. Interest varies from 2 to 3% on future principal payments of \$110,000 to \$130,000 through October 1, 2010.	\$ 620,000

Annual Debt Service for **Component Unit –Three Rivers Regional Wastewater Authority** follows:

Discretely Presented Component Unit -Three Rivers Regional Wastewater Authority						
	Bonds*		Notes- Due State of Wa.		Due to Primary Govt.	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	1,605,000	1,334,144	533,662	65,213	115,000	15,575
2007	1,645,000	1,294,019	533,662	60,668	125,000	13,275
2008	1,695,000	1,244,669	533,662	56,123	125,000	10,463
2009	1,745,000	1,191,700	533,662	51,578	125,000	7,337
2010	1,805,000	1,134,987	533,662	47,033	130,000	3,900
2011-2015	10,230,000	4,477,312	2,668,312	167,990		
2016-2020	10,305,000	1,455,300	2,292,983	53,365		
2021			158,333	792		
Total	\$ 29,030,000	\$ 12,132,131	\$ 7,787,938	\$ 502,762	\$ 620,000	\$ 50,550

*Final Yr on Bond Pmts 2019

Discretely Presented Component Unit – Public Facilities District

On July 8, 2003 Cowlitz County issued \$6,465,000 of Limited Tax General Obligation Improvement Bonds to pay part of the costs of a regional convention center for the Public Facilities District that is currently under construction. Sales tax revenue that the Public Facilities District receives of .033 percent was imposed on March 20, 2002, which is a share of state sales tax collected, will help pay for the Limited General Obligation Bonds.

Component Unit – Public Facilities Dist. –Due to Primary Government	Debt Outstanding December 31, 2005
\$6,565,000 from Cowlitz County, that issued bonds on July 8, 2003 to provide funding for construction of a 39,000 square foot regional events conference/convention center. Interest varies from 2% to 4.35% on future principal payments of \$115,000 to \$490,000 through October 1, 2027.	\$6,045,000

Annual Debt service for the Component Unit – Public Facilities District follows:

Component Unit -Public Facilities District		
Due to Primary Government		
	Principal	Interest
2006	125,000	224,905
2007	135,000	222,405
2008	145,000	219,367
2009	160,000	215,743
2010	170,000	211,343
2011-2015	1,050,000	966,375
2016-2020	1,480,000	756,750
2021-2025	2,035,000	427,045
2026-2027	745,000	43,255
	<u>\$ 6,045,000</u>	<u>\$ 3,287,188</u>

4. CHANGES IN LONG-TERM DEBT

Changes in General Long Term Debt

	Balance 1/1/2005	Additions	Reductions	Balance 12/31/2005	Due Within One Year
General Obligation Bonds	\$ 20,075,000	\$ 6,740,000	(7,060,000)	\$ 19,755,000	\$ 705,000
Special Assessment Bonds with governmental commitment	2,445,000	1,825,000	(1,935,000)	2,335,000	120,000
Less: deferred amounts:					
for issuance discounts	(128,709)	(122,945)	16,143	(235,511)	
for refunding		(409,242)	42,698	(366,544)	
	<u>22,391,291</u>	<u>8,032,813</u>	<u>(8,936,159)</u>	<u>21,487,945</u>	<u>705,000</u>
Note Payable	175,000		(175,000)	-	-
Compensated Absences	2,446,478	2,213,570	(2,272,161)	2,387,887	
Comp. Absences - Int Svc.	172,420	79,126	(84,109)	167,437	
Claims/Judgements-Int Svc.	1,264,997	795,065	(477,562)	1,582,500	394,168
Total Gen'l Long-Term Debt	<u>\$ 26,450,186</u>	<u>\$ 11,120,574</u>	<u>\$ (11,944,991)</u>	<u>\$ 25,625,769</u>	<u>\$ 1,099,168</u>

In 2005 \$8,565,000 in refunding bonds were issued to refund a portion of the 1999 general obligation and special assessment debt. The new issue consists of \$6,740,000 in general obligation bonds and \$1,825,000 of the bonds to be paid from special assessments.

- Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds at year-end 12/31/05 consisting of claims payable of \$1,582,500 and compensated absences of \$167,437 are included in the governmental activities changes in general long-term debt.

