

COWLITZ COUNTY, WASHINGTON

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Year Ending December 31, 2006

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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, 2006. The discussion emphasizes results for calendar year 2006 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 186.3 million. Net assets invested in capital assets (net of depreciation and related debt) accounts for 78% of this amount with a value of \$146.6 million. Of the remaining net assets, \$13.1 million of governmental activity net assets and \$13.9 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 \$13.7 million in 2006. The net assets of business-type activities increased \$3.6 million and net assets of governmental activities increased \$10.15 million from 2006 operations.

- At December 31, 2006 Cowlitz County's governmental funds reported a combining ending fund balance of \$53.826 million, an increase of \$16.7 million compared to the prior year. However, \$13.76 million of the increase is for a receivable from Three Rivers Regional Wastewater (TRRWA) set up for bond proceeds the County received and gave to TRRWA. The fund statements do not reflect long-term debt. The \$13.76 million in bonds payable are shown on the entity wide statement of net assets and offset this receivable. Therefore, excluding the \$13.76 million from the governmental funds the net increase in fund balance was \$ 3 million.

- The General Fund unreserved fund balance at December 31, 2006 was \$9.8 million, an 18% increase compared to the December 31, 2005 total of \$8.4 million. The December 31, 2006 unreserved fund balance represents 28 percent of the 2006 General Fund expenditures and transfers out.

- The County Road Fund unreserved fund balance at December 31, 2006 totaled \$5.2 million, a decrease of 17 % compared to the December 31, 2005 balance. The ending unreserved fund balance represents 27 percent of 2006 road fund expenditures and transfers out.

- Cowlitz County's total long-term debt as of December 31, 2006 totaled \$49.09 million, a net increase of \$14.27 million over the previous year. The County issued \$13.76 million Special Sewer Revenue Bonds for TRRWA on June 1, 2006. TRRWA has agreed to pay the principal and interest on the debt. Should TRRWA default on the debt the County will provide for the payment of the annual debt. Also the County received \$533,949 in notes payable to State of Washington in November 2006 for improvements to the Ryderwood Water Treatment Plant.

- Of the \$49.09 million debt shown in the County's name \$26.3 million is the responsibility of other governments.

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- At December 31, 2006 the County's remaining capacity for issuing non-voted debt is \$77.9 million.

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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 2006.)

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 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 - the Three Rivers Regional Wastewater Authority (TRRWA) for which the County has issued bonds to help the finance their construction

projects, and a legally separate entity – the Public Facilities District (PFD) that has a five member board appointed by the Board of County Commissioners that also had some debt issued by the County for its construction project. Financial information for 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 close of 2006. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The following funds: General Fund, Road Fund, Community Mental Health Fund, 1999 Limited G.O. Bond-debt service fund, the 2003 Limited G.O. and Refunding Bond-debt service fund, the 2006 Special Sewer Revenue Bond –debt service fund, and Capital Improvements Fund, 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 \$186.3 million at December 31, 2006 compared to \$172.1 million at December 31, 2005.

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, 2006 net of depreciation plus infrastructure construction in progress totals \$81.5 million (60%) 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 71,757,555	\$ 54,067,752	24,007,095	19,112,426	\$ 95,764,650	\$ 73,180,178
Capital assets (net of depreciation.	129,836,308	123,471,098	16,841,570	16,100,493	146,677,878	139,571,591
Total assets	<u>\$ 201,593,863</u>	<u>\$ 177,538,850</u>	<u>40,848,665</u>	<u>35,212,919</u>	<u>242,442,528</u>	<u>212,751,769</u>
Long-term liabilities	38,332,656	25,625,769	10,754,359	9,299,054	49,087,015	34,924,823
Other liabilities	6,153,081	5,090,468	875,494	657,243	7,028,575	5,747,711
Total liabilities	<u>44,485,737</u>	<u>30,716,237</u>	<u>11,629,853</u>	<u>9,956,297</u>	<u>56,115,590</u>	<u>40,672,534</u>
Net Assets:						
Invested in capital assets, net of related debt	129,836,308	123,471,098	15,288,738	14,952,535	145,125,046	138,423,633
Restricted	14,201,750	13,526,419	17,534	16,811	14,219,284	13,543,230
Unrestricted	13,070,068	9,825,096	13,912,540	10,287,276	26,982,608	20,112,372
Total net assets	<u>\$ 157,108,126</u>	<u>\$ 146,822,613</u>	<u>\$ 29,218,812</u>	<u>\$ 25,256,622</u>	<u>\$ 186,326,938</u>	<u>\$ 172,079,235</u>

At December 31, 2006 the County has positive balances in governmental and business-type activities and in total net assets. The same situation existed for 2005. Cowlitz County's net assets increased \$13.7 million in 2006 or 8% compared to December 31, 2005.

The balances shown above for 2005 do not reflect prior period adjustments resulting in a net increases of \$385,920 thousand in net assets of business type activities and a net increase of \$131 thousand to the Governmental net assets.

Statement of Changes in Net Assets. Key elements in the net increase of \$13.7 million in net assets for 2006 along with comparative amounts for 2005 follows:

Cowlitz County –Changes in Net Assets

	Governmental Activities		Business-type activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
<i>Program Revenues</i>						
Charges for services	\$ 21,425,503	\$ 16,320,508	\$ 9,891,034	\$ 9,452,294	\$ 31,316,537	\$ 25,772,802
Operating grants & contributions	6,501,012	6,996,064	307,292	124,688	6,808,304	7,120,752
Capital grants and contributions	7,188,784	3,225,002	1,748,279	196,397	8,937,063	3,421,399
<i>General Revenues</i>						
Taxes	35,762,363	34,329,179	618,496	567,882	36,380,859	34,897,061
Gain (loss) on sale of assets	580,665	2,257,169	(70)	(14,663)	580,595	2,242,506
Interest earneds on investments	2,853,945	1,605,591	915,363	493,340	3,769,308	2,098,931
Total revenues	74,312,272	64,733,513	13,480,394	10,819,938	87,792,666	75,553,451
Program Expenses						
General Government	10,301,070	9,291,636			10,301,070	9,291,636
Public Safety	18,236,814	16,309,818	3,990,156	3,177,331	22,226,970	19,487,149
Judicial	4,735,540	4,437,661			4,735,540	4,437,661
Physical environment	283,846	493,548			283,846	493,548
Transportation-roads	13,288,575	11,514,583			13,288,575	11,514,583
Economic environment	2,228,026	1,883,139			2,228,026	1,883,139
Health	12,445,727	11,887,373			12,445,727	11,887,373
Culture & recreation	1,157,946	1,091,829	1,082,080	990,530	2,240,026	2,082,359
Solid Waste			3,856,755	2,990,910	3,856,755	2,990,910
Water			602,747	687,097	602,747	687,097
Sewer			598,597	402,430	598,597	402,430
Interest on long-term debt	1,253,883	885,805			1,253,883	885,805
Total Expenses	63,931,427	57,795,392	10,130,335	8,248,298	74,061,762	66,043,690
Excess (deficiency) of revenues over (under) expenses	10,380,845	6,938,121	3,350,059	2,571,640	13,730,904	9,509,761
Transfers	(226,211)	(293,368)	226,211	293,368	-	-
Change in Net Assets	10,154,634	6,644,753	3,576,270	2,865,008	13,730,904	9,509,761
Net assets January 1	146,822,613	140,177,860	25,256,622	22,419,412	172,079,235	162,597,272
Prior period adjustment	130,879		385,920	(27,798)	516,799	(27,798)
Net assets -December 31	\$ 157,108,126	\$ 146,822,613	\$ 29,218,812	\$ 25,256,622	\$ 186,326,938	\$ 172,079,235

Cowlitz County revenue totaled \$87.8 million in 2006. Governmental activities provided \$74.3 million, 84.6%, while business activities provided \$13.7 million. Taxes - \$35.7 million account for 48% of the 2006 governmental activity revenues compared to \$34.3 million in 2005.

Governmental activities net assets of Cowlitz County increased by \$10.2 million in 2006. It consists of governmental revenues in excess of governmental expenditures by \$10.46 million reduced by \$.226 million in governmental transfers out to business-type activities.

Charge for service revenues totaled \$21.4 million in 2006 compared to \$16.3 million in 2005. Charge for service revenue was up in all programs shown on the Statement of Activities (page 19).

Health programs had the greatest increase of \$3.12 million to \$8.9 million. The Community Mental Health Charge for service fees coming from the State of Washington had significant increases. Approximately \$344 thousand of the increase in 2006 is because the State now pays

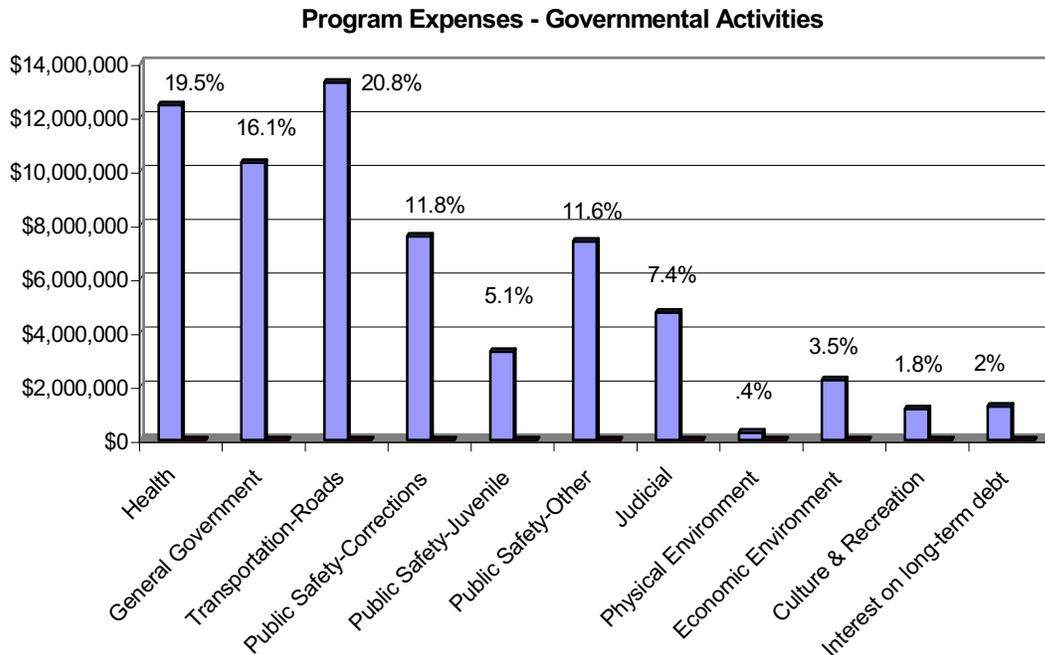
the County for hospital utilization fees rather than paying funds directly to the hospital which resulted in increased revenues and expenditures.. Additionally the state’s reconciliation of hospital funds held back from previous mental health payments has generated an additional \$480 thousand annually.

Economic environment charge for service revenues, primarily representing building & planning fees, had the next largest increase. Their revenues increased \$.74 million (29 percent) to \$3.22 million. In January 2006 there was a 15 percent across the board fee increase. Permits issued in 2006 totaled 1,909 compared to 1,781 in 2005. The construction value of permits in 2006 totaled \$134 million compared to \$90 million in 2005, a 38 percent increase.

Governmental activity revenue from the gain on sale of capital assets totaled \$.58 million in 2006 compared to \$2.25 million in 2005. Timber sales were \$1.66 million in 2005 decreased to \$.74 million in 2006 accounting for major decline in sale of fixed assets County timberland managed by the State of Washington that benefits the General and Road funds of the County.

Capital grants and capital contributions for totaled \$7.2 million in 2006 compared to \$3.23 million in 2005. Road Fund, the recipient of most of the capital grant revenues received \$7.1 million of the capital grants and contributions in 2006 compared to \$3.1 million in 2005.

County governmental activity expenses in 2006 totaled \$63.9. million, a 10.6% increase compared to 2005. Program expenses for 2006 are presented in the following chart:



Business type expenses for Cowlitz County in 2006 totaled \$10.1 million compared to \$8.25 million in 2005. Expenses included public safety programs consisting of (911 communications,

law enforcement records and emergency management) - \$4 million; the solid waste landfill \$3.85 million; the water sewer utility \$1.2 million in expenses and the exposition center had \$1.1 million of expenses in 2006.

Business type activities net assets increased \$3.6 million in 2006, an increase of 14% for the year. Charge for service revenues of \$9.8 million accounted for 86 percent of total business revenues.

Other business revenues consisted of \$618 thousand in 911 communication taxes. And interest earnings on investments totaled \$915 thousand in 2006 compared to \$493 thousand in 2005.

The Solid Waste Utility revenue of \$5.9 million accounted for 44% of the business-type revenues reported in 2006. The Solid Waste charge for service revenues totaled \$5 million in 2006 an increase of \$.31 million, 6.6%, compared to 2005. The tonnage handled in 2006 of 106,885 increased by 4.5% compared to 2005. Net assets of the Solid Waste Utility totaled \$16.9 million at December 31, 2006, an increase of \$2 million in 2006. Interest income in 2006 totaled \$.82 million versus \$.44 million in 2005.

The Water-Sewer Utility charge for service revenues totaled \$1.3 million, an increase of 16.8% over 2005. The Water Sewer net assets increased \$.95 million in 2006 to \$7.5 million.

Exposition Center operating revenues totaled \$827 thousand in 2006 compared to \$634 thousand in 2005. The County General Fund provided \$206 thousand transfer to support operations in 2006. The Exposition Center also received a payment from the Public Facilities District of \$164 thousand. The Exposition Center's net assets increased \$10 thousand in 2006.

911Communications Center operating revenues totaled \$1.6 million and received \$618,946 thousand in 911 taxes and \$912,000 of state funds for capital additions. The 911 net assets increased \$618 thousand in 2006 to \$3.2 million.

Law Enforcement Records operating revenues for 2006 totaled \$858 thousand, a 2 decrease compared to 2005. Operating expenses totaled \$1 million in 2006 a 15 percent increased over 2005. The Fund had an operating loss of \$167 thousand in 2006. Non-operating revenues totaled \$32 thousand. The change in net assets was \$135 thousand decrease in 2006 compared to a \$10 thousand decrease in 2005.

Emergency Management operating revenues totaled \$283 thousand in 2006. Operating income was a positive \$42 thousand in 2006. Net assets were \$91 thousand at December 31, 2006 an increase of \$44 thousand in comparison to December 31, 2005.

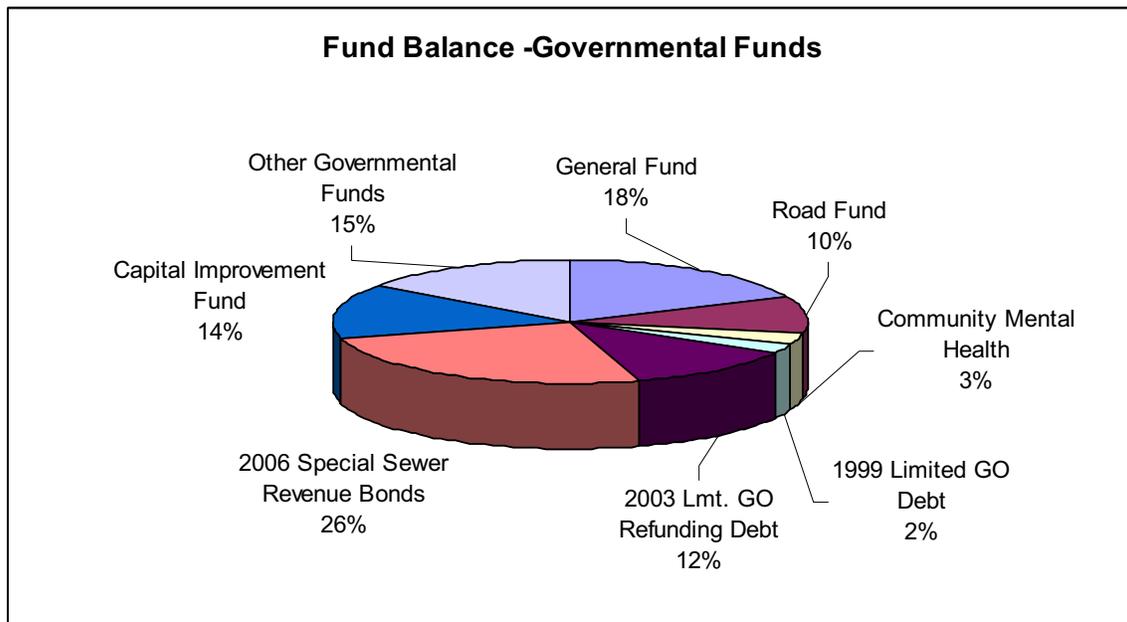
Financial Analysis of County Funds. As noted earlier, Cowlitz County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, Debt Service -2006 Special Sewer Revenue, and

the Capital Improvements Fund are the County's major funds. These funds account for 85% of the total governmental fund December 31, 2006 ending fund balance.

