Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Kittitas County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010476

Issue Date
September 23, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 23, 2013

Board of Commissioners
Kittitas County
Ellensburg, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Kittitas County's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the County's financial condition.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

Table of Contents

Kittitas County
January 1, 2012 through December 31, 2012

Federal Summary

Kittitas County
January 1, 2012 through December 31, 2012

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
20.106	Airport Improvement Program
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

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

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

Schedule of Federal Audit Findings and Questioned Costs

Kittitas County
January 1, 2012 through December 31, 2012

1. Kittitas County does not have adequate internal controls to ensure compliance with Davis Bacon requirements.

CFDA Number and Title:	20.106 Airport Improvement Program
Federal Grantor Name:	Department of Transportation Federal Aviation Administration
Federal Award/Contract Number:	3-53-0026-0011
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

The County spent $379,101 in federal grant money on the County Airport beacon and apron project in 2012.

For federally funded construction projects that exceed $2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include in construction contracts a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act. The provision requires the contractor and subcontractors to submit to the grantee a weekly copy of payroll and a statement of compliance (certified payrolls) to the grantee.

During our audit, we found the County was not obtaining certified weekly payrolls. The County had a contract with an engineering firm to oversee the project. The engineering firm obtained certified payrolls; however, the County did not have an internal process to monitor the engineering firm to ensure it collected certified payroll information. The County paid the contractors $306,204 or 81 percent of the grant of $379,101.

Cause of Condition

The County was not aware that it needed to monitor the engineering firm to ensure it collected certified payroll information.

Effect of Condition and Questioned Costs

The County is ultimately responsible for compliance with this grant requirement and cannot ensure contractors and subcontractors paid the proper prevailing wages if it does not have a process to confirm adherence to the terms of its contract. This could result in underpayment of wages to laborers working on the project.

We were able to verify that the contractor and/or subcontractors submitted weekly the required certified payrolls as required by the contract and grant agreement.

Recommendation

We recommend the County establish internal controls to monitor the activities of consultants responsible for project management under the federal grant to ensure compliance with Davis Bacon Requirements.

County's Response

Kittitas County Public Works Department had contract language which required the consulting engineering firm be required to obtain weekly certified payrolls for the contractor and all subcontractors on our federally funded project. The consultant was able to show that they were requiring the documents from the contractor and were in compliance with the requirements of the Davis-Bacon Act.

The State Auditor's Office has issued a finding stating that the county did not have adequate internal controls to ensure compliance with the Davis Bacon requirements. Public Works will now require all consulting engineering firms, providing construction management services, to provide copies of all certified payroll documents with the monthly contractor payment requests. This will give the county reasonable oversight and review prior to making any payment for contractor services.

Auditor's Remarks

We appreciate the steps the County is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C, Section 300 states in part,

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

Title 29, Code of Federal Regulations, Section 3.3 states in part:

> Weekly statement with respect to payment of wages
>
>> (b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or

grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.

(c) The requirements of this section shall not apply to any contract of $2,000 or less

Schedule of Federal Audit Findings and Questioned Costs

Kittitas County
January 1, 2012 through December 31, 2012

2. Kittitas County does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	20.205, Highway Planning and Construction
Federal Grantor Name:	U.S. Department of Transportation Federal Highway Administration
Federal Award/Contract Number:	DTFH70-12-E-00026
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	STPD-C190(003), HSIP-000S(261), ER-1106(017)
Questioned Cost Amount:	$0

Description of Condition

During fiscal year 2012, the County spent $1,022,398 through the Highway Planning and Construction grant for the Salmon La Sac Chip Seal Preservation, Kittitas Highway Safety Improvement and Hanson Road projects.

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of $25,000 or more and all subawards, the County must ensure the vendor or subrecipient is not suspended or debarred.

To meet this requirement, the vendor or subrecipient can certify in writing that it has not been suspended or debarred. Alternatively, the County can check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Service Administration. The County can also insert a clause or condition into the contract that states the contractor/subrecipient is not suspended or debarred. The County must meet these requirements prior to entering into contracts with vendors or subrecipients.

The County’s controls over suspension and debarment for public works projects did not extend to purchases of material and supplies.

Cause of Condition

The County’s staff responsible for this grant was not aware of the suspension and debarment requirements for federally funded vendor contracts applied to purchases of materials and supplies.

Effect of Condition and Questioned Costs

The County paid $365,090 of the grant funding to two vendors for material and supplies without verifying their federal status.

Without proper controls, the County cannot ensure it does not use federal funds to pay vendors or subrecipients suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency.

We were able to verify that the vendors were not suspended or debarred and we are not questioning the costs.

Recommendation

We recommend the County develop appropriate internal controls, such as providing training to staff responsible for managing grants, to ensure all purchases of material and supplies complies with federal suspension and debarment requirements.

County's Response

Kittitas County Public Works Department will begin checking for suspension and debarment on all contractors, including material supply only contracts, prior to award. This will ensure that all contractors providing materials to be used for work performed by county forces on federally funded projects meet the federal suspension and debarment requirements.

Auditor's Remarks

We appreciate the steps the County is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

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

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

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part—

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed $25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

(b) Collecting a certification from that person if allowed by this rule; or

(c) Adding a clause or condition to the covered transaction with that person.

Status of Prior Audit Findings

Kittitas County
January 1, 2012 through December 31, 2012

The status of findings contained in the prior years' audit reports of Kittitas County is provided below:

1. The County's internal controls over financial statement preparation are inadequate to ensure accurate reporting.

Report No. 1008367, dated September 24, 2012

Background

During our prior audit, we identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency.

- The County recorded year-end cash and investment entries incorrectly. The County found the error and attempted to correct the entries. The re-recording also was in error and increased the incorrect amounts. The County did not have a system that provided adequate oversight of adjusting journal entries to ensure they were accurate.
- The County did not fully implement Governmental Accounting Standards Board (GASB) Statement No. 54 in its 2011 financial statements. The new standard is intended to better demonstrate how the County can use its available resources by reclassifying governmental fund balances on its financial statements from restricted, reserved and unrestricted to non-spendable, restricted, assigned, committed and unassigned. County personnel did not understand the new requirements and did not seek additional guidance. This resulted in the County incorrectly reporting some of these funds.
- The County's review process was not effective in ensuring the financial statements, notes and schedules were reported accurately.

Status

Based on our review of the financial statements, we found that the statements were presented fairly in all material respects. No significant deficiencies in internal control over financial reporting and no instances of noncompliance were identified. Based on our audit review, the prior audit finding is resolved.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Kittitas County
January 1, 2012 through December 31, 2012

Board of Commissioners
Kittitas County
Ellensburg, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kittitas County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 10, 2013. During the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 10, 2013

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

Kittitas County
January 1, 2012 through December 31, 2012

Board of Commissioners
Kittitas County
Ellensburg, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2. Our opinion on each major federal program is not modified with respect to these matters.

County's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a significant deficiency.

County's Response to Findings

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 10, 2013

Independent Auditor's Report on Financial Statements

Kittitas County
January 1, 2012 through December 31, 2012

Board of Commissioners
Kittitas County
Ellensburg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kittitas County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 18.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kittitas County, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 19 to the financial statements, in 2012, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 30, budgetary comparison information on pages 81 through 83, information on postemployment benefits other than pensions on page 84 and infrastructure modified approach information on pages 85 through 88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 10, 2013

Financial Section

Kittitas County
January 1, 2012 through December 31, 2012

KITTITAS COUNTY, WASHINGTON

Management's Discussion and Analysis

Kittitas County's discussion and analysis offers readers of the County's financial statements, for the year ended December 31, 2012, a narrative overview and analysis for the financial activities of the County. We encourage readers to consider the information presented here in conjunction with additional information included in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of Kittitas County exceeded its liabilities at December 31, 2012 by over $120.2 million. Net Investment in capital assets (net of depreciation and related debt) account for 63% of this amount, with a value of $76.0 million. Of the remaining Net Position, $10.05 million may be used to meet the government's ongoing obligation to citizens and creditors, without legal restriction.
- As of December 31, 2012 Kittitas County's government activities reported combined ending Net Position of $113.2 million. Of that amount, $72.09 million is Investment in in Capital Assets.
- Fund Balance for the General Fund at December 31, 2012 was $10.4 million.
- Fund Balance for the County Road Fund at December 31, 2012 was $15.4 million.
- The County's total long term debt at December 31, 2012 was $15.3 million. The County's remaining debt capacity for non-voted debt is at $87 million. The Solid Waste Landfill Post-Closure liability costs are $1.18 million.
- The General Fund's fund balance increased 4% over 2011, showing an increase of $414,665. The amount of unrestricted funds is $4.06 million. This increase in fund balance is due to the Board of County Commissioners cutting expenses including not filling vacant positions, and each department head and elected official reducing their spending even further. This has helped the economic condition of the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Kittitas County's basic financial statements. The basic financial statements are comprised of three components:

1) Government-Wide Financial Statements
2) Fund Financial Statements
3) Notes to the Financial Statements

Government-Wide Financial Statements

There are two government-wide financial statements, which are designed to provide readers with a broad overview of Kittitas County's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of Kittitas County that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The government activities of the County include a full range of local government services provided to the public, such as law enforcement, jail and probation services, community development services, public health, road maintenance and construction, airport, and superior and district courts. Also included are property assessment and collections, elections, licensing and permits and county fair.

The business-type activity is Solid Waste, operating the two transfer stations and two landfills.

The Statement of Net Position presents information on all Kittitas County's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as Net Position. This statement serves a purpose similar to that of the statement balance sheet in a private-sector business. Over time, increases or decreases in net position may service as a useful indictor of whether the financial position of the County is improving or deteriorating. However, this is just one indicator of the financial health of the County. Other indicators include the condition of the County's infrastructure systems (roads and bridges, etc), changes in property tax base, and general economic conditions within the County.

The Statement of Activities presents information showing how the County's net position changed during 2012. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2012, and earned but unused employee leave, will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2012.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds in Kittitas County can be divided into three categories:

1) Government Funds
2) Proprietary Funds
3) Fiduciary Funds

Government Funds are used to account for most, if not all, of a government's tax-supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activity. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the County's own programs.