Changes in Business Type Activities Long-Term Debt

	Balance 1/1/2005	Additions	Reductions	Balance 12/31/2005	Due Within One Year
Limited General					
Obligation Bonds	\$ 80,000		\$ (20,000)	\$ 60,000	\$ 20,000
Less: deferred discount	(1,946)		486	(1,460)	
	<u>78,054</u>		<u>(19,514)</u>	<u>58,540</u>	<u>20,000</u>
Note Payable State of Wa.	553,961	550,209	(34,623)	1,069,547	65,190
Compensated Absences	279,241	293,273	(280,743)	291,771	
Capital Lease	31,310		(15,081)	16,229	16,229
Landfill Closure & Postclosure Care	7,338,800	524,166		7,862,966	
	<u>\$ 8,281,366</u>	<u>\$ 1,367,648</u>	<u>\$ (349,961)</u>	<u>\$ 9,299,053</u>	<u>101,419</u>

CHANGES IN LONG-TERM DEBT COMPONENT UNIT (Three Rivers Regional Wastewater Authority)

	<u>Balance</u> <u>1/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2005</u>	<u>Due Within</u> <u>One Year</u>
Limited General					
Obligation Bonds	\$ -			\$ -	
Special Revenue					
Refunding Bonds	30,560,000		1,530,000	29,030,000	1,605,000
Less: deferred amounts:					
for discounts	(6,762)		1,127	(5,635)	
on refundings	(1,278,035)		88,587	(1,189,448)	
Total bonds payable	29,275,203	-	1,330,286	27,834,917	1,605,000
Notes Payable-State of Wa.	8,321,601		533,663	7,787,938	533,662
Due to Primary Government	735,000		115,000	620,000	115,000
Compensated Absences	161,795		20,978	140,817	
Total Component Unit	\$ 38,493,599	\$ -	\$ 1,999,927	\$ 36,383,672	\$ 2,253,662

	<u>Balance</u> <u>1/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2004</u>	<u>Due Within One</u> <u>Year</u>
Due to Primary Government	\$ 6,165,000		\$ 120,000	\$ 6,045,000	\$ 125,000
Less deferred amounts:					
For issuance discounts	(107,191)		4,661	(102,530)	
Long Term Liabilities	6,057,809	-	124,661	5,942,470	125,000

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)	\$ 78,826,435
General Government (Vote required)	\$ 147,807,608

6. CAPITALIZED LEASES

In government wide statement of net assets, capital lease purchases are recorded at present value at the time of acquisition with the associated liability

The county entered into a lease agreement in 2002 for financing the acquisition of Dictaphone recording communications equipment for 911 communications. The assets acquired through the capital leases are capitalized at their present value of the future minimum lease payments. .

<u>Asset</u>	<u>Governmental Activities</u>	<u>911 Communications</u>
Machinery & Equipment		\$75,813
Accumulated Depreciation		46, 752

Future minimum lease payments and the net present value of these payments as of December 31, 2005 follow:

<u>Year</u>	<u>Governmental Activities</u>	911 Communications. Enterprise Fund
2006		17,377
Less: Interest		<u>1,148</u>
Present Value of lease pmts.	\$ -0-	\$ 16,229

NOTE 10 – 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 11 – PRIOR PERIOD ADJUSTMENTS

Enterprise Funds

911 Communications (non major fund) – corrected for understatement of equipment depreciation of \$27,998.

Three Rivers Regional Wastewater Authority -Discretely Presented Component Unit

The District had mistakenly reported \$918,693 as non-operating expenses for Port of Longview in 2003 which had already been presented in 2002. The \$918,693 should have been part of the capital assets of the district and depreciation applied along with a receivable of \$68,043 owing from the Port of Longview. Taking into account depreciation on the asset results in prior period adjustment of \$880,414.

Public Facilities District

The 2004 statement overstated \$72,797 construction in progress and should have accrued interest payable of \$56,826 resulting in a total prior period decrease in net assets of \$129,623.

NOTE 12 – SUBSEQUENT EVENT NOTE

In May 2006 the Cowlitz County Commissioners authorized the sale of \$13,760,000 Special Sewer Revenue Bonds to fund improvements to the Three Rivers Regional Wastewater Authority (TRRWA). The TRRWA a component unit of Cowlitz County will pay for the principal and interest on this debt. In case the TRRWA does not meet its debt payments on the issue the County has backed the issue with tax revenues of the County. Should the TRRWA not set aside sufficient funds for the debt the County shall bring action against the TRRWA to compel payment of those amounts.