	Balance	Percent
General Fund	\$ 9,834,132	18%
Road Fund	5,199,373	10%
Community Mental Health	1,726,127	3%
1999 Limited GO Debt	1,150,782	2%
2003 Lmt. GO Refunding Bonds	6,425,000	12%
2006 Special Sewer Revenue Bonds	13,760,000	26%
Capital Improvement Fund	7,661,821	14%
Other Governmental Funds	8,063,098	15%
Total Governmental Fund Balance	\$ 53,820,333	100%



The Capital Improvements fund balance totaled \$7.6 million at December 31, 2006; this represents 14% of the governmental funds fund balance. Some of the fund balance is reserved consisting of \$2.4 million for construction of the Lexington Bridge traversing the Cowlitz River, \$2.5 million in the Rural County Public Facilities account for public facilities economic development, and 68 thousand for federal forest education programs.

The debt service funds combined had \$24.6 million fund balance at December 31, 2006. This represents 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.

Therefore \$24.6 million of the governmental funds December 31, 2006 total fund balance of \$53.8 million is actually restricted to paying long-term debt. Excluding the debt service fund balances the governmental funds fund balance at December 31, 2006 was \$29.2 million compared to \$25.7 million at December 31, 2005. This represents an increase of \$3.5 million for 2006. Included in the \$3.5 million is \$.73 million gain on sale of capital assets.

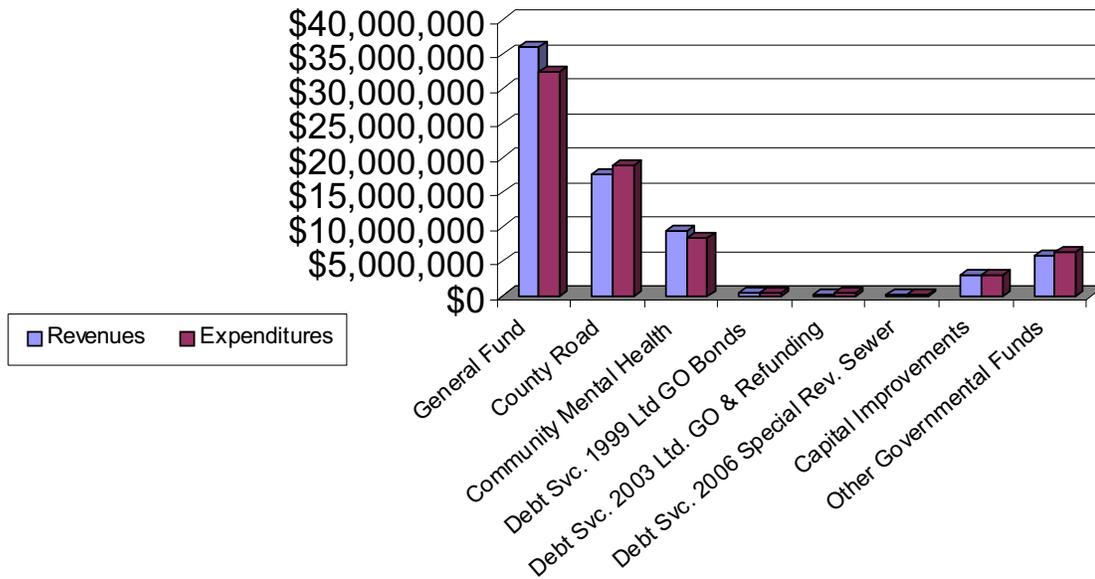
Approximately 47 percent of the governmental funds fund balance (\$25.5 million) constitutes the unreserved fund balance, which is available for spending within the designated funds. The remainder of fund balance is not available for new spending because it is committed: 1) to pay off bonds the County issued in its name that benefited other districts who have agreed to pay the County in future years (\$23.2 million) and 2) the Capital Improvements Fund has \$2.4 million for construction of the Lexington Bridge and \$2.5 million fund balance restricted for economic development/public facilities and \$68 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 2006:

	Revenues	Expenditures
General Fund	\$36,112,272	\$32,309,925
County Road	17,451,636	18,858,765
Community Mental Health	9,275,856	8,281,810
Debt Svc.- 1999 Ltd GO Bonds	406,560	443,765
Debt Svc. -2003 Ltd. GO& Refunding	240,480	480,480
Debt Svc.- 2006 Special Sewer Rev. Bond	165,019	165,019
Capital Improvements	3,031,371	2,872,586
Other Governmental Funds	5,719,732	6,293,654

Governmental fund revenues in 2006 totaled \$72.4 million exceeding 2005 governmental fund revenues of \$69.7 million by \$2.7 million. The revenues above do not include the gain on sale of capital assets of \$730 thousand, which is presented as other financing sources. The gain on sale of capital assets is primarily from timber sales on County timberlands managed by the State of Washington. The 2006 timber sales totaled \$740 thousand whereas in 2005 timber sales had an exceptionally good year with \$1.5 million received.

Governmental Fund Revenues and Expenditures



The **General Fund** is the chief operating fund of Cowlitz County. At December 31, 2006 the unreserved fund balance of the General Fund was \$9.8 million; this represents 18% of the governmental funds' fund balances total. The General Fund's 2006 fund balance increased \$1.4 million compared to a \$3.6 million increase for 2005. The General Fund had \$36.1 million in revenues in 2006 compared to \$33.6 million in 2005. Property tax revenue totaled \$13.4 million compared to \$13.6 million in 2005. The 2006 General Fund sales tax revenues totaled \$4.7 million basically the same as in 2005. General Fund 2006 expenditures totaled \$32.3 million compared to \$29.6 million for 2005. Public Safety expenditures of the General Fund of \$15.8 million represent 49 percent of the General Fund expenditures.

The General Fund transfers out in 2006 to support other County funds totaled \$2.7 million compared to \$1.2 million in 2005. Transfers out were higher in 2006 due to support for the Capital Improvements Fund of \$1.4 million whereas in 2005 only \$20,000 was transferred from the General Fund to support the Capital Improvements Fund.

The **Capital Improvements Fund's** 2006 revenues of \$3 million exceeded expenditures by \$.15 million. The total of other financing sources (uses), which includes transfers in and transfers out resulted in a net increase to the Capital Improvements fund balance of \$1.26 million for the year. The December 31, 2006 fund balance totaled \$7.6 million.

The **County Road's** fund balance decreased \$1 million to \$5.1 million at December 31, 2006. Total revenues in 2006 were \$17.4 million compared to \$13.5 million in 2005. Road Fund expenditures for 2006 totaled \$18.8 million compared to \$13.2 million in 2005. Road construction expenditures totaled \$8.4 million compared to \$4.3 million in 2005. Intergovernmental revenues of \$9.3 million in 2006 represents a \$3.8 million increase over 2005 intergovernmental revenues. The Federal Highway Administration grant funds totaled \$6.4 million in 2006 compared to \$2.7 million in 2005. The \$6.4 million grant funds for 2006 includes \$5.8 million for construction of the Lexington Bridge the major factor in increases in road capital outlays and revenues in 2006.

The **Community Mental Health's** fund balance at December 31, 2006 totaled \$1.7 million. This was an increase of \$.94 million in 2006 as opposed to a loss in 2005 of \$.52 million. Revenues were \$9.3 million in 2006 compared to \$7.4 million in 2005. Expenditures were \$8.3 million in 2006 compared to \$7.9 million in 2005. The County contracts with outside parties to provide mental health, substance abuse and developmental disabilities programs.

The **1999 Lmt. GO Debt Service** shows a net decrease in fund balance of \$100,095. The decrease is primarily attributed to a \$99,250 transfer out of the 1999 fund to the 2005 refunding bond debt service. The 2005 bond issue refunded a portion of the 1999 Debt service.

The **2003 Lmt. GO Debt Service** fund expenditures exceeded revenues by \$240,000 decreasing fund balance to \$6.6 million. Bond principal payments are shown in the funds as expenditures and on the entity wide as a reduction of the long term debt liability.

The **2006 Spec. Sewer Revenue Debt Service fund** balance is \$13,760,000 the amount of bond principal issued. Three Rivers Regional Wastewater Authority (TRRWA) has agreed to pay the debt on this issue which has annual principal payments beginning in 2007 through 2025.

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, 2006 unrestricted fund balances and changes in unrestricted net assets of the enterprise funds for 2006 were:

	Unrestricted Fund Balance 12/31/06	Increase (Decrease) for Year
Water Sewer	\$ 1,021,224	\$ 679,502
Solid Waste	11,556,417	3,048,608
Exposition Center	(33,680)	(50,433)
911 Communications	1,002,716	(166,957)
Law Enforcement Records	257,638	(29,983)
Emergency Management	91,147	46,803

Net assets include restricted and unrestricted fund balance. In 2006 the enterprise funds combined net assets increased \$3.57 million from operations, representing a 14 percent increase over 2005 balances.

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 \$29.2 million net assets for all enterprise funds at December 31, 2006.

IV. Budget Analysis –General Fund Budgetary Highlights

The net difference between the original General Fund budget for 2006 and the final amended budget was \$1,433,133 increase in appropriations, a four percent increase over the original budget of \$34.8 million. The amended changes to appropriations for 2006 were as follows:

Increases (Decreases)	
<u>To Budget</u>	<u>Activity</u>
\$ 252,072	General government
377,193	Public Safety -Corrections
226,676	Judicial
31,816	Economic environment
30,909	Physical health
(8,708)	Culture & Recreation
84,175	Capital Outlay
<u>470,000</u>	Transfers Out
1,433,133	
<u>(128,000)</u>	Estimated Ending Fund Balance
\$ 1,305,133	

The General Fund budget changes for 2006 consisted of the following:

General government increased \$252,072. It consisted of \$119,453 for office of administrative services with \$100,000 for professional services and \$19,453 for wages and benefits. Child support services increased \$2,779 for wages and benefits. Non-departmental professional services increased \$19,500. And the prosecuting attorney had an \$110,340 budget increase with \$103,138 representing payroll and benefits.

Corrections increased \$377,193. The jail budget increased \$374,193 which contained \$249,193 for wages and benefits, \$82,000 in medical for inmates and \$43,000 for computer services. Jail concessions budget increased \$3,000 for inventory for resale.

Judicial increased \$195,676. The clerk's budget increased \$16,703. District Court increased \$11,785 with \$10,217 for computer hardware and software. Family court increased \$5,568 for overtime and benefits. And the office of public defense, newly created in 2006, had a budget set up during the year of \$161,620.

Economic environment increased of \$31,816 for labor and benefits in the building and planning department.

Physical health budget increased \$30,909 with \$20,209 for the drug court grant program and \$10,700 for the coroner's budget.

Culture and recreation budget decreased \$8,708. The park and recreation budget was reduced \$9,822 whereas the museum budget was increased by \$1,114.

Capital outlay budget increased \$84,175 in 2006.

General Fund transfers out budget increased \$470,000. Transfers to the Capital Improvements Fund increased \$450,000 for construction of the jail annex and transfer to the road fund increased \$20,000 for weed control.

Sources for the increased appropriations were General Fund estimated revenue budget increases of \$776,949 in 2006. The increase consisted of sales tax \$413,907; jail fees for state inmates

\$138,600; building permit revenues of \$52,737; state entitlement for control of methamphetamine \$52,500; grant revenues of \$19,363 for drug court; charges for services \$12,500 intergovernmental revenue from Clark County \$20,000 for weed control and state revenue for office of public defense for indigents \$67,342.

Also, estimated beginning fund balance was increased by \$528,184.

During 2006 revenues exceeded budgetary estimates and expenditures were less than budgeted. The General Fund fund balance increased \$1.4 million in 2006

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, 2006 totals \$146.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, and bridges and construction in progress.

The total increase in Cowlitz County’s investment in capital assets net of depreciation was \$7.1 million in 2006. This consisted of \$6.3 million in governmental activity capital assets and \$.7 million in business-type activity capital assets.

	COWLITZ COUNTY CAPITAL ASSETS					
	(net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 8,533,209	\$ 8,105,999	\$ 1,148,600	\$ 1,148,600	\$ 9,681,809	\$ 9,254,599
Buildings& Syst.	31,488,554	19,901,107	7,732,050	6,925,499	39,220,604	26,826,606
Improve other than Buildings	2,489,658	2,172,336	3,809,308	4,333,866	6,298,966	6,506,202
Machinery&Equip.	5,712,882	4,860,270	2,260,666	2,126,232	7,973,548	6,986,502
Infrastructure	72,039,537	70,832,732	-	-	72,039,537	70,832,732
Construction in Progress	9,572,468	17,598,653	1,890,947	1,607,994	11,463,415	19,206,647
Total	\$ 129,836,308	\$ 123,471,097	\$ 16,841,571	\$ 16,142,191	\$ 146,677,879	\$ 139,613,288

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 2006 totaled \$882 thousand bringing the total from inception through completion in 2006 to \$12.5 million. Construction of the new jail was basically complete as of May 2006.

The County Road Fund expended \$8.4 million in capital additions in 2006. Some of the major outlays for 2006 were:

Lexington Bridge	\$5,932,882
------------------	-------------

Miekler Road Bridge	459,706
Westside Highway Shoulder Widening (.93 miles)	319,123
Kalama River Road Slide Repair	299,210
Columbia Heights Rd Intersection Improvements	194,050
Washburn Road Drainage	180,523

Business Type Activities:

The Water-Sewer utility had \$907 thousand of capital outlays in 2006. The major projects were for the Ryderwood sewer collection system \$835 thousand and the Ryderwood water treatment plant improvements \$63 thousand.

The 911 Communications Center had \$1.35 million in capital outlays in 2006 for improvements to their communications system.

Long-Term Debt. At December 31, 2006 Cowlitz County has \$38.3 million in long-term debt owed from *governmental activities* and \$10.7 million in long-term debt for *business type activities*. Of the governmental activities debt - districts other than the county will pay \$26.3 million, 76%, of portions of the 1999, 2005 and all of the 2003 and 2006 debt Longview Industrial Park. In case of default by the other districts on the 1999, 2003 and 2006 bond issues the county has pledged its resources to pay that debt. The debt detail is provided in Note 9 to the financial statements.

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, 2006 is \$77.9 million without a vote of the people and \$154.9 million for debt with the vote of the people.

The County issued \$13.76 million in Special Sewer Revenue Bonds in 2006. The proceeds were given to Three Rivers Regional Wastewater Authority (TRRWA) for making improvements to the plant. TRRWA has agreed to pay the debt as it comes due. If the system revenue of TRRWA were insufficient to pay the debt the County pledges its full faith and credit to deposit monies into the bond fund for the timely payment of this debt. If TRRWA fails to deposit to the County debt service fund sufficient funds the County may bring action against the TRRWA to compel such payments.