Government Funds

The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance present separate columns of financial data for the General Fund, County Road Fund and Courthouse Jail Facilities Expansion which are considered major funds. A major fund is based on criteria established by GASB Statement 34[1]. The statement defines a major fund as a fund who's assets, liabilities, revenues or expenditures comprise of the following: 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. Figures from the remaining governmental funds are combined into a single, aggregated presentation.

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term finance requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare 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 Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenses and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The County maintains budgetary control over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level. Capital outlays are approved on an item by item basis or project basis. A budgetary comparison statement for the General Fund and County Road are included in the basic financial statements.

[1] Governmental Accounting Standards Board, Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments

Proprietary Funds

There are two types of proprietary funds. The first type an Enterprise Fund is used to report the same functions presented as a business-type activity in the government-wide financial statements. Kittitas County has one Enterprise fund, Solid Waste. The second type is an Internal Service fund, used to accumulate and allocate costs internally among the County's various functions. The revenues and expense of the internal service funds that are duplicated into other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow the government fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply to the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Position to the business-type column on the Government-Wide Statement of Net Position, you will notice that the total Net Position agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" and "due to other funds" from the proprietary fund statement in a single line in the asset section of the government-wide statement.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Kittitas County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Kittitas County has two types of fiduciary funds: Private Purpose Trust and Agency funds, which are clearing accounts for assets held by Kittitas County in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

Notes to the Financial Statements

The Notes to the 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In accordance with GASB Statement 34[2], Kittitas County is not required to restate prior periods for the purposes of providing comparative information.

[2] Governmental Accounting Standards Board, Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments

Statement of Net Position

The following is a summary of the Statement of Net Position as of December 31, 2012, with 2011 comparative balances.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Assets:						
Current Assets	$46,812,066	$51,313,431	$4,596,225	$4,179,252	$51,408,289	$55,492,684
Capital Assets	82,608,349	74,959,273	4,656,036	5,480,755	87,264,385	80,440,026
Total Assets	$129,420,415	$126,272,704	$9,252,259	$9,660,007	$138,672,673	$135,932,710
Liabilities						
Other liabilities	$2,838,487	$2,443,917	$169,690	$169,105	$3,008,177	$2,613,022
Long-term liabilities	13,352,446	14,445,843	2,025,705	2,106,806	15,378,150	16,552,649
Total Liabilities	$16,190,932	$16,889,760	$2,195,394	$2,275,911	$18,386,327	$19,165,671
Net Position						
Investment in Capital Assets	$72,096,838	$63,343,030	$3,906,034	$4,073,900	$76,002,871	$67,416,930
Non Spendable	54,046	32,274	0	0	54,046	32,274
Restricted	8,637,081	8,409,282	890,418	505,413	9,527,499	8,914,694
Committed	2,347,443	26,714,333	0	0	2,347,443	26,714,333
Assigned	20,043,347	696,076	0	0	20,043,347	696,076
Unassigned	10,050,728	10,187,949	2,260,412	2,222,930	12,311,140	12,410,879
Total Net Asset	**$113,229,482**	**$109,382,944**	**$7,056,864**	**$6,802,242**	**$120,286,346**	**$116,185,186**

Net Position of the County's governmental activities was $113.2 million. The County's unrestricted Net Position, the part of the Net Position that can be used to finance day-to-day operations $10.05 million.

Statement of Activities

For fiscal year ended December 31, 2012, the revenues from primary governmental activities totaled $39.3 million. Property taxes are the largest revenue source at $11.3 million, while Charges for Services are the second largest at $8.4 million.

The expenses for governmental activities totaled $35.2 million. Public Safety was the county's highest commitment at $9.65 million; Transportation is the seconded highest expense for 2012 with $8.85 million. The expenses for Public Safety were contributed to the jail repairs, construction costs and hiring of new personnel.

Continued on the next page

Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues: Program Revenues:						
Charges for Services	$8,424,400	$7,919,280	$3,119,688	$3,214,303	$11,544,087	$11,133,583
Operating Grants	7,986,310	4,037,014	0	0	7,986,310	4,037,014
Capital Grants	0	0	0	0	0	0
General Revenues:						
Property Taxes	11,323,742	10,053,920	0	0	11,323,742	10,053,920
Sales Taxes	6,308,685	6,303,059	0	0	6,308,685	6,303,059
Other Taxes	4,991,817	5,805,872	0	0	4,991,817	5,805,872
Unrestricted Grants & Contributions	40,260	716,861	0	0	40,260	716,861
Unrestricted Investment Earnings	115,572	278,061	12,515	7,129	128,087	285,190
Proceeds on Disposal Capital Assets	112,450	43,956	0	0	112,450	43,956
Total Revenues	**$39,303,236**	**$35,158,022**	**$3,132,203**	**$3,221,432**	**$42,435,438**	**$38,379,454**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Expenses:						
General Government	$7,050,404	$7,741,329			$7,050,404	$7,741,329
Judicial	3,101,412	2,782,936			3,101,412	2,782,936
Public Safety	9,651,756	9,299,240			9,651,756	9,299,240
Physical Environment	529,751	512,787			529,751	512,787
Transportation	8,859,963	7,784,299			8,859,963	7,784,299
Economic Environment	1,607,835	1,161,805			1,607,835	1,161,805
Mental & Public Health	2,357,544	2,301,800			2,357,544	2,301,800
Culture & Recreation	1,773,897	1,748,179			1,773,897	1,748,179
Interest on Long Term Debt	350,300	425,859			350,300	425,859
Garbage & Solid Waste	0	0	2,877,581	3,020,770	2,877,581	3,020,770
Total Expenses	**$35,282,861**	**$33,758,235**	**$2,877,581**	**$3,020,770**	**$38,160,443**	**$36,779,005**
Excess (Deficiency) before Special Items and Transfers						
Special Item-Gain on Disposal Capital Assets	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
Increase (decrease) to Net Position	**4,020,375**	**1,399,787**	**254,622**	**200,662**	**4,274,997**	**1,600,449**
Net Position as of January 1	**$109,382,944**	**$107,123,282**	**$6,802,242**	**$6,561,737**	**$116,185,186**	**$113,685,019**
Prior Year Adjustments	(173,836)	859,875	0	39,844	(173,836)	899,719
Net Position as of December 31	**$113,229,482**	**$109,382,944**	**$7,056,864**	**$6,802,242**	**120,286,347**	**116,185,186**

See the Notes to the Financial Statements, Note 19 on discussion for the Prior Year Adjustments

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds Balance Sheet Analysis

The General Fund, County Road and Courthouse Jail Facilities Expansion are the three major funds in 2012. Together these funds account for 75% of the total government assets and 75% of the total government fund balance. As of December 31, 2012, the county's government funds reported combined fund balances nearly $35.1 million. Of this total amount, $4.06 million is unassigned and available for spending within each of the designated funds. There are five types of fund balance as described in Note 1-11 and the breakdown of those fund balance types are below

Fund Balance Type	Amount
Non Spendable	54,046
Restricted	8,637,081
Committed	2,347,443
Assigned	20,043,347
Unassigned	4,069,082

In the total Assets, the Cash and Investments are down from the previous year by $7.2 million; and receivables have decreased by $163,651 and the due from other Governmental increased by $3.01 million. The net change in all assets is a 9% decrease.

In the total Liabilities, the biggest increase is the payables by $374,185. The net change in all liabilities is 10% increase.

Governmental Funds	2012	2011	Net Change
Total Assets	42,001,487	45,979,919	(3,978,432)
Total Liabilities	6,850,488	6,179,106	671,382
Total Fund Balance	35,150,999	39,800,814	(4,649,815)

Governmental Funds Revenues/Expenditure Analysis

The net change in fund balance for the General Fund in 2012 was $588,501. The net change in the County Road fund was a $612,950. Governmental funds had an overall net change in fund balance of $4.4 million for 2012. The changes in fund balances are due construction projects which are spending the GO & Refunding Bond monies.

The overall changes in Governmental Revenues were 6% increase. The biggest increase in the revenues occurred in Intergovernmental with a 27% increase; 2011 $9.1million compared to $12.4 million in 2012; showing an increase of $3.31 million.

The overall expenditures increased 16% from 2011. The biggest expense was in Transportation-Capital which increased $3.73 Million.

Governmental Funds	2012	2011	Net Change
Revenues	39,374,061	37,021,395	2,352,666
Expenditures	(43,956,491)	(37,044,582)	(6,911,909)
Other Financing Sources	106,451	18,719	87,732
Net Change in Fund Balance	(4,475,979)	(4,468)	(4,471,511)
Fund Balance Beginning	39,800,813	38,945,408	855,405
Prior Year Adjustments	(173,836)	859,873	(1,033,709)
Fund Balance Ending	35,150,999	39,800,813	(4,649,814)

Enterprise Funds Net Position Analysis

The Net Position of the Solid Waste fund as of December 31, 2012 was $7.05 million; with $2.26 million in unrestricted funds. The internal service funds have net position in the amount of $9.1 million.

Enterprise Funds Revenue/Expenditure Analysis

The Solid Waste fund collected $3.12 million in revenues and had an operating expense of $2.88 million showing a net gain of $236,005. The changes in net position for 2012 after non-operating revenues and expenses are $254,622.

Continued on the next page

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund Changes in Budget

The following table shows the changes between the original and final General Fund budget as of December 31, 2012.