REQUIRED SUPPLEMENTAL INFORMATION

The Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-General Fund-presents budget information, along with actual results, on separate statements for the General Fund and each major special revenue fund which had a legally adopted budget. Also, departmental information is included for the General Fund, in accordance with the County's legally adopted Budget.

COWLITZ COUNTY, WASHINGTON
GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE-BUDGET(GAAP BASIS) AND ACTUAL
Year Ended December 31, 2005
With Comparative Actual Amounts for Year Ended December, 31 2004

	2005				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	2004 Actual Amounts
	Original	Final			
<i>Revenues:</i>					
Taxes	\$ 19,057,258	\$ 19,195,358	\$ 20,867,258	\$ 1,671,900	\$ 18,352,249
Licenses & Permits	1,048,934	1,291,934	1,462,799	170,865	1,216,111
Intergovernmental	3,824,250	3,861,299	3,904,621	43,322	4,027,235
Charges for services	4,442,266	4,754,522	4,969,844	215,322	4,456,154
Fines and forfeits	1,071,287	1,071,287	1,169,279	97,992	1,134,737
Interest	534,785	534,785	893,003	358,218	447,940
	361,091	361,091	390,980	29,889	409,254
<i>Total revenues</i>	\$ 30,339,871	\$ 31,070,276	\$ 33,657,784	\$ 2,587,508	\$ 30,043,680
<i>Expenditures:</i>					
General government	8,316,019	8,336,420	7,768,329	568,091	7,727,710
Public safety-corrections	6,356,207	6,413,849	6,079,937	333,912	6,244,093
Public safety-juvenile	3,098,462	3,157,959	3,053,094	104,865	3,182,890
Public safety-other	5,786,035	5,808,598	5,747,686	60,912	5,426,170
Judicial	4,524,120	4,541,170	4,340,317	200,853	4,268,499
Physical environment	88,100	88,100	87,959	141	86,172
Economic Environment	1,634,952	1,702,480	1,623,726	78,754	1,361,134
Transportation	19,000	19,000	16,000	3,000	16,000
Mental & physical health	259,191	259,191	233,649	25,542	230,405
Culture & recreation	696,219	696,219	660,207	36,012	670,876
Capital outlay	-				
<i>Total Expenditures</i>	30,778,305	31,022,986	29,610,904	1,412,082	29,213,949
Excess (deficiency) of revenues over expenditures	(438,434)	47,290	4,046,880	1,175,426	829,731
<i>Other financial sources (uses):</i>					
Proceeds-sale fixed assets	40,250	40,250	804,782	764,532	51,755
Transfers In	54,988	71,358	20,926	(50,432)	270,135
Transfers (out)	(1,042,045)	(1,269,645)	(1,209,705)	(59,940)	(2,381,134)
<i>Total Other financial sources (uses):</i>	(946,807)	(1,158,037)	(383,997)	654,160	(2,059,244)
Net change in fund balances	(1,385,241)	(1,110,747)	3,662,883	1,829,586	(1,229,513)
Fund balance, January 1	4,317,903	4,317,903	4,699,512	381,609	5,929,025
Fund balance, December 31	\$ 2,932,662	\$ 3,207,156	\$ 8,362,395	\$ 2,211,195	\$ 4,699,512

COWLITZ COUNTY, WASHINGTON
GENERAL FUND
SCHEDULE OF REVENUE - BUDGET AND ACTUAL
Year Ended December 31, 2005
With Comparative Actual Amounts for Year Ended December, 31 2004