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

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$32,271,544	\$19,152,945	\$39,026	\$58,540	\$32,310,570	\$19,211,485
Special assessment bonds with Govt. commitment	2,215,000	2,335,000			2,215,000	2,335,000
	<u>\$34,486,544</u>	<u>\$21,487,945</u>	<u>\$39,026</u>	<u>\$58,540</u>	<u>\$34,525,570</u>	<u>\$21,546,485</u>

VI. Economic Factors and Budgets

The Board of Commissioners considered many factors when setting the budget, tax rates, and fees to charge for the business-type activities. One of those factors is the economy. The population of

Cowlitz County for 2006 was estimated at 96,800, an increase of 900 over 2005. The total assessed valuation for the County for 2006 was \$7.7 billion, an increase of 11.7 percent compared to the 2005 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 2006 compared to \$12.55 million levied in 2005 based on a \$1.871 per thousand tax rate in 2005. The 2006 County Road tax rate was \$1.988 per thousand assessed valuation, basically unchanged from 2005, resulting in \$7.5 million in property taxes billed

The median price of houses sold in Cowlitz County dropped to \$170,000 in April 2007 from the 12 month average of \$179,350 but went back up in May. However, the number of houses unsold has increased from last year due to them being on the market longer. Countywide, 97 homes sold in May compared to 86 in April. County unemployment was 5.7% in May 2007; the state unemployment rate was 4.6%.

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

Requests for Information

The financial report is designed to provide a general overview of Cowlitz County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's Office, Cowlitz County, 207 4th Avenue No., Kelso, Wa. 98626.

Independent Auditor's Report on Financial Statements

Cowlitz County
January 1, 2006 through December 31, 2006

Board of Commissioners
Cowlitz County
Kelso, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed on page 12. 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 aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Cowlitz County, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 and budgetary comparison information 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 an opinion 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

October 16, 2007

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, 2006

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Three Rivers</u>	
	<u>Activities</u>	<u>Activities</u>		<u>Regional</u>	<u>Public Facil-</u>
				<u>Wastewater</u>	<u>ties District</u>
				<u>Authority</u>	
ASSETS					
Cash & cash equivalents	\$ 10,288,772	\$ 13,164,153	\$ 23,452,925	\$ 16,981,609	\$ 257,939
Investments	25,669,747	-	25,669,747		
Receivables (net)	15,436,189	1,801,023	17,237,212	392,175	42,453
Due from component unit	20,185,000	-	20,185,000		
Internal Balances	(37,849)	37,849	-		
Inventories	102,314	3,917	106,231		
Prepaid items	108,081	54,609	162,690	16,831	
Deferred charges					97,869
Restricted cash and investments- cash and cash equivalents:					
Customer deposits	5,301	47,088	52,389		
Closure and postclosure		8,898,456	8,898,456		
<i>Capital Assets:</i>					
Land	8,533,209	1,148,600	9,681,809	586,540	
Depreciable assets (net)	39,691,094	13,802,023	53,493,117	50,807,127	6,844,205
Infrastructure (net)	72,039,537	-	72,039,537		
Construction in progress	9,572,468	1,890,947	11,463,415	9,233,275	
Total Assets	<u>201,593,863</u>	<u>40,848,665</u>	<u>242,442,528</u>	<u>78,017,557</u>	<u>7,242,466</u>
LIABILITIES					
Accounts payable & accrued exp.	3,871,222	765,629	4,636,851	2,934,405	
Other current liabilities	1,842,522	62,777	1,905,299		55,601
Customer Deposits	5,301	47,088	52,389		
Due to primary government					
Deferred revenue	434,036	-	434,036		
<i>Noncurrent Liabilities:</i>					
Due within one year	1,723,580	114,854	1,838,434	2,366,162	
Due primary gov. within one yr.				595,000	135,000
Due in more than one year	36,609,076	10,639,505	47,248,581	32,733,966	
Due primary gov. more than one year				13,670,000	5,785,000
Total Liabilities	<u>44,485,737</u>	<u>11,629,853</u>	<u>56,115,590</u>	<u>52,299,533</u>	<u>5,975,601</u>
NET ASSETS					
Invested in capital assets, net of related debt	129,836,308	15,288,738	145,125,046	18,313,309	966,473
Restricted for:					
Economic development	3,191,793		3,191,793		
Health	2,872,895		2,872,895		
Physical environment	35,933		35,933	9,432,055	
Transportation-roads	7,613,402		7,613,402		
Law Enforcement	434,630		434,630		
Culture & recreation	53,097	17,534	70,631		
Unrestricted	13,070,068	13,912,540	26,982,608	(2,027,340)	300,392
Total Net Assets	<u>\$ 157,108,126</u>	<u>\$ 29,218,812</u>	<u>\$ 186,326,938</u>	<u>\$ 25,718,024</u>	<u>\$ 1,266,865</u>

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, 2006

		Net (Expense) Revenue and Changes in Net Assets							
		Primary Government			Component Units				
		Program Revenues			Three Rivers				
		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	\$ 10,301,070	\$ 3,089,685	\$ 952,486	51,644	\$ (6,207,255)		\$ (6,207,255)		
Public Safety-Corrections	7,568,661	2,310,274	82,491	13,668	(5,162,228)		(5,162,228)		
Public Safety-Juvenile	3,280,492	242,485	696,306	-	(2,341,701)		(2,341,701)		
Public Safety-Other	7,387,661	761,321	646,306	19,447	(5,960,587)		(5,960,587)		
Judicial	4,735,540	2,381,803	165,078	-	(2,188,659)		(2,188,659)		
Physical Environment	283,846	31,928	21,001	-	(230,917)		(230,917)		
Transportation - Roads	13,288,575	416,239	-	7,104,025	(5,768,311)		(5,768,311)		
Economic Environment	2,228,026	3,225,087	37,741	-	1,034,802		1,034,802		
Health	12,445,727	8,915,255	3,854,128	-	323,656		323,656		
Culture & Recreation	1,157,946	51,426	45,475	-	(1,061,045)		(1,061,045)		
Interest on long-term debt	1,253,883	-	-	-	(1,253,883)		(1,253,883)		
Total governmental activities	<u>63,931,427</u>	<u>21,425,503</u>	<u>6,501,012</u>	<u>7,188,784</u>	<u>(28,816,128)</u>		<u>(28,816,128)</u>		
<i>Business-type Activities:</i>									
Water	602,747	616,511	-	62,142		\$ 75,906	75,906		
Sewer	598,597	689,179	-	759,487		850,069	850,069		
Garbage & Solid Waste	3,856,755	5,002,340	93,246	-		1,238,831	1,238,831		
Public Safety	3,990,156	2,747,402	175,080	912,000		(155,674)	(155,674)		
Culture & Recreation	1,082,080	835,602	38,966	14,650		(192,862)	(192,862)		
Total business type activities	<u>10,130,335</u>	<u>9,891,034</u>	<u>307,292</u>	<u>1,748,279</u>		<u>1,816,270</u>	<u>1,816,270</u>		
Total Primary Government	<u>74,061,762</u>	<u>31,316,537</u>	<u>6,808,304</u>	<u>8,937,063</u>	<u>(28,816,128)</u>		<u>(26,999,858)</u>		
Component Unit								921,286	(625,624)
Three Rivers Reg. Wastewater	6,090,614	6,768,487		243,413					
Public Facilities District	638,449	12,825							
GENERAL REVENUES:									
Property Taxes					21,583,530		21,583,530		
Sales Taxes					6,678,543		6,678,543		
911 Taxes					-	618,496	618,496		
Other Taxes					7,500,290		7,500,290		
Investment Earnings					2,853,945	915,363	3,769,308	656,093	4,422
Gain (loss) on sale of capital assets					580,665	(70)	580,595		
					(226,211)	226,211	-		
TRANSFERS									
Total General Revenues & Transfers					<u>38,970,762</u>	<u>1,760,000</u>	<u>40,730,762</u>	<u>656,093</u>	<u>625,289</u>
Change in Net Assets					<u>10,154,634</u>	<u>3,576,270</u>	<u>13,730,904</u>	<u>1,577,379</u>	<u>(335)</u>
Net assets - January 1					146,822,613	25,256,622	172,079,235	24,140,645	1,267,201
Prior period adjustment					130,879	385,920	516,799		
Net Assets- December 31					<u>\$ 157,108,126</u>	<u>\$ 29,218,812</u>	<u>\$ 186,326,938</u>	<u>\$ 25,718,024</u>	<u>\$ 1,266,866</u>

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

Cowlitz County, Washington
Balance Sheet
Governmental Funds
December 31, 2006

	Major Funds									
						Debt Service				
	General	County Road	Community Mental Health	Debt Service 1999 Lmt. G.O. Bonds	Debt Service 2003 Lmt. G.O. Bonds	Sewer Rev. Bonds	Capital Improvements	Other Governmental Funds	Total Governmental Funds	Total Governmental Funds
ASSETS										
Cash	\$ 346,041	\$ 554,805	\$ 90,655	\$ 7		\$	\$ 399,455	\$ 1,245,634	\$ 2,636,597	
Investments	10,175,380	3,425,300	2,100,000	450,775			6,224,501	3,293,791	25,669,747	
Receivables (net)	2,624,505	3,281,288	510,729	2,896,043			1,745,957	3,930,093	14,988,615	
Due from other funds	46,615	3,152	-	-			-	775	50,542	
Due from component unit	-	-	-	-	6,425,000	13,760,000	-	-	20,185,000	
Customer deposits	5,301								5,301	
Total assets	\$ 13,197,842	\$ 7,264,545	\$ 2,701,384	\$ 3,346,825	\$ 6,425,000	\$ 13,760,000	\$ 8,369,913	\$ 8,470,293	\$ 63,535,802	
LIABILITIES										
Accounts payable and other current liabilities	434,664	1,269,026	835,064	-			108,592	130,906	2,778,252	
Payable to other governments	-	-	128,756	-				14,368	143,124	
Due to other funds	235,122	146,122	11,437	-			1,108	9,277	403,066	
Matured bond & interest payable	-	-	-	-			-	-	-	
Deferred revenue	1,399,732	340,779	-	2,196,043			434,036	8,258	4,378,848	
Other current liabilities	1,288,893	309,245	-	-			-	244,384	1,842,522	
Customer deposits payable	5,301								5,301	
Interfund loans payable							164,356	-	164,356	
Total liabilities	3,363,712	2,065,172	975,257	2,196,043	-	-	708,092	407,193	9,715,469	
FUND BALANCE										
<i>Reserved for:</i>										
Interfund loans	-	-	-	475,000	6,165,000	13,290,000	-	-	23,235,000	
Long-term loans receivable	-	-	-	-	-	-	2,542,840	-	2,542,840	
Capital improvements	-	-	-	-	-	-	2,414,029	-	2,414,029	
Transportation	-	-	-	-	-	-	67,999	-	67,999	
Physical environment	-	-	-	-	-	-	-	-	-	
<i>Unreserved, reported in</i>										
General Fund	9,834,130			675,782	260,000	470,000			9,834,130	
Debt Service	-	-	-	-	-	-		4,758,100	11,683,600	
Special revenue funds	-	5,199,373	1,726,127	-	-	-	2,636,953	-	2,636,953	
Capital project funds	-	-	-	-	-	-	-	-	-	
Total fund balance	9,834,130	5,199,373	1,726,127	1,150,782	6,425,000	13,760,000	7,661,821	8,063,100	53,820,333	
Total liabilities and fund balance	\$ 13,197,842	\$ 7,264,545	\$ 2,701,384	\$ 3,346,825	\$ 6,425,000	\$ 13,760,000	\$ 8,369,913	\$ 8,470,293	\$ 63,535,802	

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, 2006

Total fund balances as shown on the Governmental Funds Balance Sheet		\$ 53,820,333
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.)		168,734,132
Less: accumulated depreciation on the capital assets above		<u>(43,904,761)</u>
Capital assets net of depreciation		124,829,371
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.		11,521,792
Allocation to enterprise funds share of net (income) loss of internal service funds.		(22,180)
Prior Years allocation		32,672
Accrued interest receivable was less than interest receivable modified accrual		(91,990)
Assets deferred in governmental funds until they are available for current year expenditure .		4,378,848
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>(37,360,720)</u>
Net assets of governmental activities		\$ 157,108,126

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, 2006

	Major Funds										Total	
	General	County Road	Mental Health	Debt Service		2003 Lmt. G.O.	Capital Improvements	Other Governmental Funds	Governmental Funds	Total Governmental Funds		
				1999 Lmt. G.O.	Bonds							Debt Svc. 2006
REVENUES												
<i>Taxes:</i>												
Property	\$ 14,581,051	\$ 6,924,610	\$ -	\$ -	-	-	\$ -	\$ -	\$ 253,580	\$ 21,759,241		
Sales	4,713,273	-	-	-	-	-	1,240,985	724,285	4,474	6,678,543		
Timber Harvest Tax	729,793	790,347	-	-	-	-	-	1,524,614	-	1,524,614		
Other	387,476	63,758	-	-	-	-	834,367	292,414	-	1,578,015		
Licenses & Permits	1,941,352	-	-	-	-	-	283,957	2,225,309	-	2,225,309		
Intergovernmental	4,647,531	9,309,133	9,195,604	-	-	-	618,124	2,869,241	810,599	26,639,633		
Charges for Services	5,632,265	79,203	-	-	-	-	-	6,522,067	-	6,522,067		
Fines & Forfeitures	1,300,489	-	-	-	-	-	-	82,502	-	1,382,991		
Investment Earnings	1,806,300	203,013	79,652	85,443	-	-	337,348	133,548	-	2,645,304		
Rents & Leases	264,311	13,503	-	-	-	-	-	4,897	-	282,711		
Special Assesments										277,752		
Miscellaneous Revenues	108,430	68,069	600	43,365	240,480	165,019	547	260,235	-	886,745		
Total revenues	36,112,272	17,451,636	9,275,856	406,560	240,480	165,019	3,031,371	5,719,732	-	72,402,926		
EXPENDITURES												
<i>Current:</i>												
General Government	8,668,395	-	-	-	-	-	283,721	545,601	-	9,497,717		
Public Safety-Corrections	6,964,085	-	-	-	-	-	135,769	-	-	7,099,854		
Public Safety-Juvenile	3,054,535	-	-	-	-	-	-	-	-	3,054,535		
Public Safety-Other	5,803,705	-	-	-	-	-	376,405	1,312,782	-	7,492,892		
Judicial	4,661,696	-	-	-	-	-	20,726	-	-	4,682,422		
Physical Environment	90,215	-	-	-	-	-	156,110	5,593	-	251,918		
Economic Environment	1,930,486	-	-	-	-	-	29,488	254,281	-	2,214,255		
Transportation	16,000	10,442,938	-	-	-	-	437,644	7,883	-	10,904,465		
Health & Human Services	279,918	-	8,281,810	-	-	-	104,696	2,987,686	-	11,654,110		
Culture & Recreation	658,927	-	-	-	-	-	32,101	271,807	-	962,835		
<i>Debt Service:</i>												
Principal	-	-	-	370,000	240,000	-	-	295,000	-	905,000		
Interest	-	-	-	73,765	240,480	165,019	27,568	570,931	-	1,077,763		
Other	-	-	-	-	-	-	1,986	-	-	1,986		
<i>Capital Outlay:</i>												
181,963	8,415,827	-	-	-	-	-	1,266,372	42,090	-	9,906,252		
Total expenditures	32,309,925	18,858,765	8,281,810	443,765	480,480	165,019	2,872,586	6,293,654	-	69,706,004		
Excess (deficiency) of revenues over (under) expenditures	3,802,347	(1,407,129)	994,046	(37,205)	(240,000)	-	158,785	(573,922)	-	2,696,922		
OTHER FINANCING SOURCES (USES)												
Transfers in	-	46,208	13,355	36,360	-	-	1,706,520	1,642,305	-	3,444,748		
Transfers out	(2,694,841)	(75,000)	-	(99,250)	-	-	(609,431)	(403,608)	-	(3,882,130)		
Payment refunded bond escrow agent										-		
Premium on bonds sold										-		
Special Sewer Bond issued										13,760,000		
Sale of capital assets	347,030	375,528	-	-	-	-	2,963	6,389	-	731,910		
Total other financing sources (uses)	(2,347,811)	346,736	13,355	(62,890)	-	1,100,052	1,245,086	1,245,086	-	14,054,528		
Net change in fund balance	1,454,536	(1,060,393)	1,007,401	(100,095)	(240,000)	13,760,000	1,258,837	671,164	-	16,751,450		
Fund balances--beginning	8,362,395	6,259,766	7,18,726	1,250,877	6,665,000	-	6,402,984	7,305,982	-	36,965,730		
Prior period adjustment	17,199	-	-	-	-	-	-	85,954	-	103,153		
Fund balances--ending	\$ 9,834,130	\$ 5,199,373	\$ 1,726,127	\$ 1,150,782	\$ 6,425,000	\$ 13,760,000	\$ 7,661,821	\$ 8,063,100	\$ 53,820,333			