GENERAL FUND	2012 Original Budget	2012 Final Budget	Variance with Final Budget Positive (Negative)
Revenues			
Taxes	10,834,858	10,834,858	0
Licenses & Permits	790,390	790,390	0
Intergovernmental	3,689,359	4,139,940	450,581
Charges for Services	1,987,801	1,995,301	7,500
Fines & Forfeits	1,695,667	1,688,167	(7,500)
Miscellaneous	605,036	755,036	150,000
Total Revenues	**19,603,111**	**20,203,692**	**600,581**
Expenditures			
General Governmental	6,491,977	6,654,431	(162,454)
Judicial	2,534,539	2,655,299	(120,760)
Public Safety	8,393,161	8,666,048	(272,887)
Physical Environment	591,423	599,229	(7,806)
Transportation	3,717	3,717	0
Economic Environment	1,039,039	1,519,204	(480,165)
Mental & Physical Health	0	0	0
Culture & Recreation	1,191,448	1,202,982	(11,534)
Debt Service	160,112	857,664	(697,552)
Capital Outlay	178,876	817,307	(638,431)
Total Expenditures	**20,584,292**	**22,975,881**	**(2,391,589)**
Excess (Deficit) Revenues over Expenditures	**(981,181)**	**(2,772,189)**	**(1,791,008)**
Other Financing Sources (Uses)			
Restitution	500	500	0
Proceeds Capital Leases	0	229,990	229,990
Sale of Fixed Assets	100	100	0
Transfers In	190,837	1,070,859	880,022
Transfers Out	(244,776)	(1,114,291)	(869,515)
Total Other Financing Sources (Uses)	**(53,339)**	**187,158**	**240,497**
Net Change in Fund Balance	(1,034,520)	(2,585,031)	(1,550,511)
Fund Balance, January 1	5,258,519	5,890,716	632,197
Fund Balance, December 31	**4,223,999**	**3,305,685**	**(918,314)**

Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

The biggest supplemental expenditure budget increases were as follows:

Security of Persons & Property – $272,887 for grants awarded to the County.
Economic Environment- $480,165 for grants awarded to the County.

Debt Service- $697,552 to pay off the balloon payment for the Permit Center.
Capital Outlay- $638,431 increase for IT Server Revitalization Project and purchase of property at the Fair Grounds.

General Fund Budget to Actual

The amended General Fund revenue budget was approximately $20.2 million and total revenues received $20.6 million, or 2% above budget. The specific changes to report are taxes and licensing & permits. The taxes consist of the real and personal property taxes, timber harvest taxes, sales and use taxes, and excise taxes. Both the real and personal property taxes and sales and use tax collected are slightly above the budgeted amount. Our changes in projections were a little under estimated when the budget was prepared.

The General Fund budgeted expenses vs. actual came in at 13% under budget. The biggest unspent budget was Public Safety, due to reduction in employees and contracted services.

GENERAL FUND	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Taxes	10,834,858	11,667,038	832,180
Licenses & Permits	790,390	932,913	142,523
Intergovernmental	4,139,940	3,828,780	(311,160)
Charges for Services	1,995,301	1,957,939	(37,362)
Fines & Forfeits	1,688,167	1,539,472	(148,695)
Miscellaneous	755,036	730,091	(24,945)
Total Revenues	**20,203,692**	**20,656,232**	**452,540**
Expenditures			
General Governmental	6,654,431	6,145,730	508,701
Judicial	2,655,299	2,474,500	180,799
Public Safety	8,666,048	7,321,404	1,344,644
Physical Environment	599,229	179,352	419,877
Transportation	3,717	3,717	0
Economic Environment	1,519,204	1,288,781	230,423
Mental & Physical Health	0	0	0
Culture & Recreation	1,202,982	1,173,238	29,744
Debt Service	857,664	828,511	29,153
Capital Outlay	817,307	662,477	154,830
Total Expenditures	**22,975,881**	**20,077,711**	**2,898,170**
Excess (Deficit) Revenues over Expenditures	**(2,772,189)**	**578,521**	**3,350,710**
Other Financing Sources (Uses)			
Restitution	500	364	(136)
Proceeds Capital Leases	229,990	229,983	(7)
Sale of Fixed Assets	100	1,104	1,004
Transfers In	1,070,859	909,154	(161,705)
Transfers Out	(1,114,291)	(1,130,625)	(16,334)
Total Other Financing Sources (Uses)	**187,158**	**9,979**	**(177,179)**
Net Change in Fund Balance	(2,585,031)	588,501	3,173,532
Fund Balance, January 1	5,890,716	9,870,118	3,979,402
Fund Balance, December 31	**3,305,685**	**10,458,619**	**7,152,934**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Kittitas County's total investment in capital assets, including construction in progress, for its government and business type activities as of December 31, 2012, amounts to over $87.2 million, (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, infrastructure, and construction in progress on buildings and systems. Kittitas County has elected to use the modified approach to account for the infrastructure account Gravel Roads, which eliminates the need to report depreciation expense. The major capital asset events during 2012 were increases in Construction in Progress. The 2012 ending balance for Construction in Progress is $14.3 million.

Additional information on Kittitas County's capital assets can be found in Note 6 in the Notes to the Financial Statements. The information regarding the Modified Approach for Graveled Roads is in the following Required Supplementary Information Schedule.

Long-Term Debt

Kittitas County has a total outstanding bond debt as of December 31, 2012 of approximately $15.37 million.

Additional information on Kittitas County's Long Term Debt can be found in Note 10 in the Notes to the Financial Statements.

Kittitas County has an assigned rating of "AA-/Stable" from the Standard & Poor's after a review and report issued on September 10, 2010. The prior rating from Standards & Poor's was affirmed an "AA-(SPUR/Stable) underlining rating.

ECONOMIC FACTORS

There have been a series of voter initiatives over the last several years, as well as State of Washington and Federal legal changes that will have an impact on the future finances of the County.

The Board of County Commissioners has elected over the past several years to increase property taxes by zero percent plus new construction. The additional revenue from new construction has not covered the additional expenditures required in union contracts and supply costs. The Board of County Commissioners during the 2010 Budget process elected to do a levy shift of $1 million from the County Road fund to the General Fund. In 2011, the Board of County Commissioners elected to do another $635,000 levy shift from County Road to the General Fund. During this process, the levy rate for the County Road fund declined so in 2012 the Board of County Commissioners reversed the previous levy shifts and increased the property taxes by 1%. For the budget year 2013, the Board of County Commissioners declined to do a levy shift from the County Road fund and continued with the property taxes increase of 1% in both the General Levy and County Road.

Kittitas County has experienced a downfall in the construction business because of the state of the economy. The downturn in building permits has affected the revenue collections; not only in the issuing of permits, but the recording of documents, and Real Estate Excise Tax. In August 2012, the County had a major fire start, the “Taylor Bridge Fire”, which charred 23,500 acres between Cle Elum and Ellensburg and destroyed 61 homes; and in September 2012 the “Table Mountain Fire” started and burned more than 42,000 acres north of Ellensburg. Although the Board of County Commissioners elected to waive the building permits fees on the primary residential homes, many of these homes were vacation houses and cabins, so there may be some slight increase in building permits if these types of buildings were rebuilt.

The sales tax revenues seem to be remaining stable. We are watching very carefully the revenues and all departments are watching and limiting travel and other expenses. With the help of all the departments, not spending their total budgets increased the fund balance of the General Fund. The 2011 ending fund balance for the General fund was $10.04 million and the ending 2012 fund balance was $10.45 million.

The Board of County Commissioners have stated during the budget process that new personnel will not be considered without specific funding for the positions, and they will not use existing fund balance to support operations. The number of positions in the county has decreased since 2009 by 6.6% or 21.2 positions.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of Kittitas County’s finances for all those interested in the County’s finances. Any questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kittitas County Auditor’s Office, Finance Department or visit our website at http://www.co.kittitas.wa.us/auditor/default.aspx

KITTITAS COUNTY, WASHINGTON

Statement of Net Position
December 31, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & cash equivalents	$ 16,381,405	$ 1,713,733	$ 18,095,137
Investments	20,231,778	1,997,472	22,229,249
Receivables (net)	3,363,886	227,489	3,591,375
Internal Balances	21,698	(21,698)	0
Inventories	452,497	-	452,497
Due from other Governmental	6,327,344	45,995	6,373,339
Prepaid items	33,458	-	33,458
Cash restricted for landfill closure & postclosure		633,234	633,234
Capital Assets (net of accumulated depreciation)			
Land	12,803,532	280,439	13,083,971
Intangible Assets	1,594,176	40,025	1,634,201
Buildings	14,374,965	787,829	15,162,794
Improvements	1,059,329	3,091,073	4,150,402
Equipment	3,019,757	456,670	3,476,427
Infrastructure	35,410,265	-	35,410,265
Construction in progress	14,346,325	-	14,346,325
Total Assets	$ 129,420,415	$ 9,252,259	$ 138,672,673
LIABILITIES			
Accounts payable and accrued exp.	$ 2,383,525	$ 169,690	$ 2,553,215
Unearned revenue	92,305	-	92,305
Other current liabilities	362,657	-	362,657
Other Long Term Debt			
Due within one year	705,942	209,678	915,620
Due in more than one year	12,646,504	1,816,027	14,462,530
Total Liabilities	$ 16,190,932	$ 2,195,394	$ 18,386,327
NET POSITION			
Net Investment in Captial Assets	$ 72,096,838	$ 3,906,034	$ 76,002,871
Fund Balance			
Non Spendable	54,046	-	54,046
Restricted	8,637,081	890,418	9,527,499
Committed	2,347,443	-	2,347,443
Assigned	20,043,347	-	20,043,347
Unassigned/Unrestricted	10,050,728	2,260,412	12,311,140
Total Net Position	$ 113,229,482	$ 7,056,864	$ 120,286,346