	2005				2004
	Budgeted Amounts		Actual	Variance With	Actual
	Original	Final	Amounts	Final Budget	Amounts
General property taxes	\$ 13,256,846	\$ 13,256,846	\$ 13,632,812	375,966	\$ 12,615,446
Timber harvest taxes	494,035	494,035	663,188	169,153	489,144
Retail sales and use tax	3,753,252	3,891,352	4,702,171	810,819	3,754,072
Excise and other taxes	257,900	257,900	350,437	92,537	286,270
Penalties and interest on delinquent taxes	1,295,225	1,295,225	1,518,650	223,425	1,207,317
<i>Total Taxes</i>	<u>19,057,258</u>	<u>19,195,358</u>	<u>20,867,258</u>	<u>1,671,900</u>	<u>18,352,249</u>
Business licenses & permits	158,500	158,500	180,010	21,510	176,580
Marriage licenses	19,980	19,980	20,933	953	20,346
Permits	870,454	1,113,454	1,261,856	148,402	1,019,185
<i>Total Licenses & Permits</i>	<u>1,048,934</u>	<u>1,291,934</u>	<u>1,462,799</u>	<u>170,865</u>	<u>1,216,111</u>
Federal grants - direct	18,898	18,898	57,890	38,992	101,777
Federal payment lieu of taxes	6,826	6,826	7,383	557	7,047
Federal grants - indirect	533,706	532,311	581,795	49,484	538,278
State grants	1,039,775	1,068,119	953,012	(115,107)	1,067,673
State shared revenue-PUD privilege	945,300	945,300	933,674	(11,626)	945,317
State shared revenue-other	1,430	1,430	684	(746)	700
Entitlement and impact payments	912,276	922,376	988,474	66,098	964,968
Intergovernmental service revenue	366,039	366,039	381,709	15,670	401,475
<i>Total intergovernmental</i>	<u>3,824,250</u>	<u>3,861,299</u>	<u>3,904,621</u>	<u>43,322</u>	<u>4,027,235</u>
General government fees	1,226,080	1,233,080	1,272,547	39,467	1,173,998
Public safety	2,181,317	2,181,317	2,220,111	38,794	2,133,733
Judicial	419,774	496,570	433,928	(62,642)	403,940
Transportation	14,000	14,000	14,581	581	17,427
Economic environment	595,770	824,230	1,024,028	199,798	720,276
Mental & physical health	1,325	1,325	1,249	(76)	2,830
Culture & recreation	4,000	4,000	3,400	(600)	3,950
<i>Total charges for services</i>	<u>4,442,266</u>	<u>4,754,522</u>	<u>4,969,844</u>	<u>215,322</u>	<u>4,456,154</u>
<i>Fines and forfeits</i>	1,071,287	1,071,287	1,169,279	97,992	1,134,737
<i>Interest earnings</i>	534,785	534,785	893,003	358,218	447,940
Rents and royalties	268,023	268,023	255,960	(12,063)	313,942
Other revenues	93,068	93,068	135,020	41,952	95,312
<i>Total miscellaneous</i>	<u>361,091</u>	<u>361,091</u>	<u>390,980</u>	<u>29,889</u>	<u>409,254</u>
TOTAL REVENUES	\$ 30,339,871	\$ 31,070,276	\$ 33,657,784	\$ 2,587,508	\$ 30,043,680

COWLITZ COUNTY, WASHINGTON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended December 31, 2005
With Comparative Actual Amounts for Year Ended December, 31 2004