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, 2006**

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 22) \$ 16,751,450

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. 5,869,318

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. (12,998,599)

Change in accrual interest earnings 2006 versus on modified accrual basis (52,712)

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. (16,463)

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. (277,339)

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. 964,932

Change in net assets-governmental activities- on the Statement of Activities (page 19) 10,240,587

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

Cowlitz County, Washington
Statement of Net Assets
Proprietary Funds
December 31, 2006

	<u>Business-type Activities--Enterprise Funds</u>				Governmental Activities- Internal Service Funds
	Water		Nonmajor Enterprise Funds	Total Enterprise Funds	
	Sewer	Solid Waste			
ASSETS					
<i>Current assets:</i>					
Cash & cash equivalents	\$ 530,716	\$ 10,785,742	\$ 1,847,695	\$ 13,164,153	\$ 7,652,175
Investments	-	-	-	-	-
Receivables (net)	134,339	575,538	103,704	813,581	166
Interest receivable	170	87,944	771	88,885	2,596
Due from other funds	-	854	1,750	2,604	372,854
Interfund loan receivable	-	63,800	-	63,800	100,556
Due from other governments	654,812	240,755	2,990	898,557	102,766
Inventories	-	3,917	-	3,917	102,314
Prepaid items	5,077	10,169	39,363	54,609	108,081
Customer deposits-restricted cash and cash equivalents			30,708	30,708	
<i>Total Current Assets</i>	<u>1,325,114</u>	<u>11,768,719</u>	<u>2,026,981</u>	<u>15,120,814</u>	<u>8,441,508</u>
<i>Noncurrent assets:</i>					
Restricted cash, cash equivalents & investments:					
Customer deposits	16,380	-	-	16,380	-
Cash & equivalents for closure & postclosure		7,398,456		7,398,456	
Investments for closure & postclosure		1,500,000		1,500,000	
<i>Capital assets:</i>					
Land	122,635	389,392	636,573	1,148,600	20,795
Buildings and system	11,343,778	3,768,831	555,865	15,668,474	422,920
Improvements other than bldgs.	-	8,260,677	267,328	8,528,005	-
Machinery and equipment	-	1,415,356	3,377,230	4,792,586	13,186,079
Construction in progress	1,075,080	55,228	760,639	1,890,947	-
Less accumulated depreciation	<u>(4,519,432)</u>	<u>(8,498,493)</u>	<u>(2,169,117)</u>	<u>(15,187,042)</u>	<u>(8,622,857)</u>
Total capital assets (net of accum depr.)	<u>8,022,061</u>	<u>5,390,991</u>	<u>3,428,518</u>	<u>16,841,570</u>	<u>5,006,937</u>
Total assets	<u><u>9,363,555</u></u>	<u><u>26,058,166</u></u>	<u><u>5,455,499</u></u>	<u><u>40,877,220</u></u>	<u><u>13,448,445</u></u>
LIABILITIES					
<i>Current liabilities:</i>					
Accounts payable and accrued exp.	262,633	146,346	414,265	823,244	560,660
Payable to other governments	-	-	-	-	8,015
Due to other funds	4,395	10,861	2,807	18,063	4,871
Accrued interest payable	5,162	-	-	5,162	-
Claims and judgments	-	-	-	-	428,580
Limited G.O. Bonds Payable	20,000	-	-	20,000	-
Notes payable	94,854	-	-	94,854	-
Customer deposits payable from restricted assets			30,708	30,708	
Total current liabilities	<u>387,044</u>	<u>157,207</u>	<u>447,780</u>	<u>992,031</u>	<u>1,002,126</u>
<i>Noncurrent liabilities:</i>					
Compensated absences	36,862	55,095	216,276	308,233	154,571
Customer deposits payable from restricted assets	16,380			16,380	
Landfill closure and postclosure costs	-	8,898,456	-	8,898,456	-
Claims and judgments	-	-	-	-	769,956
Limited G.O. Bonds (net of unamortized discount)	19,027		-	19,027	
Notes payable	1,413,789		-	1,413,789	
Total non current liabilities	<u>1,486,058</u>	<u>8,953,551</u>	<u>216,276</u>	<u>10,655,885</u>	<u>924,527</u>
Total liabilities	<u><u>1,873,102</u></u>	<u><u>9,110,758</u></u>	<u><u>664,056</u></u>	<u><u>11,647,916</u></u>	<u><u>1,926,653</u></u>
NET ASSETS					
Invested in capital assets, net of related debt	6,469,229	5,390,991	3,428,518	15,288,738	5,006,937
Restricted -donations pigeon/horse purposes			17,534	17,534	
Unrestricted	<u>1,021,224</u>	<u>11,556,417</u>	<u>1,345,391</u>	<u>13,923,032</u>	<u>6,514,855</u>
Total net assets	<u><u>\$7,490,453</u></u>	<u><u>\$ 16,947,408</u></u>	<u><u>\$ 4,791,443</u></u>	<u><u>29,229,304</u></u>	<u><u>\$ 11,521,792</u></u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				(10,492)	
Net assets of business-type activities				<u><u>\$ 29,218,812</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, 2006

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Sewer	Solid Waste	Nonmajor	Total	
			Enterprise Funds	Enterprise Funds	
OPERATING REVENUES					
<i>Charges for Services:</i>					
Water	\$ 615,380	\$ -	\$ -	\$ 615,380	\$ -
Sewer	688,362	-	-	688,362	
Garbage & Solid Waste	-	4,985,969	-	4,985,969	
Public Safety	-	-	2,745,217	2,745,217	
Culture & Recreation	-	-	827,407	827,407	
Other services					5,972,890
Grant revenue					
Total operating revenues	1,303,742	4,985,969	3,572,624	9,862,335	5,972,890
OPERATING EXPENSES					
Maintenance & operations	924,711	1,784,662	4,718,157	7,427,530	5,117,351
Closure & postclosure care	-	1,035,490	-	1,035,490	
Depreciation	261,281	763,582	365,003	1,389,866	899,586
Total operating expenses	1,185,992	3,583,734	5,083,160	9,852,886	6,016,937
Operating income (loss)	117,750	1,402,235	(1,510,536)	9,449	(44,047)
NONOPERATING REVENUES (EXPENSES)					
Taxes	-	-	618,496	618,496	-
Intergovernmental	-	93,246	214,046	307,292	174,960
Investment earnings	34,702	826,262	54,399	915,363	260,395
Interest expense	(18,063)	-	(1,252)	(19,315)	-
Debt issuance costs	(486)	-	-	(486)	
Gain (loss) on disposition of assets	(70)	-	-	(70)	78,233
Write off of gas to energy construction in progress		(279,828)		(279,828)	
Miscellaneous nonoperating revenues	1,948	16,371	10,380	28,699	57,560
Total nonoperating income (expense)	18,031	656,051	896,069	1,570,151	571,148
Income before contributions and transfers	135,781	2,058,286	(614,467)	1,579,600	527,101
Capital grants	752,154	-		752,154	44,899
Capital contributions	69,475	-	926,650	996,125	203,941
Transfers in	-	-	226,211	226,211	232,502
(Transfers out)	-	-	-	-	(21,331)
Change in net assets	957,410	2,058,286	538,394	3,554,090	987,112
Net assets--beginning	6,533,043	14,889,122	3,867,129		10,506,955
Prior period adjustment			385,920		27,725
Net assets--ending	\$ 7,490,453	\$ 16,947,408	\$ 4,791,443		\$ 11,521,792
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				22,180	
Change in net assets of business-type activities - (page 19)				\$ 3,576,270	

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, 2006

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	\$ 1,230,986	\$ 4,767,968	\$ 3,558,895	\$ 9,557,849	\$ 5,826,249
Cash payments for goods and services	(508,919)	(1,001,251)	(1,774,851)	(3,285,021)	(3,488,218)
Cash payments to employees for services	(383,726)	(765,306)	(2,840,850)	(3,989,882)	(1,360,280)
Receipts for grants					(314,870)
Customer deposits	(300)		4,785	4,485	
Miscellaneous revenue	1,948	17,817	10,375	30,140	57,391
<i>Net cash provided (used) by operating activities</i>	<u>339,989</u>	<u>3,019,228</u>	<u>(1,041,646)</u>	<u>2,317,571</u>	<u>720,272</u>
<u>Cash flows from noncapital financing activities</u>					
State fair funds received			38,966	38,966	
Donations			4,650	4,650	
Repayment of interfund loan principal		61,774	-	61,774	69,048
Interest received (paid) on interfund loan		4,831	-	4,831	23,943
Repayment on loan to other government				-	53,590
Interest received on loan to other govt.					1,168
Operating grants received		84,841	175,080	259,921	195,980
Receipts from 911 tax			600,885	600,885	
Payment of claims liability recognized prior yrs.					(440,216)
Transfers in from other County fund			226,211	226,211	232,502
Transfer out to other County fund			-	-	(21,331)
<i>Net cash provided by noncapital financing activities</i>	<u>-</u>	<u>151,446</u>	<u>1,045,792</u>	<u>1,197,238</u>	<u>114,684</u>
<u>Cash flows from capital and related financing activities</u>					
State funding for 911 capital outlays			912,000		
System development fees & hookup fees	69,475			69,475	
Proceeds from State of Washington loan	533,949			533,949	
Acquisition and construction of capital assets	(979,802)	(53,087)	(1,295,196)	(2,328,085)	(1,117,513)
Federal grant funds	184,821			184,821	44,899
Payment on note/installment contracts			(16,229)	(16,229)	
Principal paid on note	(94,854)			(94,854)	
Principal paid on bonds	(20,000)			(20,000)	
Interest paid on capital debt	(16,542)		(1,252)	(17,794)	
Contributed capital (to) from county fund			347,725	347,725	30,371
Proceeds from sale of capital assets				-	78,233
<i>Net cash provided (used) for capital and related financing activities</i>	<u>(322,953)</u>	<u>(53,087)</u>	<u>(52,952)</u>	<u>(428,992)</u>	<u>(964,010)</u>
<u>Cash flows from investing activities</u>					
Purchase of investments	(8,590,900)	(77,215,900)	(13,282,762)	(99,089,562)	(64,120,889)
Proceeds from sale and maturities of investments	8,590,900	75,715,900	13,282,762	97,589,562	64,120,889
Interest on investments	34,623	740,135	54,001	828,759	257,858
<i>Net cash provided (used) by investment activities</i>	<u>34,623</u>	<u>(759,865)</u>	<u>54,001</u>	<u>(671,241)</u>	<u>257,858</u>
Net increase (decrease) in cash and cash equivalents	51,659	2,357,722	5,195	2,414,576	128,804
<i>Cash and cash equivalents, January 1</i>	495,437	15,826,476	1,873,208	18,195,121	7,523,371
<i>Cash and cash equivalents, December 31</i>	<u>\$ 547,096</u>	<u>\$ 18,184,198</u>	<u>\$ 1,878,403</u>	<u>\$ 20,609,697</u>	<u>\$ 7,652,175</u>

Cowlitz County, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

Page 1 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)	\$ 117,751	\$ 1,402,235	\$ (1,510,536)	\$ 9,450	\$ (44,047)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	261,281	763,582	365,003	1,389,866	899,586
(Increase) decrease in accounts receivable	(71,876)	(121,316)	(9,703)	(202,895)	142
(Increase) decrease in due from other funds		2,522	(1,750)	772	(193,184)
(Increase) decrease in due from other governments	(880)	(99,207)	(2,277)	(102,364)	84,283
(Increase) decrease in due from component unit				-	-
(Increase) decrease in inventory		3,986		3,986	18,946
(Increase) decrease in prepaid expense	(59)	13	(8,578)	(8,624)	(88,752)
Increase (decrease) in accounts payable and other accrued liabilities	29,566	10,989	98,936	139,491	(57,756)
Increase (decrease) in due to other funds	(437)	2,750	(1,006)	1,307	275
Increase (decrease) in retainage payable				-	
Increase (decrease) in employee leave benefits	2,995	367	13,100	16,462	(12,866)
Increase (decrease) in customer deposits	(300)		4,785	4,485	
Increase (decrease) in estimated future claims payable					56,253
Provision for closure & postclosure care costs		1,035,490		1,035,490	
Construction in progress written off to expense				-	
Miscellaneous revenue	1,948	17,817	10,380	30,145	57,392
<i>Total adjustments</i>	<u>222,238</u>	<u>1,616,993</u>	<u>468,890</u>	<u>2,308,121</u>	<u>764,319</u>
<i>Net cash provided by operating activities</i>	<u>\$ 339,989</u>	<u>\$ 3,019,228</u>	<u>\$ (1,041,646)</u>	<u>\$ 2,317,571</u>	<u>\$ 720,272</u>
Noncash investing, capital, and financing activities:					
Contribution of capital assets from County Funds			-		168,935
Contribution of capital assets from Advertiser - Reader Board for Expo. Ctr.			10,000		
Gain (loss) on trade in of capital asset					

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

Cowlitz County, Washington
Statement of Fiduciary Net Assets
December 31, 2006

	Agency Funds
Assets	
Cash and petty cash	\$ 20,451,784
Deposits with fiscal Agent	30,000
Investment Trust Fund	71,765,034
Taxes Receivable	3,493,053
Assessments receivable, current	192,925
Total assets	\$ 95,932,796
 Liabilities	
Warrants payable	\$ 10,948,797
Due to other governments	84,974,999
Total liabilities	\$ 95,923,796

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 (TRRWA)** 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 three bond issues that were issued for TRRWA. The most recent is the 2006 Special Revenue Funding Bond issue for \$13.7 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 TRRWA are the 2002 Special Revenue Refunding Bonds with \$27.4 million outstanding and the 2003 GO Refunding Bonds with \$505 thousand outstanding at December 31, 2006. TRRWA pay the debt on all three bond issues; the County has pledged its taxes and resources in case of default by TRRWA for the 2003 and 2006 issue.. 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 discretely presented 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 \$2,196,043 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, 2006.

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 \$3,190,414 consisting of \$2,542,071 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 \$463,306 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, \$184,268 is restricted for emergency financial assistance to veterans and their surviving spouses.

b) for transportation \$7,613,402 consisting of Road Fund net assets of \$5,199,373 and \$2,414,029 in the capital improvements fund intended for Lexington Bridge construction and other road projects.

c) for health \$2,872,895 consisting of \$1,726,127 in Community Mental Health Fund net assets, \$479,468 of net assets for public health purposes and \$329,933 in net assets of the Human Services fund for the administrative services for mental health, drug abuse, alcoholism and developmental disabilities and \$816,835 for public health purposes.

d) for culture and recreation \$53,097 which is restricted for promotion of tourism.

e) for law enforcement \$434,630 consisting of \$15,158 for boat safety purposes and the balance is to eradicate drug trafficking.

f) For physical environment \$35,933 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 \$37,360,720 difference are as follows:

Gen'l. Obligation Bonds payable	\$ 18,970,000
Special Revenue Bonds payable	13,760,000
Less: deferred amounts for issuance/discounts	(458,456)
Special assessment bonds payable	2,215,000
Compensated absences	2,493,005
Accrued interest payable	<u>381,171</u>
Net adjustment to reduce <i>fund balance governmental funds</i> to Arrive at <i>net assets-governmental activities</i>	<u>\$ 37,360,720</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation 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 (\$5,783,365) difference are as follows:

Capital Outlays (Net of amounts transferred to Internal Svc. Funds)	\$ 9,699,132
Contributed Capital – Cranberry Road & easements	314,677
Capital Assets – net book value moved to Internal Svc. Fund	(4,383)
Capital Assets from foreclosures, donations grant of fingerprint machine	40,324
Capital outlay posted to operating expenditures	21,988
Depreciation expense	(3,622,852)
Disposition of capital assets – net book value	<u>(665,521)</u>
Net adjustment to increase <i>net changes in fund balances- total Governmental funds</i> to arrive at <i>change governmental activities</i>	<u>\$ 5,783,365</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 (\$12,998,599) difference are as follows:

Bonds issued in 2006	\$13,760,000
Amortization of deferred charge for issuance and discount and premium	143,599
Principal repayments:	
General obligation bonds	(785,000)
Special assessment bonds	<u>(120,000)</u>
Net adjustments to decrease <i>fund balances-total governmental funds</i>	
To arrive at <i>changes in net assets of governmental activities</i>	<u>\$12,998,599</u>

Another element of the reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued interest	\$ 172,221
Compensated absences	<u>105,118</u>
Net adjustment to decrease <i>net changes in fund balances-total Governmental funds</i> to arrive at <i>changes in net assets of governmental Activities</i>	<u>\$ 277,339</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 \$963,133 and an increase in transfers out to support other County funds of \$470,000. 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.

e. Deficit Net Assets

Industrial Accident Insurance had a deficit net asset balance of \$203,626 at December 31, 2006. The deficit is due to recognition of estimate for projected future years pay out on the industrial accidents incurred of \$321,000. At December 31, 2006 the Fund had \$145,620 in cash and investments to meet current payables of \$28,312.