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

KITTITAS COUNTY, WASHINGTON

Statement of Activities
For the Year ended December 31, 2012

		Program Revenues			Net (Expense) Revenue & Changes in Net Position		
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Judicial	$ 3,101,412	$ 1,976,533	$ 68,868	$ -	$ (1,056,011)	$ -	$ (1,056,011)
General Government	7,050,404	2,759,691	523,953		(3,766,759)	-	(3,766,759)
Public Safety	9,651,756	1,443,417	1,046,288		(7,162,050)	-	(7,162,050)
Physical Environment	529,751	146,297	27,654	-	(355,800)	-	(355,800)
Transportation	8,859,963	178,235	4,273,489	-	(4,408,240)	-	(4,408,240)
Economic Environment	1,607,835	1,587,180	609,505	-	588,849	-	588,849
Mental & Physical Health	2,357,544	144,731	1,399,234	-	(813,579)	-	(813,579)
Culture & Recreation	1,773,897	188,316	37,319	-	(1,548,262)	-	(1,548,262)
Interest on long-term debt	350,300		-	-	(350,300)	-	(350,300)
Total Government Activities	$ 35,282,861	$ 8,424,400	$ 7,986,310	$ -	$ (18,872,151)	$ -	$ (18,872,151)
Business-type Activities:							
Garbage & Solid Waste	$ 2,877,581	$ 3,119,688	$ -	$ -	$ -	$ 242,107	$ 242,107
Total Business-Type Activities	$ 2,877,581	$ 3,119,688	$ -	$ -	$ -	$ 242,107	$ 242,107
Total Primary Government	$ 38,160,442	$ 11,544,087	$ 7,986,310	$ -	$ (18,872,151)	$ 242,107	$ (18,630,044)
General Revenues:							
Property Taxes					$ 11,323,742	$ -	$ 11,323,742
Sales Taxes					6,308,685	-	6,308,685
Other Taxes					4,991,817	-	4,991,817
Unrestricted Grants & Contributions					40,260	-	40,260
Unrestricted Investment Earnings					115,572	12,515	128,087
Proceeds on Disposition of Captial Assets					112,450	-	112,450
Transfers					-	-	-
Total General Revenues, Special Items & Transfers					**$ 22,892,526**	**$ 12,515**	**$ 22,905,041**
Change in Net Position					**$ 4,020,375**	**$ 254,622**	**$ 4,274,997**
Net Position as of January 1					$ 109,382,944	$ 6,802,242	$ 116,185,186
Prior year adjustment					(173,836)	-	(173,836)
Net Position as of December 31					$ 113,229,482	$ 7,056,864	$ 120,286,347

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

KITTITAS COUNTY, WASHINGTON

Balance Sheet
Governmental Funds
December 31, 2012

	General Fund	County Road	Courthouse Jail Facilities Expansion	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash & cash equivalents	$ 9,248,589	$ 997,929	$ 530,510	$ 4,616,850	$ 15,393,878
Investments	-	11,671,634	123,323	4,400,879	16,195,836
Receivables (net)	2,749,686	385,965	73	198,687	3,334,411
Due from other funds	741,271	159,611	-	6,939	907,821
Due from Other Governmental	1,253,977	3,718,864	-	1,163,290	6,136,131
Prepaid items	31,194	1,905	-	311	33,411
Total assets	$ 14,024,716	$ 16,935,909	$ 653,906	$ 10,386,956	$ 42,001,487
LIABILITIES					
Accounts payable and accrued exp.	$ 427,519	874,319	$ 78,808	$ 569,569	$ 1,950,214
Payable to other governments	-	-	-	92,144	92,144
Due to other funds	480,629	266,249	344	407,479	1,154,701
Deferred revenue	2,629,408	372,835	-	196,224	3,198,467
Unearned revenue	-		-	92,305	92,305
Deposits payable	28,542	7,896	-	326,219	362,657
Total liabilities	$ 3,566,098	$ 1,521,299	$ 79,151	$ 1,683,941	$ 6,850,488
FUND BALANCE					
Non Spendable	$ 46,819	$ 2,955	$ -	$ 4,271	$ 54,046
Restricted	1,657,766	112,215	574,754	6,292,346	8,637,081
Committed	838,725	-	-	1,508,718	2,347,443
Assigned	3,846,226	15,299,441		897,680	20,043,347
Unassigned	4,069,082	-			4,069,082
Total fund balance	$ 10,458,619	$ 15,414,610	$ 574,754	$ 8,703,016	$ 35,150,999
Total liabilities and fund balance	$ 14,024,716	$ 16,935,909	$ 653,906	$ 10,386,956	$ 42,001,487

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	79,124,229
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	3,198,467
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(13,352,446)
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net assets.	9,108,233
Net Position of Governmental Activities	113,229,482

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

KITTITAS COUNTY, WASHINGTON

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General Fund	County Road	Courthouse Jail Facilities Expansion	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	$ 6,950,961	$ 4,158,856	$ -	$ 248,443	$ 11,358,260
Sales	3,919,627	-	-	2,389,058	6,308,685
Other	791,773	10,376	-	768,498	1,570,647
Licenses & Permits	932,913	13,335	-	299,424	1,245,672
Intergovernmental	3,833,456	6,267,006	-	2,327,058	12,427,520
Charges for Services	1,957,939	90,743	-	1,300,101	3,348,783
Fines & Forfeitures	1,539,472	-	-	32,657	1,572,129
Investment Earnings	71,015	25,018	2,389	9,237	107,659
Miscellaneous Revenues	659,076	68,833	60,208	646,591	1,434,707
Total revenues	$ 20,656,232	$ 10,634,166	$ 62,597	$ 8,021,066	$ 39,374,061
EXPENDITURES					
Current:					
Judicial	$ 2,474,500	$ -	$ -	$ 164,476	$ 2,638,977
General Government	6,145,730	217,224	-	747,870	7,110,824
Public Safety	7,321,404	-	-	2,024,264	9,345,668
Physical Environ	179,352	-	-	361,043	540,395
Transportation	3,717	4,991,911	-	79,932	5,075,559
Health & Human Services	-			2,354,189	2,354,189
Economic Environment	1,288,781	-	-	318,462	1,607,243
Culture & Recreation	1,173,238	-	-	221,466	1,394,705
Debt Service:					
Principal	797,145	-	-	565,246	1,362,391
Interest/Other Expense	31,366	-	-	318,934	350,300
Capital Outlay:					
General government	267,537	-	-	10,000	277,537
Judicial	-	-	1,074,109	2,149	1,076,258
Public safety	70,035	-	3,720,427	73,666	3,864,129
Physical environment	-	-	-	-	-
Transportation	-	5,086,028	-	507,739	5,593,767
Health & Human services	-	-	-	626	626
Economic environment	209	-	-	-	209
Culture & recreation	324,695	-	1,039,018	-	1,363,714
Total expenditures	$ 20,077,711	$ 10,295,163	$ 5,833,555	$ 7,750,063	$ 43,956,491
Excess (deficiency) of revenues over (under) expenditures	$ 578,521	$ 339,004	$ (5,770,958)	$ 271,003	$ (4,582,429)

Continued on Next Page

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

KITTITAS COUNTY, WASHINGTON

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General Fund	County Road	Courthouse Jail Facilities Expansion	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)					
Transfers in	$ 909,154	$ 273,946	$ 869,514	$ 1,035,475	$ 3,088,089
Transfers out	(1,130,625)	-		(2,082,464)	(3,213,089)
Inception of Capital Lease	229,983	-	-	-	229,983
Proceeds on Disposition of capital assets	1,468	-	-	-	1,468
Total other financing sources (uses)	$ 9,979	$ 273,946	$ 869,514	$ (1,046,989)	$ 106,451
SPECIAL ITEMS					
Gain on Disposition of Capital Assets	-	-	-	-	-
Net change in fund balances	588,501	612,950	(4,901,443)	(775,986)	(4,475,979)
Fund balances--beginning	10,043,954	14,801,660	5,476,197	9,479,002	39,800,813
Prior Period Adjustments	(173,836)	-	-	-	(173,836)
Fund balances--ending	$ 10,458,619	$ 15,414,610	$ 574,754	$ 8,703,016	$ 35,150,999

Net changes in fund balances for governmental funds		$ (4,475,979)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Capital outlays	$ 12,176,239	
Depreciation	(3,324,599)	
Reduction Construction in Progress	(3,003,193)	
Addition of Asset from Construction in Progress	1,648,456	
Cost of Assets Sold	(426,968)	
Donated Assets	5,000	7,074,936
The issuance of long-term debt (e.g., bonds, leases) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net assets.		
Debt Proceeds	$ (229,983)	
Debt Retired	1,362,391	1,132,408
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.		(12,650)
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 the governmental funds.		(39,011)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.		340,670
Change in Net Position of governmental activities		$ 4,020,375

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

KITTITAS COUNTY, WASHINGTON

Proprietary Funds Statement of Net Position
December 31, 2012

	Business-type Activities-- Enterprise Funds	Governmental Activities- Internal Service funds
	Solid Waste	
ASSETS		
Current assets:		
Cash & cash equivalents	$ 1,713,733	$ 987,527
Investments	1,997,472	4,035,941
Receivables	227,489	29,475
Prepayment for Services	-	48
Due From Funds	200,613	311,393
Inventories	-	452,497
Due From Other governments	45,995	191,214
Total Current Assets	$ 4,185,301	$ 6,008,095
Noncurrent assets:		
Restricted Cash, Cash Equivalents and Investments:		
Cash restricted for landfill closure & postclosure	633,234	-
Total Restricted Assets	633,234	-
Capital assets:		
Land	280,439	46,227
Intangible Assets	40,025	-
Buildings	1,389,478	733,210
Improvements	4,513,633	170,216
Equipment	1,111,792	6,828,718
Construction in progress	-	584,373
Less Depreciation	(2,679,331)	(4,878,626)
Total Capital Assets (net of accumulated depreciation)	$ 4,656,035	$ 3,484,119
Total Noncurrent Assets	5,289,268	3,484,119
Total assets	$ 9,474,570	$ 9,492,214
LIABILITIES		
Current liabilities:		
Accounts payable and accrued exp.	$ 172,467	$ 341,166
Due to other funds	222,311	42,814
Due to other governments	(2,778)	-
Landfill Closure Cost	134,678	-
Bonds, notes, loans payable	75,000	-
Total Current Liabilities	$ 601,679	$ 383,981
Noncurrent liabilities:		
Compensated absences	$ 97,737	$ -
Bonds, notes, loans payable	675,001	-
Landfill Closure Cost	1,043,289	-
Total Noncurrent Liabilities	$ 1,816,027	$ -
Total Liabilities	$ 2,417,705	$ 383,981
NET POSITION		
Net Investment in Captial Assets	$ 3,906,034	$ 3,484,119.25
Restricted Net Assets	890,418	2,050,539.61
Unrestricted	2,260,412	3,573,574.00
Total Net Position	$ 7,056,864	$ 9,108,232.86
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:	-	
Net Position of business-type activities	$ 7,056,864	$ 9,108,233