	<u>Budgeted Amounts</u>		<u>2005 Actual Amounts</u>	<u>Variance with Final Budget</u>	<u>2004 Actual Amounts</u>
	<u>2005 ORIGINAL</u>	<u>2005 FINAL</u>			
<i>General Government</i>					
Boundary Review	\$ 20,880	\$ 20,880	\$ 16,184	\$ 4,696	\$ 16,568
Commissioners	472,790	472,790	466,181	6,609	452,541
Board of Equalization	5,319	5,319	1,564	3,755	3,155
Treasurer	574,081	574,081	561,756	12,325	533,182
Auditor	806,020	814,820	763,925	50,895	750,056
Assessor	1,254,190	1,254,190	1,218,447	35,743	1,256,175
Courthouse Facilitator	17,480	17,480	13,467	4,013	13,755
Prosecuting Attorney	1,482,016	1,491,002	1,447,501	43,501	1,340,563
Prosecuting Attorney-Diversion Prog.	13,853	16,468	16,070	398	13,255
Child Support Services	454,061	454,061	436,960	17,101	418,610
Administrative Services	610,994	610,994	515,617	95,377	531,710
Civil Service Commission	16,694	16,694	5,135	11,559	11,820
Admin. Bldg. Maint.	500,100	500,100	379,914	120,186	402,004
Hall of Justice Maintenance	1,220,683	1,220,683	1,055,607	165,076	1,077,575
Non-Dept. - Severance Pay	163,253	184,036	153,939	30,097	202,597
Non-Dept. - Insurance	398,719	398,719	396,962	1,757	326,245
Non-Dept. - Other	304,886	284,103	319,100	(34,997)	377,901
Total General Government	8,316,019	8,336,420	7,768,329	568,091	7,727,712
<i>Public Safety</i>					
Jail	4,856,942	4,914,584	4,712,726	201,858	4,693,293
Offender Services	956,584	956,584	880,235	76,349	1,072,728
Jail Concessions	101,273	101,273	74,212	27,061	75,532
Probation Services	441,408	441,408	412,764	28,644	402,541
Public Safety - Corrections Total	6,356,207	6,413,849	6,079,937	333,912	6,244,094
Public Safety - Juvenile-Detention & Probation	3,098,462	3,157,959	3,053,094	104,865	3,182,890
<i>Public Safety - Sheriff & Sheriff Extradition</i>					
Non-Dept. - 911 Communications	4,764,960	4,787,523	4,724,980	62,543	4,475,563
Non-Dept. - Law Enforcement Records	505,788	505,788	505,788	-	480,570
Non-Dept. - Law Enforcement Records	420,455	420,455	421,655	(1,200)	387,956
Non-Dept. - Dept of Emerg Mgt	84,926	84,926	84,926	-	72,369
Non-Dept. - Fire District No. 2	9,906	9,906	10,337	(431)	9,712
Total Public Safety-Other	5,786,035	5,808,598	5,747,686	60,912	5,426,170
<i>Judicial</i>					
Superior Court	1,972,195	1,972,195	1,875,709	96,486	1,856,133
District Justice Court	1,376,073	1,393,123	1,338,272	54,851	1,290,300
Clerk	937,711	937,711	905,412	32,299	902,375
Family Court	238,141	238,141	220,924	17,217	219,691
Total Judicial	4,524,120	4,541,170	4,340,317	200,853	4,268,499
<i>Physical and Economic Environment</i>					
Building & Planning	1,537,494	1,605,022	1,526,268	78,754	1,255,036
Non-Dept. - Animal Control	86,850	86,850	86,850	-	85,050
Non-Dept. - Soil Conservation/Nat. Resources	1,250	1,250	1,109	141	1,122
Non-Dept. - Council of Govts.	81,458	81,458	81,458	-	90,098
Non-Dept. - Econ. Dev.	16,000	16,000	16,000	-	16,000
Total Physical and Economic Environment	1,723,052	1,790,580	1,711,685	78,895	1,447,306
Transportation	19,000	19,000	16,000	3,000	16,000
<i>Physical Health</i>					
Coroner	185,495	185,495	161,035	24,460	156,244
Drug Court Grant Program	73,696	73,696	72,614	1,082	74,161
Total Physical Health	259,191	259,191	233,649	25,542	230,405
<i>Culture & Recreation</i>					
Co. Extension Agent	152,451	152,451	126,399	26,052	152,291
Museum	96,267	96,267	92,038	4,229	92,424
Park & Recreation	447,501	447,501	441,770	5,731	426,161
Total Culture & Recreation	696,219	696,219	660,207	36,012	670,876
<i>Capital Outlays</i>					
TOTAL EXPENDITURES	\$ 30,778,305	\$ 31,022,986	\$ 29,610,904	\$ 1,412,082	\$ 29,213,952
<i>Other Financial (Uses)</i>					
Operating Transfers Out:					
Auditor to Auditor O&M	-	6,000	16,308	(10,308)	
Drug Task Force	50,470	50,470	50,470	-	
Human Services	169,691	169,691	169,691	-	180,185
Community Mental Health	11,132	11,132	11,132	-	2,000
Health Department	375,725	375,725	375,725	-	440,000
Expo Center	147,533	196,533	196,533	-	172,533
Election Reserve	73,500	137,000	137,000	-	150,000
Geographic Information Systems	167,994	198,994	167,994	31,000	127,210
Central Services	-	89,100	53,970	35,130	
Capital Improvement Fund	-	20,000	20,000	-	1,205,538
Road Fund - Weed control	46,000	15,000	10,882	4,118	103,668
Total Other Financial (Uses)	1,042,045	1,269,645	1,209,705	59,940	2,381,134
TOTAL EXPENDITURES & OTHER FINANCIAL (Uses)	\$ 31,820,350	\$ 32,292,631	\$ 30,820,609	\$ 1,472,022	\$ 31,595,086

COWLITZ COUNTY, WASHINGTON
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005
With Comparative Actual Amounts for 2004