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 county 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, 2006 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 Securites	185	\$ 33,036,846	\$ 31,122,975	\$ 64,159,821
Bankers' Acceptances	122	50,000	2,203,779	2,253,779
Subtotal		33,086,846	33,326,754	66,413,600
Investments not subject to categorization:				
Wa. State Investment Pool	36	15,853,367	34,197,846	50,051,213
Total Investments		\$ 48,940,213	\$ 67,524,600	\$ 116,464,813

The investment of agency funds includes \$24.25 million of cash flow that by State Law the County can invest with interest earned on same accruing to 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, banker’s 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 2006 were:

<u>Purpose</u>	<u>Assessed Valuation</u>	<u>2006 Levy Rate Per \$1,000</u>	<u>Property Taxes 2006</u>
General Fund	\$ 6,898,117,628	\$1.835	\$ 12,554,697
Human Svcs/Mental Hlth	\$ 6,898,117,628	\$0.025	\$ 172,453
Veterans Relief	\$ 6,898,117,628	\$0.011	\$ 77,604
County Roads	\$ 3,812,500,943	\$1.988	\$ 7,581,219

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

In 2006 the General Fund for law enforcement purposes as permitted by state law codified in RCW 36.33.220 used \$715,157 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	Taxes	Accounts	Special Assessments	Due from Other Govts.	Interest & Penalties	Due from Component Unit	Total
General	\$ 636,402	\$ 57,954		\$ 958,244	\$ 971,905		\$ 2,624,505
County Road	340,779	1,365		2,922,884	16,260		3,281,288
Community Mental Health				500,846	9,883		510,729
1999 Ltd GO Bond			2,196,043	700,000			2,896,043
2003 Ltd GO Bond						6,425,000	6,425,000
2006 Sp.Rev Bond						13,760,000	13,760,000
Capital Improvements				1,272,409	39,512		1,311,921
Non-major govt.	8,257	46,203		3,858,670	16,963		3,930,093
Water/Sewer		134,339		654,812	170		789,321
Solid Waste		575,538		240,755	87,944	-	904,237
Nonmajor-business		103,704		2,990	771		107,465
Internal Service		166		102,766	2,596		105,528
Fiduciary	3,493,053		192,925				3,685,978
Total Receivables	\$ 4,478,491	\$ 919,269	\$ 2,388,968	\$ 11,214,376	\$ 1,146,004	\$ 20,185,000	\$ 40,332,108

The due from other government's column includes intergovernmental loans, and notes receivable owed to the Capital Improvements Fund (rural county public facilities department) of \$1,046,953 at December 31, 2006. This notes receivable are long-term and consist of the following:

Capital Improvement Fund - Notes Receivable

	Int. rate	Qtrly Pmts	Final Pmt.	12/31/06 Balance
Port of Woodland	3.20%	\$ 6,250.50	3/31/2026	\$375,000
Port of Woodland	4.00%	5,916.21	3/31/2022	262,500
Port of Woodland	5.00%	1,654.09	3/31/2016	48,953
Port of Longview	3.00%	22,954.79	7/1/2024	262,500
City of Kalama	1.00%	7,602.15	1/31/2022	100,000
Total Notes Receivable				\$1,048,953

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

Governmental funds report *deferred 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)	\$ 636,401	
Interest & penalty on taxes receivable (Gen. Fd.)	763,331	
Property taxes receivable (Road Fund)	340,779	
Property taxes receivable nonmajor governmental funds	8,258	
Note receivable –sale of old juvenile center. \$3,334 monthly payments with balloon payment June 1, 2011 (Capital Improvements Fund)	434,036	
Special assessments receivables from other governments. Not yet due (Debt svc. funds)	2,196,043	

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

Primary Government	<u>Beginning</u>			<u>Ending Balance</u>
Governmental Activities:	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	
Land	\$ 8,105,999	\$ 459,426	\$ 32,216	\$ 8,533,209
Construction in progress	17,598,653	5,397,132	13,423,317	9,572,468
Total capital assets, not being depreciated	<u>25,704,652</u>	<u>5,856,558</u>	<u>13,455,533</u>	<u>18,105,677</u>
Capital Assets, being depreciated				
Buildings	31,781,383	12,818,484	1,985,954	42,613,913
Improvements other than buildings	4,240,039	508,079	31,547	4,716,571
Machinery and equipment	14,778,541	2,037,526	1,525,227	15,290,840
Infrastructure	98,186,150	3,755,840	305,065	101,636,925
Total capital assets being depreciated	<u>148,986,113</u>	<u>19,119,929</u>	<u>3,847,793</u>	<u>164,258,249</u>
Less accumulated depreciation for:				
Buildings	11,880,276	951,542	1,706,459	11,125,359
Improvements other than buildings	2,067,703	187,602	28,392	2,226,913
Machinery and equipment	9,918,271	1,040,734	1,381,047	9,577,958
Infrastructure	27,353,418	2,342,560	98,590	29,597,388
Total accumulated depreciation	<u>51,219,668</u>	<u>4,522,438</u>	<u>3,214,488</u>	<u>52,527,618</u>
Total capital assets being depreciated, net	<u>97,766,445</u>	<u>14,597,491</u>	<u>633,305</u>	<u>111,730,631</u>
Governmental capital assets, net	<u>\$ 123,471,097</u>	<u>\$ 20,454,049</u>	<u>\$ 14,088,838</u>	<u>\$ 129,836,308</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	1,607,994	\$ 1,748,847	\$ 1,465,895	1,890,946
Total capital assets , not being depreciated	<u>2,756,594</u>	<u>1,748,847</u>	<u>1,465,895</u>	<u>3,039,546</u>
Capital assets, being depreciated:				
Buildings and system	14,468,237	1,200,238		15,668,475
Improvements other than building	8,528,005			8,528,005
Machinery and equipment	4,397,999	636,753	242,166	4,792,586
Total capital assets, being depreciated	<u>27,394,241</u>	<u>1,836,991</u>	<u>242,166</u>	<u>28,989,066</u>
Less accumulated depreciation for:				
Buildings and system	7,542,739.00	404,686	11,000	7,936,425
Improvements other than buildings	4,194,139	524,558		4,718,697
Machinery and equipment	2,313,464	460,623	242,167	2,531,920
Total accumulated depreciation	<u>14,050,342</u>	<u>1,389,867</u>	<u>253,167</u>	<u>15,187,042</u>
Total capital assets, being depreciated, net	<u>13,343,899</u>	<u>447,124</u>	<u>(11,001)</u>	<u>13,802,024</u>
Business-type activities capital assets, net	<u>\$ 16,100,493</u>	<u>\$ 2,195,971</u>	<u>\$ 1,454,894</u>	<u>\$ 16,841,570</u>

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

Governmental activities:

General Government	\$ 132,550
Public Safety-Corrections	441,026
Public Safety-Juvenile	219,854
Public Safety-Other	82,531
Judicial	68,109
Transportation	2,400,577
Economic Environment	9,079
Health	57,501
Culture & Recreation	211,623
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	899,588
	<u>\$ 4,522,438</u>

Business-type activities:

Water	\$ 142,351
Sewer	118,930
Solid Waste-Landfill	763,582
Public Safety (911 Communications)	231,835
Public Safety (Law Enforcement Records)	105,341
Expo Center	27,828
Total depreciation expense-business-type activities	<u>\$ 1,389,867</u>

Construction commitments

Cowlitz County has active construction projects as of December 31, 2006. At year end The projects are as follows:

	<u>Spent to date</u>	<u>Remaining Commitment</u>
Admin Building – Sky Light	\$ 32,768	\$ 2,863
Hall of Justice - Old Jail Plumbing	\$ 72,593	\$ 85,322
- Entry Way Divider	20,896	1,017
New Jail – Storage Shed –	\$ 10,283	\$ 71,154
Funding from existing Capital Improvement Funds fir the projects mentioned above.		
Road Projects	\$ 9,435,928	\$ 3,158,889
Funding for projects will come from existing Road funds and grants.		
Solid Waste –	\$ 55,288	\$ -
Water Sewer Construction	\$ 1,075,080	\$ 13,910
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, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being depreciated:				
Land	\$ 586,540			\$ 586,540
Construction in progress	1,494,348	7,770,773	\$ 31,846	9,233,275
Total capital assets not being depreciated	<u>2,080,888</u>	<u>7,770,773</u>	<u>\$ 31,846</u>	<u>9,819,815</u>
Capital Assets, being depreciated:				
Buildings & system	66,050,637	31,846		66,082,483
Improvements other than buildings	7,297			7,297
Machinery and equipment	746,087	11,357		757,444
Total capital assets being depreciated	<u>66,804,021</u>	<u>43,203</u>		<u>66,847,224</u>
Less: accumulated depreciation for				
Buildings & system	(13,845,864)	(1,584,690)		(15,430,554)
Improvements other than buildings		(7,297)		(7,297)
Machinery and equipment	(569,012)	(41,995)	8,761	(602,246)
Total accumulated depreciation	<u>(14,414,876)</u>	<u>(1,633,982)</u>	<u>8,761</u>	<u>(16,040,097)</u>
Total capital assets, being depreciated net	<u>52,389,145</u>	<u>(1,590,779)</u>		<u>50,807,127</u>
Central Sewer-capital assets net	<u>\$ 54,470,033</u>	<u>\$ 6,179,994</u>	<u>\$ 23,085</u>	<u>\$ 60,626,942</u>

Commitments The Three Rivers Regional Waste Water Authority had five construction projects ongoing at the end of 2006. The costs through December 2006 were \$9,233,275 consisting of a bio-solids project, \$8,682,650; laboratory office \$445,903; software\$56,726; N Plant Clarifier Replacement \$1,114 and the Kelso PS Motor/VFD Replacement \$46,882 The remaining commitment for those projects totals \$8.3 million. Existing funds of the utility will pay for the projects.

Discretely Presented Component Unit – Public Facilities District

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital Assets, being depreciated:				
Buildings	5,991,566		68,288	5,923,278
Improvements other than building	566,565			566,565
Machinery and Equipment	662,587			662,587
Total capital assets, being depreciated	7,220,718	-	68,288	7,152,430
Less: accumulated depreciation for:				
Buildings	(59,914)	(118,466)	(683)	(177,697)
Improvements other than buildings	(19,055)	(38,109)		(57,164)
Machinery and Equipment	(24,455)	(48,910)		(73,365)
Total accumulated depreciation	(103,424)	(205,485)	(683)	(308,226)
Total capital assets, being depreciated net	\$ 7,117,294	\$ (205,485)	\$ 67,605	\$ 6,844,204

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 the state sales tax revenue the public facilities district receives.

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 2006:

	Fund	Fund	Improv.	GO Bonds	Govt.	Enterprise	Service	Total
Transfers in:								
General Fund							\$ -	-
Road Fund (weed ctrl)	\$ 46,208							46,208
Community Mental Hlth.	13,355							13,355
1999 Ltd. GO Bond			\$ 36,360					36,360
Capital Improvements	1,400,000			500	284,689		21,331	1,706,520
Water Sewer								-
Nomajor:								
Stormwater		75,000						75,000
Geographic Info. Svcs	232,754							232,754
Health Department	375,725							375,725
Auditor's O&M	36,048							36,048
Tourism					16,575			16,575
Drug Task Force	51,984							51,984
Benefits Administration	100,000							100,000
Low Income Housing					82,398			82,398
1998 Ltd GO Bond Fd.			97,355					97,355
2002 Ltd GO Bond Fd.			380,188					380,188
2005 Ltd GO Refdgd Bd			95,528	98,750				194,278
Total Nonmajor								-
Governmental	796,511	75,000	573,070	98,750	98,973		-	1,642,304
Nonmajor-Enterprise:								
Exposition Center	206,265							206,265
Law Enforce, Records					19,946			19,946
Internal Service Funds	393,429		9,061		29,319			431,809
Total Transfers	\$ 2,855,768	\$ 75,000	\$ 618,491	\$ 99,250	\$ 432,927	\$ -	\$ 21,331	\$ 4,102,767

Interfund receivables and payables consisted of the following as of December 31, 2006:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road	29,120
	Comm/Mental Health	10,600
	Solid Waste	6,895
		<u>46,615</u>
Road	General	2,607
	Capital Improvements	545
		<u>3,152</u>
Solid Waste	General	236
	Road	503
	Nonmajor enterprise	115
		<u>854</u>
Nonmajor Enterprise Funds	General Fund	<u>1,750</u>
Internal Svc Funds	General	229,754
	Road	116,499
	Community Mental Health	837
	Capital Improvements	563
	Nonmajor governmental funds	9,277
	Water Sewer	4,395
	Solid Waste	3,966
	Nonmajor enterprise funds	2,692
	Internal service funds	4,871
	<u>372,854</u>	
Nonmajor Governmental Fds.	General	<u>775</u>
	Total	<u>\$ 426,000</u>

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

At December 31, 2006 the Capital Improvements Fund has interfund loan payables of \$63,799 to the Solid Waste Fund, and \$100,556 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 2006:

**SCHEDULE OF FINANCIAL ASSISTANCE
For the Year Ending December 31, 2006**

Grantor	Program Name	Identification Number	Current Year Expenditures
<u>Federal Direct:</u>			
USDOJ	Bullet Poroof Vest Prtnership	16.607	5,729
USDOJ	NW HIDTA	16.999	47,887
<u>Federal Indirect:</u>			
USDA-SPI	National School Breakfast Program	10.553	17,968
USDA-SPI	National School Luch Program	10.555	27,373
USDA-FNS	Basic Food Nutrition Education Program	10.561	35,482
USDA-FS	Title I & II Federal Forest	10.665	159
SRFB/IAC	Pacific Coast Salmon Recovery	11.438	40,309
ST CTED	CDBG Grant	14.228	752,451
WSP	National Criminal History Improvement Program	16.554	17,740
WSDSHS	Violence Against Women	16.588	15,710
WSP	Drug Cont. & Syst. Imprv. Marij. Eradication	16.579	4,508
ST CTED	Byrne Grant	16.579	125,199
WASPC	Comm Prosecution & Project Safety	16.609	62,982
WASPC	Public Safety Partnership & Comm Policing	16.71	81,122
CTED	Edward Byrne Memorial Justice AssistanceGrant	16.738	141,588
WSDOT	Road Projects	20.205	6,451,762
WTSC	State & Community Highway Safety	20.600	4,229
WTSC	Occupant Protection	20.602	2,386
WSDH	Capitalization Grants for Drinking Water	66.468	3,500
WSSEC	Help America Vote Act	90.401	365,093
WSHHS	Projects for Asst In Transition Frm Homeless	93.15	53,524
WSDHS	Childhood Immunization	93.268	604,215
WSDH	Prevention Investigation & Technical Asst	93.283	216,745
WSHHS	Promoting Safe and Stable Families	93.556	18,378
WSHHS	Temporary Assist for Needy Families	93.558	2,500
WSDCS	Child Support Enforcement	93.563	431,219
WDHHS	Child Care and Development Block Grant	93.575	26,966
WDHHS	St Court Improvemrnt Program	93.586	19,363
WSHHS	Medicaid Title-19	93.778	202,714
WSHHS	Natural Bioterorism Hospital Preparedness	93.889	4,000
WSHHS	HIV Care Formula Grant	93.917	63,128
WSHHS	MH Federal Block Grant	93.958	115,334
WSHHS	Alcohol & Other Drug Abuse Prevention	93.959	211,688
WSHHS	Prev Health & Health Services Block Grant	93.991	7,173
WSHHS	Maternal Child Health Block Grant	93.994	108,980
WSMD	Terrorist Threat and Needs Assessment	97.004	391,720
Total Federal Assistance			\$ 10,680,824