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

KITTITAS COUNTY, WASHINGTON

Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2012

	Business-type Activities-- Enterprise Funds	Governmental Activities- Internal Service funds
	Solid Waste	
OPERATING REVENUES		
Charges for Services:		
Garbage & Solid Waste	$ 3,119,688	$ -
Other services	-	1,962,797
Total operating revenues	$ 3,119,688	$ 1,962,797
OPERATING EXPENSES		
Maintenance & operations	$ 2,623,669	$ 1,483,715
Administrative & general	-	80,663
Depreciation	260,013	493,648
Total operating expenses	$ 2,883,682	$ 2,058,027
Operating income (loss)	$ 236,005	$ (95,230)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	$ 12,515	$ 7,913
Gain (loss) on Disposition of Capital Assets	-	110,982
Landfill Closure Revenues (Cost)	3,135	192,005
Miscellaneous nonoperating revenues (expenses)	2,966	125,000
Total non-operating income (expense)	$ 18,616	$ 435,900
Income before contributions & transfers	$ 254,622	$ 340,670
Transfers In	-	-
Change in net assets	$ 254,622	$ 340,670
Net Position--beginning	6,802,242	- 8,767,563
Prior Period Adjustment	-	-
Net Position--ending	$ 7,056,864	$ 9,108,233

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

Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2012

	Business - Type Activity	Governmental Activities
	Solid Waste	Internal Service funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 3,080,792	$ 1,920,059
Cash payments to suppliers	(2,422,518)	(1,678,131)
Net cash provided (used) by operating activities	**$ 658,274**	**$ 241,928**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Non-Operating Rents and Charges	$ -	$ 791
Net cash provided from noncapital activities	**$ -**	**$ 791**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Sale of Capital Assets	$ -	$ 187,008
Payments for Capital Acquisition	(17,148)	(1,143,815)
Payment on Long Term Debt	(75,000)	-
Construction in Progress	-	191,214
Residual Equity Transfer In (Out)	-	125,000
Net cash provided (used in) capital financing activities	**$ (92,148)**	**$ (640,593)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Interest	$ 11,164	$ 11,669
Purchase of Investment	416,317	742,377
Net cash flows from investing activities	$ 427,480	$ 754,046
Net increase (decrease) in cash and cash equivalent	$ 993,607	$ 356,172
Cash and cash equivalents at beginning of year	$ 733,744	$ 665,857
Cash and cash equivalents at end of year	$ **1,727,350**	**$ 1,022,030**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net operating income (loss)	$ 236,005	$ (95,230)
ADJUSTMENT TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Depreciation expense	$ 260,013	$ 493,648
(Increase) decrease in Accounts Receivable	(13,442)	(28,709)
(Increase) decrease in Due from other Funds	(35,021)	177,085
(Increase) decrease in Due from other Governmental	9,568	(191,114)
(Increase) decrease in Prepayment for Services	881	1,137
Increase (decrease) in Salaries payable	(552)	1,304
Increase (decrease) in Vouchers Payable	786	180,440
Increase (decrease) in Retainage Payable	-	16,291
Increase (decrease) in Due to other Funds	199,684	(115,385)
Increase (decrease) in Inventory	-	(30,829)
Increase (decrease) in Accounts Payable	-	(161,103)
Increase (decrease) in Due to other Governments	-	(5,607)
Increase (decrease) in Taxes Payable	351	-
Total Adjustments	**$ 422,269**	**$ 337,158**
Net cash provided by operating activities	**$ 658,274**	**$ 241,928**

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

KITTITAS COUNTY, WASHINGTON

Statement of Fiduciary Net Position
December 31, 2012

	Private Purpose Trust	Agency Funds
ASSETS		
Cash/Petty Cash	$ 116	$ 7,865,163
Cash with Fiscal Agency	-	182,768
Investments	1,955	17,728,923
Taxes Receivable	-	3,433,086
Other Receivables	0	-
TOTAL ASSETS	$ 2,072	$ 29,209,940
DEFERRED OUTFLOWS of RESOURCES		
LIABILITIES		
Warrants Payable	$ -	$ 2,678,635
Salary/Vouchers Payable	-	361,334
Custodial Accounts	-	22,736,885
Deferred Revenues	-	3,433,086
TOTAL LIABILITIES	$ -	$ 29,209,940
DEFERRED INFLOWS of RESOURCES		
NET POSITION		
Held in Trust for Other Purposes	$ 2,072	$ 0
Total Net Position	$ 2,072	$ 0

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

KITTITAS COUNTY, WASHINGTON

Statement of Change in Fiduciary Net Position
Private Purpose Trust
For the Year Ended December 31, 2012

		Private Purpose Trust
Additions		
Investment Earnings	$	4
Miscellaneous Revenues		100
Total Additions	$	104
Deductions		
Culture & Recreation	$	36
Total Deductions	$	36
Change in Net Position		67
Net Position--beginning		2,004
Net Position--ending	$	2,072

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

KITTITAS COUNTY, WASHINGTON

Notes to the Basic Financial Statements

Dated as of and for the year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kittitas County have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The chart of accounting conforms to the Budgeting, Accounting, and Reporting Systems (BARS) prescribed by the office of the State Auditor, to promote uniformity among cities and counties of Washington resulting in better comparability. The significant accounting policies are described below.

A. REPORTING ENTITY

Kittitas County was dedicated by the State of Washington as a public entity on November 28, 1883 and operates under the laws of the State of Washington applicable to a fourth-class County with a commissioner form of government. The accounting and reporting policies of the County conform to generally accepted accounting principles for local governments.

Kittitas County is a general purpose government and provides public safety, road improvement, parks and recreation, judicial administration, health and social services, airport and general administration services. In addition, the County owns a solid waste disposal system. Kittitas County's combined financial statements include the financial positions and results of operations which are controlled by or dependent on the County (except that the operations of and equity in joint ventures are not included in the statements as explained in note 16). Control by the County was determined on the basis of budget adoption and resource allocation criteria. Dependence on the County was determined by the County's obligation to redeem the organization's debts, to finance the organization's deficits and the extent to which subsidies from the County constitute a major portion of the organizations' total non-grant resources. The financial statements include the assets and liabilities of all funds for which the county has a custodial responsibility.

The Agency funds, which include Irrigation, Fire, Hospital, PUD, School, Sewer, Cemetery, Water, Weed, Cities, and State Funds, are reported as Fiduciary funds. Kittitas County does not significantly contribute to or control the operations of these districts; however the County Treasurer acts as the “bank” for these fund types and is charge with the collection of the taxes.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net assets) report information on all of the non-fiduciary activities of Kittitas County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. 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 or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Kittitas County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by Kittitas County.

Kittitas County reports the following major funds: the General Fund is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The other two major funds reported are County Road and Courthouse/Jail Facilities Expansion. Solid Waste is the only major proprietary fund. Additionally, reported are the following fund types: Internal service funds account for Equipment, Rental & Revolving and Unemployment Compensation provided to other departments of the county on a cost reimbursement basis.

Governmental Accounting Standards Board (GASB) defines major funds as those meeting the following criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category (governmental funds) or type (enterprise funds).

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Both criteria must be met in the same element (assets, liabilities, etc.) for both the 10 percent and 5 percent tests for a fund to be defined as major. However, Statement 34 permits a government to designate a particular fund that is of interest to users as a major fund and to individually present its information in the basic financial statements, even if it does not meet the criteria. However, a government does not have the option to NOT report a fund as major if it meets the criteria above.

It should be noted that in applying the major fund criteria to enterprise funds, the reporting entity should consider both operating and non-operating revenues and expenses, as well as gains, losses, capital contributions, additions to permanent endowments, and special items. When the major fund criteria are applied to governmental funds, revenues do not include other financing sources and expenditures do not include other financing uses. However, special items would be included.

The private-purpose trust fund is used to account for the Jerry Williams Library Trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Solid Waste fund is generated from refuse. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As required by GASB 34, Kittitas County's procedure was to use non-restricted resources first and then restricted resources as needed. With GASB 54 our procedure is to have committed amounts reduced first, followed by assigned amounts, and then unassigned, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

D. BUDGETARY INFORMATION

1. SCOPE OF BUDGET

Annual appropriated budgets are adopted for the General and Special Revenue Funds on the modified accrual basis of accounting, except Treasurer M&O as per RCW 84.56.020 no budget is required. All Proprietary funds are budgeted on a full accrual basis. For Governmental Funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted Governmental Funds only. NCGA Statement 1 does not require and the financial statements do not present budgetary comparisons for proprietary fund types.

Annual appropriated budgets are adopted at the level of each fund and the budget constitutes the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for all funds lapse at year-end.

2. AMENDING THE BUDGET

The County Auditor is authorized to transfer budget amounts between object classes within departments. However, any revisions that alter the total budget of a fund, or that affect the number of authorized employee positions, salary ranges, hours or other conditions of employment must be approved by the County Commissioners.

When the County determines that it is in the best interest of the County to increase or decrease the appropriations for a particular fund/department it may do so by resolution approved by a simple majority after holding a public hearing. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. ASSETS, LIABILITIES, FUND BALANCE, NET POSITION

1. CASH AND EQUIVALENTS

It is the County's policy to invest all temporary cash surplus. The amounts are classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is credited to the General Fund.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered.

The County's deposits at year-end were entirely covered by Federal Depository Insurance and the State Public Deposit Protection Commission.

For purposes of the statement of cash flows the proprietary Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. TEMPORARY INVESTMENTS

See Investment Note 4.

3. RECEIVABLES

Taxes receivable consist of property taxes and related interest and penalties, see Property Taxes Note 5. Taxes receivable are offset by deferred revenues.

Accrued interest receivables consist of amounts earned on investments, notes and contracts at the end of the year.

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

4. AMOUNTS DUE TO/FROM OTHER FUNDS INTERFUND LOANS/ AND ADVANCES RECEIVABLE

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund loans receivable/payable” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” A separate schedule of interfund loans receivable and payable is furnished in Interfund Balances and Transfers Note No. 14.