	<u>County Road</u>				2004 Actual Amount
	2005			Variance with Final Budget -	
	<u>Budgeted Amounts</u> Original	<u>Final</u>	<u>Actual Amt</u>		
<u>Revenues:</u>					
Taxes	\$ 7,195,538	\$ 7,195,538	\$ 7,653,530	\$ 457,992	\$ 7,742,414
Licenses and permits					
Intergovernmental	6,652,168	6,652,168	5,519,770	(1,132,398)	5,083,195
Charges for services	63,500	63,500	79,656	16,156	77,223
Fines & forfeits		-			
Interest	30,000	30,000	149,779	119,779	57,322
Miscellaneous	102,500	102,500	138,220	35,720	49,963
<i>Total revenues</i>	<u>14,043,706</u>	<u>14,043,706</u>	<u>13,540,955</u>	<u>(502,751)</u>	<u>13,010,117</u>
<u>Expenditures:</u>					
General government					
Public safety					
Physical environment					
Transportation	9,594,233	9,594,233	8,809,180	785,053	7,222,942
Economic environment					
Mental & physical health					
Culture & recreation					
Capital outlays	6,780,000	6,780,000	4,383,991	2,396,009	4,407,126
Debt service interest					
<i>Total expenditures</i>	<u>16,374,233</u>	<u>16,374,233</u>	<u>13,193,171</u>	<u>3,181,062</u>	<u># 11,630,068</u>
Excess(deficiency) of revenues over expenditures	(2,330,527)	(2,330,527)	347,784	2,678,311	1,380,049
<u>Other financing sources (uses):</u>					
Capital leases					
Sale of capital assets	250,000	250,000	857,300	607,300	60,381
Transfers in			10,882	10,882	10,309
Transfers (out)	(698,738)	(698,738)	(711,215)	(12,477)	(661,448)
<i>Total other financing sources (uses)</i>	<u>(448,738)</u>	<u>(448,738)</u>	<u>156,967</u>	<u>605,705</u>	<u>(590,758)</u>
Net change in fund balances	(2,779,265)	(2,779,265)	504,751	3,284,016	789,291
Fund balance, January 1	5,300,000	5,300,000	5,755,015	455,015	4,965,724
Prior period adjustments					
<i>Fund balance December 31</i>	<u>\$ 2,520,735</u>	<u>\$ 2,520,735</u>	<u>\$ 6,259,766</u>	<u>\$ 3,739,031</u>	<u>\$ 5,755,015</u>

COWLITZ COUNTY, WASHINGTON
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005
With Comparative Actual Amounts for December 31, 2004

	Community Mental Health				2004 Actual Amount
	2005				
	<u>Budgeted Amounts</u>		<u>Actual Amt</u>	Variance with <u>Final Budget</u>	
<u>Original</u>	<u>Final</u>				
<u>Revenues:</u>					
Intergovernmental	\$ 8,081,544	\$ 8,081,544	\$ 7,356,557	\$ (724,987)	\$ 7,080,092
Interest	15,000	15,000	39,926	24,926	21,177
Miscellaneous	10,000	10,000	-	(10,000)	3,976
<i>Total revenues</i>	<u>8,106,544</u>	<u>8,106,544</u>	<u>7,396,483</u>	<u>(710,061)</u>	<u>7,105,245</u>
<u>Expenditures:</u>					
Mental & Physical health	8,097,244	8,097,244	7,922,375	174,869	7,112,193
<i>Total expenditures</i>	<u>8,097,244</u>	<u>8,097,244</u>	<u>7,922,375</u>	<u>174,869</u>	<u>7,112,193</u>
Excess(deficiency) of revenues over expenditures	9,300	9,300	(525,892)	(535,192)	(6,948)
<u>Other financing sources (uses):</u>					
Transfers in	10,914	10,914	11,132	218	10,914
<i>Total other financing sources (uses)</i>	<u>10,914</u>	<u>10,914</u>	<u>11,132</u>	<u>218</u>	<u>10,914</u>
Net change in fund balances	20,214	20,214	(514,760)	(534,974)	3,966
Fund balance, January 1	640,442	640,442	1,233,486	593,044	1,299,520
<i>Fund balance December 31</i>	<u>\$ 660,656</u>	<u>\$ 660,656</u>	<u>\$ 718,726</u>	<u>\$ 58,070</u>	<u>\$ 1,303,486</u>

Notes to Required Supplementary Information

Cowlitz County adopts its annual budget in accordance with state statute, codified in Revised Code of Washington, Chapter 36.40, on a basis consistent with generally accepted accounting principles. The Board of County Commissioners adopts the annual budgets for general, special revenue and capital project funds. Budgetary constraints for debt service funds are determined by the term of the debt instruments or enabling legislation.