State Grants

Grantor	Title of Grant	Identification Number	Current Year Expenditures
DSHS	Support Enforcement		\$ 153,831
DSHS	Developmental Disabilities	0363-36083	962,360
DSHS	Cowlitz Co. Juvenile Prosecutor	0463-59821	10,000
DSHS	Substance Abuse GIA	0563-73235	620,088
DSHS	Chemical Dependency Disposition Alter	0563-84975	88,764
DSHS	Comm Juvenile Accountability Act	0563-84974	56,712
DSHS	Diagnostice Program	0563-84975	34,040
DSHS	Consolidated Contracts	0563-84974	95,084
DSHS	DDD Crisis Stabilization Services	0569-74563	29,310
DSHS	SSODA	0563-87974	86,797
DSHS	Plan of Cooperation	2110-80610	18,200
DSHS	HB3900 Impact	0563-84975	48,760
DSHS	DSHS/JRA Room Board	0363-42538	2,070
State Community College	Work Study Reimbursement		972
State Legislature	Prosecuting Attorney's Salary		49,098
State Department of Outdoor Recre	Baxter/Monahan/Riverside Projects	03-1371D	745
St Off of the Admin for the Court	CASA-GAL	IAA-06009	28,259
St Off of the Admin for the Court	Becca Impact Funds	IAA-06040	323,826
State County Road Admin Board	Arterial Preservation		298,889
State Transportation Board	Castle Rock Seal Coat Project		37,952
State Dept of Ecology	Coordinated Prevention	G0400291	93,246
State Dept. of Ecology	Coordinated Prevention	G0400293	25,241
State Dept. of Ecology	Community Litter Cleanup Program	C0400022	37,150
State Dept. of Health	Child Oral Health	C13030	20,063
State Dept. of Health	Phepr Pandemic Influenza	C13030	12,582
State Dept. of Health	Tabacco Prevention Control	C13030	81,364
State Dept. of Health	Local Capacity Funds	C13030	133,796
State Dept. of Health	DOH Safe Drinking Water	C13030	6,161
State Dept. of Health	Region VI AIDS Prevention	HDC-1219	86,542
State Dept. of Health	Immumination-Vaccine		194,421
State Dept. of Comm. Devel.	Growth Management Services Grant	G0400293	12,500
State Dept. of Traffic Safety	DUI/Traffic Safety Task Force	05ST-18	27,634
Total State and Local Assistance			\$ 3,676,457

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 3

Plan 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*	3.69%	3.69%	3.69%**
Employee	6.00%	3.5%	6.57%

* 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>
2006	\$ 63,453	\$ 528,888	\$ 66,496
2005	\$ 60,936	\$ 330,146	\$ 38,021
2004	\$ 19,296	\$ 154,404	\$ 17,850

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, 2004 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, 2006 were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
Employer	.18% *	4.9% **
Employee	.0%	7.85%
State	N.A.	N.A.

* 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>
2006	\$ 451	\$ 114,449
2005	\$ 453	\$ 88,829
2004	\$ 587	\$ 71,153

C. Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description – PSERS Plan 2 was created by the 2004 legislature and became effective July 2, 2006. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan.

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

A *covered employer* is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections, Park and Recreation, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washing state cities except for Seattle, Tacoma and Spokane.

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

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

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service and attains the age of 65. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is the monthly average of the member’s 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 received reduced benefits. If retirement is at age 53 or older with at least 20 year of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index) capped at 3 percent annually.

The first actuarial valuation of the PSERS system will be effective September, 2006 and reported in the year 2007.

Funding Policy

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

The required contribution rates expressed as a percentage of current –year covered payroll, as of December 31, 2006, for PSERS Plan 2 were as follows:

<u>Employer</u>	<u>Employee</u>
6.76%	6.57%

* The employer rate includes an employer administrative fee of .18%.

The County and the employees made the required contributions. The County’s required contribution for the year ended December 31, 2006 was \$53,186 for PSERS Plan 2.

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-Five retirees are eligible and received health care benefits in 2006. 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 and Medical Insurance:

2001	\$ 145,808	2004	\$ 243,750
2002	\$ 141,954	2005	\$ 250,552
2003	\$ 277,276	2006	\$ 174,722

Net assets available for future benefits, recorded in the Benefits Administration Fund total \$844,052 at December 31, 2006.

An independent actuary study done thirteen years ago estimated present value of future medical benefits to LEOFF I retirees at \$7,229,224. 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 \$6,385,172 existed at December 31, 2006.

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 organization for the joint purchasing of insurance, and/or joint self-insuring, or joint 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 several counties in the State of Washington signed an Interlocal Agreement to pool their self-insurance losses and jointly purchase insurance, and administrative services. Thirty counties have belonged to the Pool and twenty-eight counties are currently members of the pool.

The pool allows member counties to jointly purchase property and excess liability insurance, to establish a plan of self-insurance, and provide related services such as risk management etc. All pool joint self-insurance liability coverage, including public officials' errors and omissions and property insurance, are on an "occurrence" basis. The Pool provides the following forms of group purchased insurance coverage for its members: "following form" excess liability, and property that includes vehicles, mobile equipment, EDP equipment, and equipment breakdown, etc.

Members make an annual contribution to fund the Pool. The Pool acquires liability reinsurance and "following form: excess insurance from unrelated underwriters that is subject to a per-occurrence self-insured retention of \$100,000 or the member-selected deductible, whichever is greater. Based upon their individual deductible selections, members are responsible for the first \$10,000 to \$500,000 of each claim, while the Pool is responsible for the remaining self-insured retention up to \$100,000. Insurance carriers cover all losses above the \$100,000 to \$500,000 self-insured retention to the maximum limits of each policy.

Since the Pool is a cooperative program, there is a joint liability among the participating members. This contingent liability is established if a program's assets are insufficient to cover the program's liabilities. Eficits of the Pool are financed through retroactive assessments of the responsible members. The Pool's to date reassessments receivable balance as of December 31, 1006 is \$947,956. Cowlitz County's reassessment balance outstanding is \$78,424.

The Pool also acquires member-option property insurance from unrelated underwriters that is subject to a member-selected per-occurrence deductible of between \$5,000 and \$50,000. Members are responsible for the entire deductible amount of each claim Insurance carriers covers all losses over the member deductibles to maximum limits of each policy.

Each new member pays the Pool an admittance fee. This amount covers the member's share the organizational expenses and the cost of analyzing their loss data and risk profile. Members contract to remain in the Poll for a minimum of five years, and may terminate their membership at the conclusion of any Poll fiscal year if the county has timely provide the required twelve month notice. The Interlocal Governmental Agreement is renewed automatically each year after the initial 5-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the interlocal governmental agreement.

The Pool is fully funded by its member participants. Claims are filed by members and handled by the Pool's claims staff. Reserves are established for both reported and unreported insured events

and include estimates of the undiscounted future cash payments of losses and related claim adjustment expenses.

The Pool is governed by a board of directors, which is comprised of one designated representative from each participating member. An executive committee is elected from the member-designated directors and alternate directors at the annual meeting. Also at the annual meeting, the Pool’s officers (president and secretary-treasurer) are elected from the executive committee persons. The offices and the executive committee are responsible for conducting the business affairs of the Pool.

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, 2006 were \$877,536 for general liability and \$321,000 for workers compensation.

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

	Risk Management	Industrial Insurance	Total
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
Provision for 2006	240,072	220,891	460,963
Increase(Decrease) in			
Provision for Prior Years	(322,162)	(14,400)	(336,562)
Less:			
Payment of Claims Current Yr. Events	10,583	57,566	68,149
Payment of Claims Prior Yr. Events	<u>279,791</u>	<u>160,425</u>	<u>440,216</u>
Claims Payable 12-31-06	\$ 877,536	\$ 321,000	\$ 1,198,536

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 \$117,308 at December 31, 2006 available to help meet the projected future estimate of claims to be paid out of \$321,000. This results in a December 31, 2006 negative net assets balance of \$203,626.

The Risk Management Fund has \$944,457 at December 31, 2006 in net cash and investments to meet actual and projected claims to be paid of \$867,536.

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, 2006 the fund has a net assets balance of \$281,073 compared to \$227,711 at December 31, 2005.

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,
2006

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.

\$ 200,000

\$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 \$700,000 of the \$805,000 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.

\$ 805,000

\$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 it 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, 005,000

\$235,000 **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.

\$ 40,000

\$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. Interest varies from 2% through 4.35% on principal payment so f \$115,000 to \$490,000 though October 1, 2027. **The debt will be paid from sales and hotel taxes received by the Cowlitz County Public Facilities District, a component unit of Cowlitz County.**

\$ 5,920,000

\$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.**

\$ 505,000

\$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 it 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.

\$ 390,000

\$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.

This remaining debt is paid from the following: principal paid from assessments is \$1,825,000 to be paid through 2019; other governments are to pay \$3,200,000 of the principal leaving \$3,335,000 as the County's portion of this debt.

\$ 8,360,000

\$13,760,000 **Special Sewer Revenue Bonds 2006** issued June 1, 2006 to provide construction improvements to the wastewater treatment plant. Interest varies from 4.25% to 5.25% with future principal payments of \$470,000 to \$1,090,000 through March 1, 2025. The debt is paid from revenues collected by the Three Rivers Regional Wastewater Authority (TRRWA), a discretely presented component unit of the County. In the event the TRRWA does not provide sufficient funds for payment of the debt Cowlitz County has pledged it full faith a credit to deposit into the bond fund.

\$ 13,760,000

2. DEBT SERVICE REQUIREMENTS TO MATURITY

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

Year Ending December 31	Governmental Activities		Business Type Activities (Enterprise Funds- Water Sewer)	
	Principal	Interest	Principal	Interest
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	741,646		
2011	855,000	701,268		
2012-2016	4,980,000	2,867,316		
2017-2021	5,440,000	1,599,063		
2022-2026	3,875,000	468,177		
2026-2028	255,000	11,093		
Total	\$ 18,970,000	\$ 8,803,612	\$ 40,000	\$ 3,220

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 December 31	Principal	Interest
2007	\$ 125,000	\$ 117,090
2008	130,000	111,340
2009	135,000	105,230
2010	140,000	98,750
2011	150,000	91,050
2012-2016	885,000	321,600
2017-2019	650,000	69,563
Total	\$ 2,215,000	\$ 914,623

Annual debt service requirements for the **special sewer revenue bonds 2006, which** are paid from revenues collected by Three Rivers Regional Wastewater Authority and backed by the Counties full faith and credit, are as follows:

Special Sewer Revenue Bonds		
Year Ending December 31	Principal	Interest
2007	\$ 470,000	\$ 650,088
2008	490,000	629,687
2009	510,000	608,438
2010	530,000	586,337
2011	555,000	563,281
2012-2016	3,145,000	2,434,119
2017-2021	4,010,000	1,584,862
2022-2026	4,050,000	422,863
Total	\$ 13,760,000	\$ 7,479,675

Claims and Judgments

1) The County Risk Management Fund provides monies to cover the \$100,000 deductible on general liability insurance and automobile liability. Amounts in excess are covered as described in Note 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 claims liability at December 31, 2006 consists of \$324,963 estimated pay out for claims reported and \$552,573 for claims incurred but not reported that are probable to be asserted. Total claims liability - \$877,536.

2) The Industrial Insurance Safety Fund provides payments for workers compensation. The estimated claims payable at December 31, 2006 based on information provided from State Industrial Tables - \$321,000.

Water-Sewer Notes Payable to State of Washington –

The County entity received \$653,050 of Public Works Trust Fund money from Wa. State Department of Community Development. The funds were 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 \$484,716.

Also the Water-Sewer fund has a loan of \$1,084,158 from the Wa. State Department of Community Development. The funds were 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 \$60,231 are due beginning October 1, 2006 with final maturity October 1, 2023. Principal balance at December 31, 2006 is \$1,023,927.

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>
2007	94,854	15,086
2008	94,853	14,138
2009	94,854	13,189
2010	94,853	12,241
2011	94,854	11,292
2012-2016	474,268	42,234
2017-2021	439,645	18,520
2022-2023	120,462	1,807
Total	<u>\$ 1,508,643</u>	<u>\$ 128,507</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 \$8.9 million reported as landfill closure and post closure care liability at December 31, 2006 represents the cumulative amount reported to date based on the use of 66.3 percent of the estimated refuse capacity of the landfill and 48% for the closed lined landfill. The county will recognize the remaining estimated costs of closure and post closure care of \$4.5 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 2006. The estimated life for the landfill is 7 years, with final closure in September 2012. 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, 2006 the County had \$8.9 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 (TRRWA)

On June 1, 2006 Cowlitz County issued \$13,760,000 in Special Sewer Revenue Bonds for TRRWA construction improvements. TRRWA will pay the annual debt service to the County for these bonds.

Also 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, Longview and the Beacon Hill Sewer District and Cowlitz County. 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

Discretely Presented Component Unit -Three Rivers Regional Wastewater Authority						
	Bonds*		Notes- Due State Wa & City		Due to Primary Govt.	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	1,645,000	1,294,019	721,162	64,470	595,000	663,363
2008	1,695,000	1,244,669	816,787	58,982	615,000	640,150
2009	1,745,000	1,191,700	816,787	53,479	635,000	615,775
2010	1,805,000	1,134,987	816,787	47,983	660,000	590,238
2011	1,870,000	1,069,556	629,287	42,488	555,000	563,281
2012-2016	10,730,000	3,974,531	2,668,312	145,265	3,145,000	2,434,119
2017-2021	7,935,000	888,525	1,917,654	34,395	4,010,000	1,584,487
2022-2025					4,050,000	422,863
Total	\$ 27,425,000	\$ 10,797,987	\$ 8,386,776	\$ 447,062	\$ 14,265,000	\$ 7,514,276

*Final Yr on Bond Pmts 2019

government for their share of the 2003 refunding issue.

Debt Outstanding	
	December 31, 2006
\$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.	\$ 27,425,000
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Component Unit – Three Rivers Regional Wastewater Authority Notes	
Payable: \$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.	\$ 4,879,276
\$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.	\$ 2,375,000
\$510,00 2006 Public Works Trust Fund Loan from State of Washington - \$382,500 issued August 7, 2006 to replace two clarifiers and associated piping. Interest is .05% per annum with future annual principal payments of \$95,625 beginning June 30, 2008 Through June 30, 2011.	\$ 382,500
\$776,287 2006 City of Longview Loan to TRRWA from Public Works Trust Fund Money received by City. \$750,000 received by TRRWA Sep 21, 2006. Interest is .05% per annum with future annual principal payments of \$187,500 beginning June 30, 2007 through June 30, 2010.	\$ 750,000

Component Unit –Three Rivers Regional Wastewater Authority –Due to Primary Government	Debt Outstanding 12/31/2006
\$13,760,000 from Cowlitz County that issued bonds on June 1, 2006 to provide construction improvements to the wastewater treatment plant. Interest varies from 4.25% to 5.25% with future principal payments of \$470,000 to \$1,090,000 beginning March 1, 2007 through March 1, 2025.	\$13,760,000
\$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.	\$ 505,000

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

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, 2006
\$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 \$135,000 to \$490,000 through October 1, 2027.	\$5,920,000

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

Component Unit -Public Facilities District		
Due to Primary Government		
	Principal	Interest
2007	135,000	222,405
2008	145,000	219,368
2009	160,000	215,743
2010	170,000	211,343
2011	180,000	206,243
2012-2016	1,130,000	931,464
2017-2021	1,575,000	701,800
2022-2026	2,170,000	342,829
2027	255,000	11,093
	\$ 5,920,000	\$ 3,062,288

4. CHANGES IN LONG-TERM DEBT

Changes in Governmental Activities General Long Term Debt

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006	Due Within One Year
General Obligation Bonds	\$ 19,755,000		(785,000)	\$ 18,970,000	\$ 705,000
Special Assessment Bonds with governmental commitment	2,335,000		(120,000)	2,215,000	120,000
Special Revenue Bonds		13,760,000	-	13,760,000	470,000
Less: deferred amounts:					
for issuance discounts	(235,511)		13,110	(222,401)	
for premium on 2005 issue	164,254		(9,211)	155,043	
on refunding on 2005 issue	(530,798)		139,700	(391,098)	
	21,487,945	13,760,000	(761,401)	34,486,544	1,295,000
Note Payable	-			-	-
Compensated Absences	2,387,887	2,144,621	(2,039,503)	2,493,005	
Comp. Absences - Int Svc.	167,437	111,341	(124,207)	154,571	
Claims/Judgements-Int Svc.	1,582,500	124,401	(508,365)	1,198,536	428,580
Total Gen'l Long-Term Debt	\$ 25,625,769	\$ 16,140,363	\$ (3,433,476)	\$ 38,332,656	\$ 1,723,580

In 2006 Cowlitz County issued \$13,760,000 in special sewer revenue bonds on behalf of Three Rivers Regional Wastewater Authority (TRRWA). TRRWA has pledged its net revenues for payment of the debt and constitutes a lien on the net revenues TRRWA. Also the bonds are further secured by a limited tax general obligation of the County.

- Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds at 12/31/06 consisting of claims payable of \$1,198,356 and compensated absences of \$154,571 are included in governmental activities changes in general long-term debt .

Changes in Business Type Activities Long-Term Debt

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/06	Due Withni One Year
Limited General					
Obligation Bonds	\$ 60,000		\$ 20,000	\$ 40,000	\$ 20,000
Less: deferred discount	(1,460)		486	(974)	
	58,540	-	20,486	39,026	20,000
Notes Payable State of Wa.	1,069,547	533,949	94,853	1,508,643	94,854
Compensated Absences	291,771	273,302	256,840	308,233	
Capital Lease	16,229		16,229	-	
Landfill Closure & Postclosure Care	7,862,966	1,035,490		8,898,456	
	<u>\$ 9,299,053</u>	<u>\$ 1,842,741</u>	<u>\$ 388,408</u>	<u>\$ 10,754,358</u>	<u>114,854</u>

Changes in Long-Term Debt Discrete Component Unit - (Three Rivers Regional Wastewater Authority)

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006	Due Within One Year
Limited General					
Obligation Bonds	\$ -			\$ -	
Special Revenue					
Refunding Bonds	29,030,000		(1,605,000)	27,425,000	1,645,000
Less: deferred amounts:					
for discounts	(5,635)		1,127	(4,508)	
for issuance costs	(2,814,258)		206,043	(2,608,215)	
for premium	1,624,810		(117,456)	1,507,354	
Total bonds payable	27,834,917	-	(1,515,286)	26,319,631	1,645,000
Notes Payable-Other Govts.	7,787,938	1,132,500	(533,633)	8,386,805	816,787
Due to Primary Government	620,000	13,760,000	(115,000)	14,265,000	595,000
Less: deferred amounts:					
for issuance		(208,191)	6,448	(201,743)	
for premiums		450,036	(13,939)	436,097	
Compensated Absences	140,817	126,462	107,912	159,367	
Total Component Unit	<u>\$ 36,383,672</u>	<u>\$ 15,260,807</u>	<u>\$ (2,063,498)</u>	<u>\$ 49,365,157</u>	<u>\$ 3,056,787</u>

Changes in Long-Term Debt Component Unit (Public Facilities District)CHANGES IN LONG-TERM DEBT COMPONENT UNIT (PUBLIC FACILITIES DISTRICT)

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006	Due Within One Year
Due to Primary Government	\$ 6,045,000		\$ 125,000	\$ 5,920,000	\$ 135,000
Less deferred amounts:					
For issuance discounts	(102,530)		4,661	(97,869)	
Long Term Liabilities	<u>5,942,470</u>	<u>-</u>	<u>129,661</u>	<u>5,822,131</u>	<u>135,000</u>

5. LEGAL DEBT MARGIN

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

<u>PURPOSE OF INDEBTEDNESS</u>	<u>REMAINING CAPACITY</u>
General Government (No vote required)	\$ 77,912,215
General Government (Vote required)	\$ 154,942,076

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. As of December 31, 2006 there are no capitalized leases with any outstanding balances owing.

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

General Fund - The Cooperative Extension Department received reimbursement for professional services and salary and wages incurred in prior years of \$15,269 and \$6,119 reimbursement of retirement expenditures on an employee determined not eligible. Also, inmate funds received in prior years that was unclaimed was forwarded to the State of Washington \$4,189 decrease in net assets. Total prior period adjustments resulted in a net increased to net assets is \$17,199 for 2006.

Health Fund - Understated receivables at 12/31/05 by \$85,955.14

Internal Service Fund – Central Services – Two items of equipment were purchased in 2005 were expensed off that should have been set up as capital assets in 2005. This is the correction for the understatement of assets of \$27,725.

Enterprise Funds

911 Communications (non major fund) – a Federal Department of Justice Grant for \$347,725 was received in 2006 but was for expenditures of 2005 for which a receivable and revenue should have been recognized in 2006. Also, \$38,195 should have been recognized as 911-tax revenue and receivable for 2006. Total prior period adjustment increase is \$385,920.

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, 2006
With Comparative Actual Amounts for Year Ended December, 31 2005

	2006				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	2005 Actual Amounts
	Original	Final			
<i>Revenues:</i>					
Taxes	\$ 19,642,176	\$ 20,056,083	\$ 20,411,593	\$ 355,510	\$ 20,867,258
Licenses & Permits	1,457,511	1,510,248	1,941,351	431,103	1,462,799
Intergovernmental	4,105,306	4,403,111	4,647,533	244,422	3,904,621
Charges for services	4,955,226	4,967,726	5,632,264	664,538	4,969,844
Fines and forfeits	1,061,675	1,061,675	1,300,489	238,814	1,169,279
Interest	650,700	650,700	1,806,300	1,155,600	893,003
Miscellaneous	352,617	352,617	372,742	20,125	390,980
<i>Total revenues</i>	\$ 32,225,211	\$ 33,002,160	\$ 36,112,272	\$ 3,110,112	\$ 33,657,784
<i>Expenditures:</i>					
General government	8,787,182	9,039,254	8,668,395	370,859	7,768,329
Public safety-corrections	6,696,056	7,073,249	6,964,085	109,164	6,079,937
Public safety-juvenile	3,166,876	3,166,876	3,054,535	112,341	3,053,094
Public safety-other	5,903,611	5,903,611	5,803,705	99,906	5,747,686
Judicial	4,741,005	4,936,681	4,661,696	274,985	4,340,317
Physical environ. (animal cont./soil cons.)	90,350	90,350	90,215	135	87,959
Economic environment	1,997,187	2,029,003	1,930,486	98,517	1,623,726
Transportation (airport)	16,000	16,000	16,000	-	16,000
Mental & physical health	295,096	326,005	279,918	46,087	233,649
Culture & recreation	741,559	732,851	658,927	73,924	660,207
Capital outlay	76,000	160,175	181,963	(21,788)	-
<i>Total Expenditures</i>	32,510,922	33,474,055	32,309,925	1,164,130	29,610,904
Excess (deficiency) of revenues over expenditures	(285,711)	(471,895)	3,802,347	4,274,242	4,046,880
<i>Other financial sources (uses):</i>					
Proceeds-sale fixed assets	325,000	325,000	347,030	22,030	804,782
Transfers In	-	-	-	-	20,926
Transfers (out)	(2,298,506)	(2,768,506)	(2,694,841)	73,665	(1,209,705)
<i>Total Other financial sources (uses):</i>	(1,973,506)	(2,443,506)	(2,347,811)	95,695	(383,997)
Net change in fund balances	(2,259,217)	(2,915,401)	1,454,536	4,369,937	3,662,883
Prior Period Adjustments			17,201	17,201	
Fund balance, January 1	6,604,124	7,132,308	8,362,395	1,230,087	4,699,512
Fund balance, December 31	\$ 4,344,907	\$ 4,216,907	\$ 9,834,132	\$ 5,617,225	\$ 8,362,395

COWLITZ COUNTY, WASHINGTON
GENERAL FUND
SCHEDULE OF REVENUE - BUDGET AND ACTUAL
Year Ended December 31, 2006
With Comparative Actual Amounts for Year Ended December, 31 2005

	<u>Budgeted Amounts-2006</u>		<u>2006 Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>	<u>2005 Actual Amounts</u>
	<u>Original</u>	<u>Final</u>			
General property taxes	\$ 13,408,872	\$ 13,408,872	\$ 13,444,806	\$ 35,934	\$ 13,632,812
Timber harvest taxes	590,000	590,000	729,793	139,793	663,188
Retail sales and use tax	4,011,184	4,425,091	4,713,273	288,182	4,702,171
Excise and other taxes	316,850	316,850	387,476	70,626	350,437
Penalties and interest on delinquent taxes	1,315,270	1,315,270	1,136,245	-179,025	1,518,650
<i>Total Taxes</i>	<u>19,642,176</u>	<u>20,056,083</u>	<u>20,411,593</u>	<u>355,510</u>	<u>20,867,258</u>
Business licenses & permits	191,761	191,761	255,568	63,807	180,010
Marriage licenses	19,405	19,405	19,142	-263	20,933
Permits	1,246,345	1,299,082	1,666,641	367,559	1,261,856
<i>Total Licenses & Permits</i>	<u>1,457,511</u>	<u>1,510,248</u>	<u>1,941,351</u>	<u>431,103</u>	<u>1,462,799</u>
Federal grants - direct	26,184	26,184		-26,184	57,890
Federal payment lieu of taxes	7,377	7,377	7,594	217	7,383
Federal grants - indirect	559,978	579,341	672,886	93,545	581,795
State grants	1,156,958	1,156,958	1,098,937	-58,021	953,012
State shared revenue-PUD privilege	945,300	945,300	951,726	6,426	933,674
State shared revenue-other	1,250	1,250	227	-1,023	684
Entitlement and impact payments	1,027,469	1,147,311	1,174,904	27,593	988,474
Intergovernmental service revenue	380,790	539,390	741,259	201,869	381,709
<i>Total intergovernmental</i>	<u>4,105,306</u>	<u>4,403,111</u>	<u>4,647,533</u>	<u>244,422</u>	<u>3,904,621</u>
General government fees	1,288,967	1,301,467	1,328,158	26,691	1,272,547
Public safety	2,177,927	2,177,927	2,408,936	231,009	2,220,111
Judicial	540,947	540,947	566,967	26,020	433,928
Transportation	14,950	14,950	33,119	18,169	14,581
Economic environment	927,435	927,435	1,260,588	333,153	1,024,028
Mental & physical health	1,000	1,000	1,140	140	1,249
Culture & recreation	4,000	4,000	33,356	29,356	3,400
<i>Total charges for services</i>	<u>4,955,226</u>	<u>4,967,726</u>	<u>5,632,264</u>	<u>664,538</u>	<u>4,969,844</u>
<i>Fines and forfeits</i>	1,061,675	1,061,675	1,300,489	238,814	1,169,279
<i>Interest earnings</i>	650,700	650,700	1,806,300	1,155,600	893,003
Rents and royalties	254,638	254,638	264,311	9,673	255,960
Other revenues	97,979	97,979	108,431	10,452	135,020
<i>Total miscellaneous</i>	<u>352,617</u>	<u>352,617</u>	<u>372,742</u>	<u>20,125</u>	<u>390,980</u>
TOTAL REVENUES	\$ 32,225,211	\$ 33,002,160	\$ 36,112,272	\$ 3,110,112	\$ 33,657,784

**COWLITZ COUNTY, WASHINGTON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended December 31, 2006
With Comparative Actual Amounts for Year Ended December, 31 2005**

	<u>Budgeted Amounts</u>		<u>2006 Actual Amounts</u>	<u>Variance with Final Budget</u>	<u>2005 Actual Amounts</u>
	<u>2006 ORIGINAL</u>	<u>2006 FINAL</u>			
<i>General Government</i>					
Boundary Review	\$ 20,880	\$ 20,880	\$ 17,943	\$ 2,937	\$ 16,184
Commissioners	487,627	487,627	482,386	5,241	466,181
Board of Equalization	5,416	5,416	1,516	3,900	1,564
Treasurer	600,827	600,827	570,960	29,867	561,756
Auditor	825,236	825,236	794,563	30,673	763,925
Assessor	1,305,321	1,305,321	1,212,796	92,525	1,218,447
Courthouse Facilitator	15,501	15,501	12,397	3,104	13,467
Prosecuting Attorney	1,565,230	1,675,570	1,648,594	26,976	1,447,501
Prosecuting Attorney-Diversion Prog.	14,179	14,179	14,113	66	16,070
Child Support Services	480,886	483,665	470,557	13,108	436,960
Administrative Services	587,836	707,289	628,837	78,452	515,617
Civil Service Commission	16,991	16,991	16,930	61	5,135
Admin. Bldg. Maint.	447,886	447,886	425,246	22,640	379,914
Hall of Justice Maintenance	1,282,003	1,282,003	1,240,757	41,246	1,055,607
Non-Dept. - Severance Pay	203,297	203,297	180,077	23,220	153,939
Non-Dept. - Insurance	555,964	555,964	555,965	(1)	396,962
Non-Dept. - Other	372,102	391,602	394,758	(3,156)	319,100
Total General Government	8,787,182	9,039,254	8,668,395	370,859	7,768,329
<i>Public Safety</i>					
Jail	5,147,401	5,521,594	5,488,699	32,895	4,712,726
Offender Services	999,239	999,239	936,811	62,428	880,235
Jail Concessions	100,352	103,352	102,064	1,288	74,212
Probation Services	449,064	449,064	436,511	12,553	412,764
Public Safety - Corrections Total	6,696,056	7,073,249	6,964,085	109,164	6,079,937
Public Safety - Juvenile-Detention & Probation	3,166,876	3,166,876	3,054,535	112,341	3,053,094
Public Safety - Sheriff & Sheriff Extradition	4,903,890	4,903,890	4,804,282	99,608	4,724,980
Non-Dept. - 911 Communications	487,848	487,848	487,848	-	505,788
Non-Dept. - Law Enforcement Records	419,038	419,038	419,038	-	421,655
Non-Dept. - Dept of Emerg Mgt	82,704	82,704	82,704	-	84,926
Non-Dept. - Fire District No. 2	10,131	10,131	9,833	298	10,337
Total Public Safety-Other	5,903,611	5,903,611	5,803,705	99,906	5,747,686
<i>Judicial</i>					
Superior Court	2,064,972	2,064,972	2,050,214	14,758	1,875,709
Office of Public Defense	-	161,620	52,317	109,303	-
District Justice Court	1,442,645	1,454,430	1,371,728	82,702	1,338,272
Clerk	987,766	1,004,469	950,819	53,650	905,412
Family Court	245,622	251,190	236,618	14,572	220,924
Total Judicial	4,741,005	4,936,681	4,661,696	274,985	4,340,317
<i>Physical and Economic Environment</i>					
Building & Planning	1,919,467	1,951,283	1,854,388	96,895	1,526,268
Non-Dept. - Animal Control	89,100	89,100	89,108	(8)	86,850
Non-Dept. - Soil Conservation/Nat. Resources	1,250	1,250	1,107	143	1,109
Non-Dept. - Council of Govts.	61,720	61,720	60,098	1,622	81,458
Non-Dept. - Econ. Dev.	16,000	16,000	16,000	-	16,000
Total Physical and Economic Environment	2,087,537	2,119,353	2,020,701	98,652	1,711,685
Transportation-Airport	16,000	16,000	16,000	-	16,000
<i>Physical Health</i>					
Coroner	212,315	223,015	194,013	29,002	161,035
Drug Court Grant Program	82,781	102,990	85,905	17,085	72,614
Total Physical Health	295,096	326,005	279,918	46,087	233,649
<i>Culture & Recreation</i>					
WSU Extension	155,375	155,375	130,332	25,043	126,399
Museum	101,578	102,692	87,250	15,442	92,038
Park & Recreation	484,606	474,784	441,345	33,439	441,770
Total Culture & Recreation	741,559	732,851	658,927	73,924	660,207
Capital Outlays	76,000	160,175	181,963	(21,788)	
TOTAL EXPENDITURES	\$ 32,510,922	\$ 33,474,055	\$ 32,309,925	\$ 1,164,130	\$ 29,610,904
<i>Other Financial (Uses)</i>					
Operating Transfers Out:					
Auditor to Auditor O&M	34,375	34,375	36,048	(1,673)	16,308
Drug Task Force	51,984	51,984	51,984	-	50,470
Human Services	2,000	2,000	2,000	-	169,691
Community Mental Health	11,355	11,355	11,355	-	11,132
Health Department	375,725	375,725	375,725	-	375,725
Expo Center	206,265	206,265	206,265	-	196,533
Election Reserve	232,502	232,502	232,502	-	137,000
Geographic Information Systems	319,300	319,300	232,754	86,546	167,994
Benefits Administration	100,000	100,000	100,000	-	-
Central Services	-	-	-	-	53,970
Capital Improvement Fund	950,000	1,400,000	1,400,000	-	20,000
Road Fund - Weed control	15,000	35,000	46,208	(11,208)	10,882
Total Other Financial (Uses)	2,298,506	2,768,506	2,694,841	73,665	1,209,705
TOTAL EXPENDITURES & OTHER FINANCIAL (Uses)	\$ 34,809,428	\$ 36,242,561	\$ 35,004,766	\$ 1,237,795	\$ 30,820,609