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.

5. INVENTORIES

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased.

Inventories in Proprietary Funds are valued at cost using the average cost method, which approximates the market value. Items that are inventoried are Pits, Central Stores, Mechanical Parts, Fuel Depot and Sign Inventory.

6. CAPITAL ASSETS

See Note Number 6.

Capital assets, which includes property, plant, equipment, and infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the county as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of five years. Such 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. Kittitas County has elected to use the modified approach to account for the infrastructure account; Gravel Roads, which eliminates the need to report depreciation expense.

Computer Software is reported as an Intangible Asset and is not depreciated.

Capital Leases are defined as long term debt to the county. The asset is tracked but there is not value placed in the Capital Assets. Capital Leases are determined by one of the following four criteria; 1) The lease transfers ownership of the property to the lessee by, or at, the end of the lease term; 2) The lease contains an option to purchase the leased property at a bargain price; 3) The lease is equal to or greater than 75% of the estimated economic life of the leased property; 4) The present value of rental and other minimum lease payments, excluding that portion representing executory costs to be paid by the lessor, equals or exceeds 90% of the fair value of the lease property. See Note Number 11

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings & Improvements	5-60
Improvements other than Buildings	5-50
Machinery & Equipment	3-20
Roads, Guardrails & Traffic Signals	20
Bridges	51

7. OTHER PROPERTY AND INVESTMENTS

See Deposits and Investments Note No 4.

8. COMPENSATED ABSENCES

The County records all accumulated unused vacation, sick leave and compensatory time. For Governmental Funds, unused vacation, sick leave and compensatory time are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In Proprietary funds, the expenses are accrued when incurred and the liability is recorded in the fund.

Vacation pay, which may be accumulated up to 30 days is payable upon resignation, retirement or death; sick leave may accumulate up to a maximum of 1056 - 1120 hours; twenty-five percent of outstanding sick leave is payable upon retirement, lay-off or death, depending on which bargaining unit the employee belongs. The following is a schedule of those bargaining units:

Washington State Council of County & City Employees

Local 792CH - Courthouse Employees

Vacation - accumulated to a total of 30 working days

Sick - accumulated to a total of 140 working days

Local 792 - County Road Employees

Vacation - accumulated to a total of 30 working days

Sick - accumulated to a total of 140 working days

Local 2658 - Appraisers

Vacation - accumulated to a total of 30 working days

Sick - accumulated to a total of 140 working days

Teamsters

Local 760 - Sheriff Deputies & Correction Officers & Misdemeanant Probation

Vacation - accumulated to a total of 30 working days

Sick - accumulated to a total of 132 working days

Non-Union Personnel Policies

Vacation - accumulated to a total of 30 working days

Sick - accumulated to a total of 140 working days

9. LONG-TERM DEBT

See Long-Term Debt and Leases Note No 10.

10. DEFERRED REVENUES

This account includes amounts received in the current fiscal period that are for the next fiscal period and is the offset account for taxes and assessment receivables. Also included are court receivables for the General Fund and Misdemeanant Probation. This account includes amounts recognized as a receivable but not revenues in Governmental Funds because the revenue recognition criteria have not been met.

11. FUND RESERVES AND DESIGNATIONS

Kittitas County has an adopted policy to maintain unrestricted fund balance in the general fund of not less than two months of regular general fund operating expenditures

A. Governmental Fund Types

Fund Balance types for Governmental Fund Types and reporting practice

<u>Non-spendable Fund Balance:</u>

Non-spendable Fund Balance is the portion of fund balance including amounts that cannot be spent and are, therefore, not included in the current year appropriation. There are two components to this fund balance category: 1) not in spendable form and 2) legally or contractually required to be maintained intact.

Petty Cash, Revolving Funds and Till Accounts: The portion of fund balance that represents the asset amount of petty cash, held by a given fund as authorized by the Board of County Commissioners.

Inventories: The portion of fund balance that represents the asset amount of supply inventories, held by a given fund.

Prepaid Expenditures: The portion of fund balance that represents the asset amount of prepaid expenditures, held by a given fund.

Notes Receivable: The portion of fund balance that represents the asset amount of notes receivable, held by a given fund as authorized by the Board of County Commissioners.

Advances to Other Funds: The portion of fund balance that represents the asset amount of cash advanced to other funds, held by a given fund, as authorized by the Board of County Commissioners.

Loans Receivable: The portion of fund balance that represents the asset amount of loans receivable, held by a given fund, as authorized by the Board of County Commissioners.

Restricted Fund Balance:

Restricted Fund Balance reports on resources that have spending constraints that are either 1) externally imposed by creditors, grantors, contributors or laws and regulation of other governments or 2) imposed by law through constitutional provisions or enabling legislation. The amounts represented by this fund balance category have very stringent conditions imposed by external parties or by law.

Debt Redemption: The portion of fund balance derived from those funds within a given fund that has been set aside for debt redemption.

Bond Reserve: The portion of fund balance derived from those funds that are set aside from debt proceeds and maintained as a security for holders of the debt.

Fund Balance Restricted: The portion of fund balance that is in any governmental fund that is restricted under the "Restricted Fund Balance" definition as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

Committed Fund Balance:

Committed Fund Balance represents amounts that have internally imposed restrictions mandated by formal action by the government's highest level of decision- making authority, Board of County Commissioners. The committed amounts cannot be redeployed for other purposes unless the same type of formal action is taken by the Board of County Commissioners to reverse or modify the previously imposed restriction.

Capital Projects: The portion of fund balance that has been appropriated for specified capital projects and remains unspent.

OPEB Expenditures: The portion of fund balance that is set aside each year during budget adoption to be used in future years to meet the County's OPEB obligations.

Fund Balance – Committed: The portion of fund balance that is in any governmental fund that is committed under the "Committed Fund Balance" as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

Assigned Fund Balance:

Assigned Fund Balance reports amounts that are constrained by the governments' intent that they will be used for specific purposes. Decision-making with regard to these amounts may be made by a committee or other governmental official.

GASB 31 Adjustment: Used to account for that portion of fund balance that is the result of unrealized investment gains that have been recorded in accordance with Governmental Accounting Standards Board Statement No. 31.

Encumbrances: Used to account for that portion of fund balance that portion of fund balance that is being used to fund appropriations being carried over from the prior year into the current fiscal year.

Rainy Day Fund: Used to account for the rainy day fund established by the management team in accordance with the current policy.

Fund Balance – Assigned: The portion of fund balance that is in any governmental fund that is committed under the "Assigned Fund Balance" as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

Unassigned Fund Balance (General Fund Only):

Unassigned Fund Balance is the residual fund balance for the General Fund. While the unassigned is intended to report exclusively by the General Fund, there is an exception that if any other fund type has a negative fund balance due to expenditures incurred exceeding the amount other fund balances types, then the funds would be reported as a negative unassigned fund balance.

Prior Year Available Fund Balance: The portion of fund balance that is brought forward from the prior fiscal year and is available for appropriation to fund current fiscal year activities.

Fund Balance: Any portion of fund balance that does not fall under any of the fund balance definitions presented above.

The following is the classifications for the Governmental funds fund balances as of December 31, 2012

	General Fund	Road Fund	Cthse/Jail Facilities Expansion	Other Funds	Total
Fund Balances:					
Nonspendable:					
Prepaid items	31,194	1,905	-	311	33,410
Petty Cash	15,625	1,050	-	3,960	20,635
Total Nonspendable	**46,819**	**2,955**	**-**	**4,271**	**54,046**
Restricted for:					
Law & Justice	1,607,766	-	-	-	1,607,766
Paths Trails	-	112,215	-	-	112,215
Information Technology	50,000	-	-	-	50,000
Special Revenue	-	-	-	4,983,491	4,983,491
Construction Performance Bond	-	-	-	855	855
2010 Go & Refunding Bond	-	-	-	131,073	131,073
County Refund	-	-	-	356	356
206 CRID 96-1 Bond	-	-	-	290,880	290,880
CRID Guaranty Fund	-	-	-	7,062	7,062
Other Capital Projects	-	-	574,754	878,629	1,453,383
Total Restricted	**1,657,766**	**112,215**	**574,754**	**6,292,346**	**8,637,081**
Committed to:					
Vehicle Replacement	838,725	-	-	-	838,725
Special Revenue	-	-	-	1,485,786	1,485,786
County Capital Improvements	-	-	-	-	0
Rodeo Grounds Capital Improvements	-	-	-	22,932	22,932
Total Committed	**838,725**	**0**	**0**	**1,508,718**	**2,347,443**
Assigned to:					
Rainey Day	538,419	-	-	-	538,419
NY Budget	3,307,807	-	-	-	3,307,807
Special Revenue	-	15,299,441	-	-	15,299,441
Equipment Reserve				897,680	897,680
Total Assigned	**3,846,226**	**15,299,441**	**-**	**897,680**	**20,043,347**
Unassigned	**4,069,082**	**-**	**-**	**-**	**4,069,082**
Total Fund Balance	**10,458,619**	**15,414,610**	**574,754**	**8,703,015**	**35,150,999**

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental funds' 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.

Amounts reported for governmental activities in the statement of net assets are different because:

December 31, 2012 Total Fund Balance	$35,150,999
Capital assets used in governmental activities are not financial resources and are not reported in the funds	$79,124,229
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	$3,198,467
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	$(13,352,446)
Internal service funds are used by management to change the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net position	$9,108,233
Net adjustment to increase total governmental funds to arrive at net position-governmental activities	$113,229,482

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes 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.

Amounts reported for governmental activities in the statement of activities are different because:

December 31, 2012 Net Changes in Fund Balances for Governmental Funds		4,475,978
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Capital outlays	$12,176,239	
Depreciation	(3,324,599)	
Reduction Construction in Progress	(3,003,193)	
Addition of Asset from Construction in Progress	1,648,456	
Cost of Assets Sold	(426,968)	
Donated Assets	5,000	7,074,936

The issuance of long-term debt (e.g., bonds, leases) is a resource and the repayment of bond principle is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net assets.		
Debt Proceeds	$ (229,983)	
Debt Retired	1,362,391	1,132,408
Some revenues reported in the statement of activities are not yet available and therefore are not reported as revenues in the governmental funds		(12,650)
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		(39,011)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities		340,670
Change in Net Position of governmental activities		$4,020,375

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions in any of the Funds of the County.