Budgets are presented on the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible with 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 31 days of the end of the current fiscal period. Expenditures are generally 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.

OTHER SUPPLEMENTAL INFORMATION

The Capital Improvements Fund, although not required information, is included with more detail than in the basic financial statements for informational purposes.

**COWLITZ COUNTY, WASHINGTON
CAPITAL IMPROVEMENTS FUND
OTHER SUPPLEMENTARY INFORMATION
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
Years Ended December 31, 2005 and 2004**

	<u>2005</u> <u>Actual</u>	<u>2004</u> <u>Actual</u>
<u>Revenues:</u>		
Taxes - rural county sales tax allocation	\$ 1,167,498	\$ 998,788
Taxes- real estate excise tax	886,462	529,890
Intergovernmental	226,344	1,387,940
Interest - other	113,856	107,541
Interest - 1999 Ltd. GO Bond	4,600	15,475
Interest - Lexington Bridge	68,009	16,927
Interest- rural county public facilities	13,590	21,259
Miscellaneous	2,986	52,077
<i>Total revenues</i>	<u>2,483,345</u>	<u>3,129,897</u>
<u>Expenditures:</u>		
General Government	295,026	85,545
Public Safety- Other	30,629	115,346
- Jail Annex	78,373	
Physical Environment- Abernathy shoreline resto	27,786	345,478
-Soil & water conservation	58,575	
- Drainage Dist. No. 1	279,487	
- other		170,812
Transportation - Ports economic assist.	104,000	250,000
- other	16	156
Economic Environment - CDBG Grt. LCCAC	6,829	129,018
- rental properties	10,546	3,506
Health - Toutle River Boys Ranch (CDBG Grant)		995,058
- other		7,824
Culture and Recreation - Exposition Center topsc	14,314	
- Other	10,621	209,280
<u>Capital Outlay:</u>		
Jail Construction	5,423,395	6,412,118
Hall of Justice -	142,502	404,804
Juvenile Center- Exterior lighting	19,553	
Parks	32,378	65,062
Other		36,671
Admin Bldg - replace cooling tower	12,949	
Assessor - workstations	69,721	
Debt service - Principal (Health Bldg)	175,000	525,000
Interest and other debt service costs	9,686	26,084
<i>Total expenditures</i>	<u>6,801,386</u>	<u>9,781,762</u>
Excess (deficiency) of revenues over expenditures	(4,318,041)	(6,651,865)
<u>Other financingsources(uses):</u>		
Proceeds sale of capital assets	459,457	
Transfers in	715,915	4,578,045
Transfers (out) *	(1,567,564)	(1,725,574)
<i>Total other financing sources (uses)</i>	<u>(392,192)</u>	<u>2,852,471</u>
Net change in fund balances	(4,710,233)	(3,799,394)
Fund balance, January 1	<u>11,113,217</u>	<u>14,912,611</u>
<i>Fund balance, December 31</i>	<u>\$ 6,402,984</u>	<u>\$ 11,113,217</u>

Transfers out includes \$554,925 of 1999 bond proceeds expended for Drainage District No. No. 1i in 2005 and \$567,744 in 2004 . The District agreed to pay the debt on their share of bond proceeds ; a receivable is recognized in the debt service fund by a transfer in from the capital I improvements fund at the time the proceeds are spent on Drainage District No. 1's project.

Three Rivers Regional Wastewater Authority
Pledged Revenue Coverage on 2002 Special Sewer Revenue Refunding Bonds

		<u>2005</u>
Net revenue excluding non operating revenue	\$	1,626,369
Add back depreciation		<u>1,620,897</u>
		3,247,266
Interest Revenue	\$ 238,166	
Less: Rate Stabilization Interest Revenue	<u>101,154</u>	
		137,012
System Development Fees		347,975
Miscellaneous revenue (net)		10,188
* Transfer of some of Rate Stabilization Funds March 2006		<u>31,000</u>
		3,773,441
Debt service on bonds (2002 Refunding Bonds)		<u>2,902,394</u>
Coverage on debt service for bonds		1.30
Coverage requirement with rate stabilization funds		1.30

* Bond Resolution # 02-136 provides for withdrawing revenue from the Rate Stabilization Account and depositing it in the Maintenance Fund to provide said coverage within 180 days after the end of the fiscal year.