COWLITZ COUNTY, WASHINGTON
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2006
With Comparative Actual Amounts for 2005

	County Road				
	2006				2005
	Budgeted Amounts		Actual Amt	Variance with Final Budget -	
Original	Final				
<u>Revenues:</u>					
Taxes	\$ 7,421,239	\$ 7,421,239	\$ 7,778,715	\$ 357,476	\$ 7,653,530
Licenses and permits					
Intergovernmental	14,373,225	14,373,225	9,309,133	(5,064,092)	5,519,770
Charges for services	63,500	63,500	79,203	15,703	79,656
Interest	130,000	130,000	203,013	73,013	149,779
Miscellaneous	52,500	52,500	81,572	29,072	138,220
<i>Total revenues</i>	<u>22,040,464</u>	<u>22,040,464</u>	<u>17,451,636</u>	<u>(4,588,828)</u>	<u>13,540,955</u>
<u>Expenditures:</u>					
Transportation	9,962,532	9,962,532	10,442,938	(480,406)	8,809,180
Capital outlays	13,785,000	13,785,000	8,415,827	5,369,173	4,383,991
<i>Total expenditures</i>	<u>23,747,532</u>	<u>23,747,532</u>	<u>18,858,765</u>	<u>4,888,767</u>	<u>13,193,171</u>
Excess(deficiency) of revenues over expenditures	(1,707,068)	(1,707,068)	(1,407,129)	299,939	347,784
<u>Other financing sources (uses):</u>					
Capital leases					
Sale of capital assets	250,000	250,000	375,528	125,528	857,300
Transfers in	1,100,000	1,100,000	46,208	(1,053,792)	10,882
Transfers (out)		-	(75,000)	(75,000)	(711,215)
<i>Total other financing sources (uses)</i>	<u>1,350,000</u>	<u>1,350,000</u>	<u>346,736</u>	<u>(1,003,264)</u>	<u>156,967</u>
Net change in fund balances	(357,068)	(357,068)	(1,060,393)	(703,325)	504,751
Fund balance, January 1	4,800,000	4,800,000	6,259,766	1,459,766	5,755,015
Prior period adjustments					
<i>Fund balance December 31</i>	<u>\$ 4,442,932</u>	<u>\$ 4,442,932</u>	<u>\$ 5,199,373</u>	<u>\$ 756,441</u>	<u>\$ 6,259,766</u>

COWLITZ COUNTY, WASHINGTON
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2006
With Comparative Actual Amounts for December 31, 2005

Community Mental Health					
	2006				2005 Actual Amt
	Budgeted Amounts		Actual Amt	Variance with Final Budget	
	Original	Final			
<u>Revenues:</u>					
Taxes					
Licenses and permits					
Intergovernmental	\$ 7,992,818	\$ 7,992,818	\$ 9,195,604	\$ 1,202,786	\$ 7,356,557
Fines & forfeits					
Interest	25,000	25,000	79,652	54,652	39,926
Miscellaneous	10,000	10,000	600	(9,400)	-
<i>Total revenues</i>	<u>8,027,818</u>	<u>8,027,818</u>	<u>9,275,856</u>	<u>1,248,038</u>	<u>7,396,483</u>
Physical environment					
Culture & recreation					
Debt service interest					
<i>Total expenditures</i>	<u>8,441,304</u>	<u>8,441,304</u>	<u>8,281,810</u>	<u>159,494</u>	<u>7,922,375</u>
Excess(deficiency) of revenues over expenditures	(413,486)	(413,486)	994,046	1,407,532	(525,892)
<u>Other financing sources (uses):</u>					
Capital leases					
Sale of capital assets					
Transfers in	13,355	13,355	13,355	-	11,132
Transfer (out)					
<i>Total other financing sources (uses)</i>	<u>13,355</u>	<u>13,355</u>	<u>13,355</u>	<u>-</u>	<u>11,132</u>
Net change in fund balances	(400,131)	(400,131)	1,007,401	1,407,532	(514,760)
Fund balance, January 1	660,442	660,442	718,726	58,284	1,233,486
Prior period adjustments				-	
<i>Fund balance December 31</i>	<u>\$ 260,311</u>	<u>\$ 260,311</u>	<u>\$ 1,726,127</u>	<u>\$ 1,465,816</u>	<u>718,726</u>

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**

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUALS (GAAP BASIS)
Year Ended December 31, 2006**

	<u>2006</u> <u>Actual</u>
<i><u>Revenues:</u></i>	
Taxes - rural county sales tax allocation	\$ 1,240,985
Taxes- real estate excise tax	834,367
Intergovernmental	618,124
Interest - other	145,841
Interest - 1999 Ltd. GO Bond	
Interest - Lexington Bridge	115,997
Interest- rural county public facilities	75,510
Miscellaneous	547
<i>Total revenues</i>	3,031,371
<i><u>Expenditures:</u></i>	
General Government	283,721
Public Safety- emergency preparedness -City Lgv.	152,143
- emergency preparedness	100,467
- jail repairs & maintenance	135,769
- other	123,795
Judicial	20,727
Physical Environment- soil & water conservation district	80,984
- electrical City of Kelso	75,000
- other	126
Transportation - streets, storm drainage - City of Kalama	350,000
- bldg. Expansion - Port of Woodland	87,500
- other	144
Economic Environment - housing needs	14,406
- rental properties	15,082
Health - Bldg. painting & light replacement	104,696
Culture and Recreation - Hoffstadt paving	24,279
- Other	7,822
Capital Outlay:	
Jail Annex Construction	753,285
Jail - replace plumbing	72,593
Juvenile - Video recording	34,709
Hall of Justice - HVAC Controls	43,931
Hall of Justice - Assisted Listening	23,957
Hall of Justice - Other	105,048
Admin Bldg - replace cooling tower replacement	134,342
Admin Bldg - skylight	32,768
Parks - Willow Grove playground equipment	14,991
Equipment	50,747
Interest and other debt service costs	29,554
<i>Total expenditures</i>	2,872,586
Excess (deficiency) of revenues over expenditures	158,785
<i><u>Other financing sources (uses)</u></i>	
Proceeds sale of capital assets	2,963
Transfers in	1,706,520
Transfers (out) *	(609,431)
<i>Total other financing sources (uses)</i>	1,100,052
Net change in fund balances	1,258,837
Fund balance, January 1	6,402,984
<i>Fund balance, December 31</i>	\$ 7,661,821

**Three Rivers Regional Wastewater Authority (TRRWA)
Debt Service Coverage - Pledged Revenues for the 2002 Refunding Bonds,
and for the 2006 Sewer Revenue Bonds issued by Cowlitz County for TRRWA**

	Calendar Year <u>2006</u>
Net revenue excluding non-optg revenues	\$ 2,447,612
Add: back depreciation	1,633,982
Amount available for debt service	4,081,594
Add non operating revenues/expenses except interest expense and amortization expense (non cash transactions):	
Interest revenue (excludes interest earned on rate stabilization funds)	494,456
System development fees (SDF)	243,413
Miscellaneous revenue (expense) net	18,894
Transfer of some interest earned on rate stabization account approved by Board in March 2006	-
Amount available for debt service	4,838,357
Debt service on bonds (2002 Refunding Bonds)	2,939,144
Debt service on bonds 2006 Sewer Revenue Bonds	165,019
	3,104,163
Coverage on debt service for bonds only.	1.56
Coverage on debt service for bonds only excluding SDF	1.48
Coverage required is 1.30 with SDF, or 1.20 on debt excluding SDF	

**COWLITZ COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARD**
For the Year Ended December 31, 20

PASS-THRU GRANTOR	PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES			NOTE REFERENCE
				DIRECT	INDIRECT/PASS-THRU	Total	
U. S. Dept. of Agriculture:							
SPI	School Breakfast Program	10.553	08-458-6808		\$ 17,968	\$ 17,968	
SPI	School Lunch Program	10.555	08-458-6808		\$ 27,373	\$ 27,373	
WSDH	St Admin Matching Grants for Food Stamp Prog	10.561	N14168		35,482	35,482	
Forest Service	Schools & Road Grants to County	10.665			159	159	
	TOTAL DEPT. OF AGRICULTURE			\$ -	\$ 80,982	\$ 80,982	
U.S. Dept of Commerce							
SRFB/IAC	Pacific Coast Salmon Recovery	11.438	02-1498R		\$ 40,309	\$ 40,309	
	TOTAL DEPT. OF COMMERCE			\$ -	\$ 40,309	\$ 40,309	
U. S. Dept. of Housing & Urban Development:							
ST CTED	CDBG Grant	14.228	03-64003-057		\$ 752,451	\$ 752,451	
	TOTAL DEPT. OF HOUSING & URBAN DEVELOPMENT				\$ 752,451	\$ 752,451	
U.S. Dept of Homeland Security							
WSMD	Terrorist Threat and Needs Assessment	97.004	E05-266		\$ 391,720	\$ 391,720	
	TOTAL DEPT. OF HOMELAND SECURITY				\$ 391,720	\$ 391,720	
U. S. Dept. of Justice:							
NW HIDTA		16.999	I4PNWP523Z	\$ 47,887		\$ 47,887	
WSP	National Criminal History Improvement Program	16.554	2004-RU-BX-K032		\$ 17,740	\$ 17,740	Note 3
WSP	Edward Byrne Memorial Formula Grant Program	16.579	C0611661FED		\$ 4,508	\$ 4,508	
CTED	Edward Byrne Memorial Formula Grant Program	16.579	F05-66201106		125,199	125,199	
	<i>Total CFDA Number 16.579</i>			\$ -	\$ 129,707	\$ 129,707	
CTED	Violence Against Women	16.588	F05-31103-044		15,710	15,710	
BJA	Bullet Proof Vest Partnership Grant	16.607	5028808	5,729		5,729	
WASPC	Comm Prosecution & Project Safety	16.609	04-PSN-004		62,982	62,982	
WASPC	Public Safety Partnership&Comm Policing	16.710	2004-CK-WX-0034		81,122	81,122	
CTED	Edward Byrne Memorial Justice Assitance	16.738	M06-66201006		141,588	141,588	
	TOTAL DEPT. OF JUSTICE			\$ 53,616	\$ 448,849	\$ 502,465	

**COWLITZ COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARD**
For the Year Ended December 31, 20

PASS-THRU GRANTOR	PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES		NOTE REFERENCE
				DIRECT	INDIRECT/ PASS-THRU	
U.S. Dept of Transportation:	Highway Planning Construction					
WSDOT	Mulholland Creek Bridge Project	20.205	LA-5831		\$ 33,658	\$ 33,658
WSDOT	SR411/Nevada Drive Signal	20.205	LA-4831		-	-
WSDOT	Spruce Creek Bridge Replacement	20.205	LA-5313		26,665	26,665
WSDOT	Delameter Bridge Rehabilitation	20.205	LA-5319		7,385	7,385
WSDOT	Lexington Bridge	20.205	LA-5429		5,807,209	5,807,209
WSDOT	Abernathy Creek Bridge Replacement	20.205	LA-5435		112,399	112,399
WSDOT	Meeker Drive Bridge Seismic Upgrade	20.205	LA-5436		5,662	5,662
WSDOT	Mieker Drive Bridge Replacement	20.205	LA-5456		455,479	455,479
WSDOT	South Toutle Bridge Seismic Upgrade	20.205	LA-5438		172	172
WSDOT	Toutle River bridge Rehabilitation	20.205	LA-5121		3,133	3,133
	TOTAL DEPT. OF TRANSPORTATION				\$ 6,451,762	\$ 6,451,762
U.S. Dept of National Highway Traffic Safety Administration	Traffic Safety Administration					
WTSC	State and Community Highway Safety	20.600			\$ 4,229	\$ 4,229
	Occupant Protection	20.602			\$ 2,386	\$ 2,386
	TOTAL DEPT. of NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION				\$ 6,615	\$ 6,615
U.S. Dept of Environmental Protection	Environmental Protection					
WSDH	Capitalization for Drinking Water State Revolv F	66.468	C13030		\$ 3,500	\$ 3,500
	TOTAL DEPT. OF ENVIRONMENTAL PROTECTION				\$ 3,500	\$ 3,500
Election Assistance Commission	Commission					
WSSEC	Help America Vote Act	90.401	G2833		\$ 365,093	\$ 365,093
	TOTAL ELECTION ASSISTANCE COMMISSION				\$ 365,093	\$ 365,093
U. S. Dept. of Health & Human Services:	Health & Human Services:					
WSHHS	Picts for Asst in Transition frm Homeless	93.150	0569-69144		\$ 53,524	\$ 53,524
WSDHS	Childhood Immunization-VACCINE	93.268	C08641		\$ 575,046	\$ 575,046
WSDHS	Childhood Immunization	93.268	C13030		29,169	29,169
	<i>Total CFDA Number 93.268</i>				\$ 604,215	\$ 604,215
WSDH	Investigation & Technical Asst	93.283	C13030		216,745	216,745
WSHHS	Promoting Safe and Stable Families	93.556	0563-78358		18,378	18,378
WSHHS	Temporary Assist for Needy Families	93.558	0563-83479		2,500	2,500
WSDCS	Child Support Enforcement	93.563	2110-80610		431,219	431,219
WSHHS	Child Care and Development Block Grant	93.575	C13030		26,966	26,966
WSHHS	St Court Improvement Program	93.586	IAA06123		19,363	19,363
WSHHS	Medical Assistance Program	93.778	0583-77868		202,714	202,714
WSHHS	National Bioterrorism Hospital Preparedness	93.889	C13030		4,000	4,000
WSHHS	HIV Care Formula Grant	93.917	N13706		63,128	63,128
WSHHS	BG For Community Mental Health Services	93.958	0463-59280		115,334	115,334
WSHHS	BG For Prev & Treatment of Substance Abuse	93.959	8278		211,688	211,688
WSHHS	Prev Health & Health Services Block Grt	93.991	C13030		7,173	7,173
WSHHS	Maternal Child Health Block Grant	93.994	C13030		108,980	108,980
	TOTAL HEALTH & HUMAN SERVICES				\$ 2,085,927	\$ 2,085,927
	TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 53,616	\$ 10,680,824

**COWLITZ COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARD**
For the Year Ended December 31, 20

PASS-THRU GRANTOR	PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES		NOTE REFERENCE
				DIRECT	INDIRECT/ PASS-THRU	
					Total	

Cowlitz County, Wa
Notes to Schedule of Expenditures of Federal Award:
and State and Local Financial Assistance

Note 1-BASIS OF ACCOUNTING

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

Note 2-PROGRAM COSTS

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

Note 3-NONCASH AWARDS

The amount of vaccine reported on the schedule is the value of the amount distributed by the county during the current year as prescribed by Department of Health and Human Services.