NOTE 4 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

B. INVESTMENTS

It is the County's policy to invest all temporary cash surplus. At December 31, 2012, the treasurer was holding $16,249,513.99 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and equivalents in various funds. Investments are reported on the statements at fair value. The interest on these investments is credited to the General Fund. The County Treasurer reports the average compensating balances maintained during 2012 were approximately $3,610,000.

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

Investment Maturities	Fair value of Investments
State Investment Pool	$52,719,257.67
U.S. Government Securities	$4,109,999.24
Total	$56,829,256.91
Less Co. Residual	($16,249,513.99)
Net Investments	$40,579,742.92

C. CREDIT RISK

Washington State statutes authorize the County to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers acceptances, primary certificates of deposit issued by qualified public depositories, the state treasurer's Local Government Investment Pool (LGIP), municipal bonds issued by Washington State or its local governments, and repurchase agreements collateralized by any previously authorized investments. Accordingly, credit risk, if any, is extremely limited.

Kittitas County's Investment Policy states that cash shall be invested in accordance with three objectives, listed in priority:

1. **Safety**

   Safety of principal is the foremost objective of the investment program. Each investment of the Kittitas County Treasurer shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. Each investment transaction shall seek to first insure that capital losses are avoided, whether they are from security defaults or erosion of market value.

2. **Liquidity**

   The County's portfolio will remain sufficiently liquid to enable the County to meet all operating requirements which might be reasonably anticipated.

3. **Return on Investment**

   Kittitas County's investment portfolio shall attain a market-average rate of return throughout budgetary and economic cycles, taking into account the cash flow characteristics of the County and shall be in keeping with accepted financial management practices and procedures.

Investments by Fund

Fund	Total Investments
County Road	11,671,634.20
Special Revenue-Non Major	3,690,962.37
Debt Service	194,821.61
Capital Projects	638,417.95
Total Governmental Funds	**$16,195,836.13**
Solid Waste- Proprietary Fund	2,617,087.28
Internal Service Funds	4,035,941.39
Total Proprietary Funds	**$6,653,028.67**
Agency Funds	17,730,878.12
TOTAL	**$40,579,742.92**

Balance Sheet – Governmental Funds				
	General Fund	**County Road**	**Other Governmental Funds**	**Total Governmental Funds**
Assets				
Investments	$ -	$11,671,634	$4,524,202	$16,195,836

Proprietary Funds Statement of Net Assets		
	Business-type Activities Enterprise Funds	**Governmental Activities Internal Service Funds**
Assets		
Investments	$2,617,087	$4,035,941

Agency Funds Combining Balance Sheet	
Assets	
Investments	$17,730,878

NOTE 5 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

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

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 60 days. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The County may levy up to $1.80 per $1,000 of assessed valuation for general governmental services, subject to two limitations:

A. Washington State Law RCW's 84.55.010 and 84.55.0101 limits the growth of regular property taxes to 1 percent or less per year, plus adjustments for new construction. If the assessed valuation increases due to revaluation, the levy rate will be decreased.

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, each is proportionately reduced until the total is at or below the 1 percent limit.

For 2011 for the 2012 tax County levied the following property taxes on an assessed value of $6,670,622,914. The Road district property value assessed was $4,855,095,807.

Fund	Levy	Amount
General fund	1.004078	$6,697,825.71
Mental Health	.025000	166,765.57
Veterans Relief	.011243	74,997.81
Total General fund Levy*	**1.040321**	**$6,939,589.09**
Road Levy	.854770	$4,149,990.24
County Road Diverted	.041193	199,995.96
Total Road Levy*	**.895963**	**$4,349,986.20**
GRAND TOTAL	**1.936284**	**$11,289,575.29**

*Levy Shift of $300,000 from Road Levy to General Fund

NOTE 6 – CAPITAL ASSETS

A. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 is shown by asset type in the following table. The biggest increases occurred under Government Activities for construction in progress. This includes the construction on the new Jail Pod, Upper District Court, the Armory and Road Construction in the amount of $10,703,460.

GOVERNMENT ACTIVITES (including Internal Service Funds)	**Beginning Balance**	**Increase**	**Decrease**	**Ending Balance**
Assets not being depreciated				
Land	3,363,710	221,038	0	3,584,748
Gravel Roads*	4,079,872	0	21,368	4,058,505
Easements & Right of Ways	5,160,279	0	0	5,160,279
Intangible Assets	1,520,428	76,522	2,774	1,594,176
Construction in Progress	6,872,403	10,703,460	3,229,538	14,346,325
Total	**20,996,693**	**11,001,020**	**3,253,680**	**28,744,033**
Assets Being Depreciated				
Buildings & Improvement	22,383,359	2,737,258	203,900	24,916,718
Improvements	1,909,396	0	0	1,909,396
Equipment	11,075,567	1,052,809	601,135	11,527,240
Infrastructure	139,928,463	408,769	198,927	140,138,305
Total	**175,296,785**	**4,198,836**	**1,003,962**	**178,491,659**
Grand Total	**196,293,478**	**15,199,856**	**4,257,642**	**207,235,692**
Less accumulated depreciation for:	**Beginning Balance**	**Increase**	**Decrease**	**Ending Balance**
Buildings & Improvements	9,768,880	786,810	13,937	10,541,753
Improvements	701,935	148,133	0	850,068
Equipment & Machinery	8,234,894	797,698	525,109	8,507,483
Infrastructure	102,628,496	2,298,471	198,927	104,728,040
Total	**121,334,205**	**4,031,111**	**737,973**	**124,627,343**
Total Government Activities, net	**74,959,273**	**11,168,744**	**3,519,669**	**82,608,348**

BUSINESS TYPE ACTIVITIES	Beginning Balance	Increase	Decrease	Ending Balance
Assets not being depreciated				
Land	280,439	0	0	280,439
Intangible Assets	39,844	181	0	40,025
Construction in Progress	0	0	0	0
Total	**320,283**	**181**	**0**	**320,463**
Assets Being Depreciated				
Buildings & Improvement	1,389,478	0	0	1,389,478
Improvements	4,513,052	581	0	4,513,633
Equipment	1,095,406	16,386	0	1,111,792
Total	**6,997,936**	**16,967**	**0**	**7,014,903**
Grand Total	**7,318,219**	**17,148**	**0**	**7,335,366**
Less accumulated depreciation for:	**Beginning Balance**	**Increase**	**Decrease**	**Ending Balance**
Buildings & Improvements	549,335	52,314	0	601,649
Improvements	1,287,482	135,078	0	1,422,560
Equipment & Machinery	582,501	72,621	0	655,122
Total	**2,419,318**	**260,013**	**0**	**2,679,331**
Business Activities Capital Assets, net	**4,898,901**	**(242,866)**	**0**	**4,656,035**

B. DEPRECIATION EXPENSE

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

Government Activities	
Function/Program	Amount
Government activities	$469,290
Judicial Services	30,381
Public Safety	233,935
Physical Environment	1,665
Transportation	2,359,993
Health and Human Service	18,874
Economic Environment	1,527
Culture and Recreation	177,473
Total	**$3,293,138**

Depreciation expense was charged to the business activities as follows:

Business Activities	
	Amount
Solid Waste & Garbage	$260,013
Total	**$260,013**

*See Required Supplementary Information

NOTE 7 - PENSION PLANS

A. WASHINGTON STATE RETIREMENT PLANS

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

1. Public Employees' Retirement System (PERS) Plans 1, 2, and 3

A. Plan Description

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Judicial Benefit Multiplier

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

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

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

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

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

C. Funding Policy

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

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

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

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

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

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

Members Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 26,008	$ 587,185	$ 104,601
2011	$ 29,407	$ 510,854	$ 97,230
2010	$ 19,383	$ 320,316	$ 71,482

2. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

A. Plan Description

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

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Funding Policy

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

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

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

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2012	$ 0	$ 116,685
2011	$ 0	$ 113,024
2010	$ 0	$ 108,189

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

A. Plan Description

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

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

PSERS membership includes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Funding Policy

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

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

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

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

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

	PSERS Plan 2
2012	$ 89,149
2011	$ 62,641
2010	$ 57,101

B. DEFERRED COMPENSATION PLAN

The County offers its employees three deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are with Great West Life & Annuity Insurance Company, Nationwide Retirement Solutions and the Washington State Department Retirement Systems Deferred Compensation Program. The plans, which are available to all eligible employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, local governments do not own either the amounts deferred by employee or related income on those amounts.

NOTE 8 - RISK MANAGEMENT

A. GENERAL LIABILITY & PROPERTY INSURANCE

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

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

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

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

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

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

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

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

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

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

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

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

A new member may be asked to pay modest admittance fees to cover that member's share of the Pool's organizational expenses and costs to analyze its loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for its proportional shares of any unresolved, unreported, and in-process claims for the periods that former member was a signatory to the Interlocal Agreement.

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

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

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

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

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

- *Net Operating Income* realized was $1.8 million, a 132% year-over-year increase and nearly triple the annual average from the past ten years, 2002-11.
- *Total Assets* grew $1.0 million (2%) to $42.1 million. Current assets increased $1.2 million (3%) while non-current assets decreased $0.2 million (16%).
- Total *Claims Reserves* for the Pool's direct reserving exposures decreased 2% to $14.7 million. This total includes: $4.3 million for losses in the coverage layer retained by the Pool, down 23%; $9.4 million for the aggregated stop losses in the retained layers associated with the "corridor" program for automobile and general liabilities, up 10%; and $1.0 million for unallocated loss adjustment expenses, up 17% from one year ago. *NOTE: The corridor program referenced is now six years old yet still not fully matured. Further, its occurrence coverage maximum was increased to $1.0 million beginning with Py2010, up from the $0.5 million level that existed during the program's first three years, while the program's occurrence minimum remains the greater of the applicable member's deductible or $100,000.*
- *Net Position* (formerly referred to as *Net Assets* and also known as *Members' Equity*) increased $1.8 million to nearly $12.9 million as of September 30, 2012. Of that total, $4.8 million is classified as *Restricted Net Position* — $0.8 million to satisfy the State's solvency provisions (WAC 200.100.03001) plus $4.0 million for the Pool's Underwriting Policy requirements – and another $1.0 million is held as *Capital Assets* (net of debt). The remaining $7.1 million held as *Non-Restricted Net Position*, up from $4.4 million one year before, is available for use as directed by the Pool's Board of Directors.

B. WORKERS COMPENSATION

The County pays premiums to State of Washington Department of Labor and Industries based on hours worked for each employee. The County belongs to the Retrospective Rating program with Labor & Industries in which we joined in 1988. Each year the County selects a rate plan, showing the maximum refund/maximum premium the County is willing to risk based upon claims management. January 2012, the County had a credit account balance of $74,724 and subsequently we owed for the year 2011 in the amount of $32,898 leaving an accumulated credit balance of $41,826.

C. UNEMPLOYMENT COMPENSATON

The County is currently on the Reimbursable basis with the Washington State Employment Security Department. The County paid Employment Security $43,922 in unemployment charges in 2012. The County also contracts with TALX Corporation to assist with the claims handling, and in 2012 we paid $1,699.

NOTE 9 – SHORT TERM DEBT

Kittitas County had no outstanding short term debt as of December 31, 2012 and no short-term debt activities during 2012.

NOTE 10 - LONG-TERM DEBT

A. LONG TERM DEBT

LIMITED TAX G.O. & REFUNDING BONDS 2010

During 2010, the County issued bonds in the amount of $11,185,000. The Bonds are being issued for the purpose of construction of repairs and expansion of the County Jail, acquisition of a building for court facilities, remodel of a building on the County fairgrounds, refunding of an advanced basis the County's Limited

Tax General Obligation Bonds, 2001, paying the costs of issuance of the Bonds, and other legal purposes of the County. The federal arbitrage regulations apply to the 2010 GO & Refund Bonds debt.

The Limited Tax General Obligation and Refunding Bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount
Limited Tax General Obligation and Refunding Bonds, 2010	2%-3.75%	$10,130,000

The bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2013	575,000	307,431
2014	580,000	295,931
2015	600,000	284,331
2016	450,000	272,331
2017	455,000	263,331
2018-2020	1,470,000	701,882
2021-2025	2,760,000	835,913
2026-2030	3,240,000	356,825
TOTAL	**$10,130,000**	**$3,317,975**

B. LONG TERM LIABILITIES

1. CUMMINGS/BERRY PURCHASE LOAN

The Cummings/Berry loan to purchase property at 411 N. Ruby, Ellensburg, WA had a maturity date of September, 2012. The contract included a balloon payment of $688,028.34 in September, 2012.

The amount of the loan currently outstanding is:

Purpose	Interest Rate	Amount
Cummings/Berry Purchase	5.5%	$ 0
TOTAL		**$ 0**

2. SOLID WASTE PUBLIC WORKS TRUST FUND LOAN

The Solid Waste Public Works Trust Fund Loan debt currently outstanding for the Upper County Transfer Station:

Purpose	Interest Rate	Amount
Solid Waste Loan	5%	$750,000
TOTAL		**$750,000**

The Solid Waste Public Works Trust Fund Loan debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2013	75,000	3,750
2014	75,000	3,375
2015	75,000	3,000
2016	75,000	2,625
2017	75,000	2,250
2018-2020	225,000	4,500
2021-2022	150,000	1,125
TOTAL	**$750,000**	**$20,625**

C. DEBT LIMITS

State Law provides that debt cannot be incurred in excess of the following percentages of the value of taxable property of the County:

- 1.5% - Without a vote of the people
- 2.5% - With a vote of the people

The total tax property value was $6,670,622,914 and the debt limits for the County as of December 31, 2012 was as follows:

Purpose of Indebtedness	Remaining Capacity
General Purposes – without a vote of the people	$ 87,038,533
General Purposes – with a vote of the people	$166,765,573

NOTE 11 – LEASES

A. OPERATING LEASES

The county leased copiers and a postage machine under non-cancelable operating leases. Total cost for such leases was $9,639 for the year ended December 31, 2012. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2013	4,723
2014	4,458
2015	4,458
2016	4,458
2017	1,596
Total	**$19,693**

B. CAPITAL LEASES

The county leases office equipment under non-cancelable capital leases for governmental activities. These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. We do not depreciate capital leases. There were no leases for Business-Type Activities to report.

The following table is a listing of the outstanding debt on the capital leases for 2012:

Asset	Governmental Activities
DM 525 Mail Machine System-UDC	7,440
Sharp MX-C401 Copier-UDC	5,245
Sharp MX-M623N-Treasurer	17,660
Ricoh 760D Scanner - Prosecutor	1,838
Sharp MX-C311(1) & Xerox W5655PT(2)-Prosecutors	12,018
Sharp MX-5111-Prosecutor	16,311
Mail Machine-Centormail 140 - Auditor	30,521
Sharp MX-3100N(2) & MX-M453N(1)- Sheriff	17,935
Sharp MX-3100N - Sheriff	14,125
Sharp MX_M453N (2) Copiers-Sheriff	26,877
Sharp MX-M453N – Sheriff	13,251
Xerox W5655PT - Juvenile/Clerk/Sup Court	6,561
NetApp IT Server	208,669
OCE CM4521 Copier - Public Health	3,060
Total	**$381,511**

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

Year Ending December 31	Governmental Activities
2013	107,200
2014	102,526
2015	86,388
2016	73,901
2017	27,471
Total Minimum Lease Payments	$397,486
Less: Interest	(15,974)
Present Value of Minimum Lease Payments	**$381,511**

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2012, the following changes occurred in long-term liabilities: The Prosecutor office returned Sharp MX-500N Copier and replaced it with a Sharp MX-5111 Copier with a yearly savings of $1,870.68. The Sheriff's office added a copier to the Corrections department as an addition to the new Jail Pod in October 2012. In November 2012, Community Development Services traded in a Konica Minolta Copier in exchange for a Kyocera 550ci operating lease. Information Technologies added a Net App server as part of a server restoration project that began in July of 2012. The total adjustment to Capital Leases in 2012 was $-1,685. The amount reported for Capital Leases on the following chart and on the General Ledger includes sales tax.

Effective January 2008, the County's Other Post Employment Benefit (OPEB) liability was required to be reported per GASB 45 (See Note 17). During 2010, the County issued bonds in the amount of $11,241,850. The Bonds are being issued for the purpose of construction of repairs and expansion of the County Jail, acquisition of a building for court facilities, remodel of a building on the County fairgrounds, refunding of an advanced basis the County's 2001 Limited Tax General Obligation Bonds, paying the costs of issuance of the Bonds, and other legal purposes of the County.

Compensated absences are recorded using the actual leave balances accumulated for each employee. The liability for the governmental funds for 2012 is $2,249,813. The due within one year amount is the average of the past three year payoff to separated employees. The average due within one year for Governmental Activities is $65,180 and the Business type was estimated at zero due within one year. . Total vacation, sick leave and compensatory time pay-off recorded during 2012 for all Governmental Funds was $72,468. At this time, the liability to the Proprietary Funds for unused vacation, sick leave and compensatory time is $97,737.

The landfill closure cost liability has been reported for Business-Type Activities (See Note 18).

	Beginning Balance 01/01/12	Additions	Adjustments	Reductions	Ending Balance 12/31/12	Due Within One Year
Governmental Activities						
Bonds Payable: Revenue/Assessment Bonds	$10,690,000	$ 0	$ 0	$560,000	$10,130,000	$ 575,000
Capital Leases	203,769	260,047	(1,685)	80,621	381,511	65,762
Compensated Absences	2,331,441	0	0	81,628	2,249,813	65,180
Long Term Liabilities	722,473	0	0	722,473	0	0
Other Post Employment Benefits	498,159	92,963	0	0	591,122	0
Total	**$14,445,842**	**$353,010**	**($ 1,685)**	**$1,444,722**	**$13,352,446**	**$ 705,942**

Business-Type Activities						
Compensated Absences	$ 100,703	$ 0	$ 0	$ 2,966	$ 97,737	$ 0
Long-Term Liabilities	825,001	0	0	75,000	750,001	75,000
Landfill Closure Cost	1,181,102	43,022	0	46,157	1,177,967	134,678
Total	**$ 2,106,806**	**$43,022**	**$0**	**$124,123**	**$ 2,025,705**	**$ 209,678**
GRAND TOTAL	**$16,552,648**	**$396,032**	**($ 1,685)**	**$1,568,845**	**$15,378,151**	**$915,620**

NOTE 13 – CONTINGENCIES AND LITIGATIONS

Amounts received or receivables from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable Funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

Kittitas County is named as the defendant in a few legal actions. Claims which have been classified as "reasonably possible" by the Prosecuting Attorney's office for 2012 are expected to be immaterial at this time.

A. CIVIL CLAIMS PENDING FOR KITTITAS COUNTY AS OF DECEMBER 31, 2012

1. Puget Sound Energy: Claim for damages filed July 30, 2013 stating that Kittitas County broke a power pole with an asphalt roller which caused damages of $16, 804.21.

2. Wayne T. Bell: Claim for damages filed November 28, 2012 stating that Kittitas County dug a ditch that he inadvertently backed into, causing damage to his vehicle of $1,833.46

B. LAWSUITS PENDING IN WHICH KITTITAS COUNTY, ITS OFFICERS AND/OR AGENTS ARE PARTIES AND MONEY DAMAGES ARE SOUGHT AS OF DECEMBER 31, 2012.

1. Manna Funding, LLC v. Kittitas County (07-2-00340-4; 08-2-00425-5): Plaintiffs allege that the County’s denial of a rezone application would cause Plaintiffs to incur substantial financial damages. The matter was referred to the Washington Counties Risk Pool and the Superior Court remanded the matter to the Kittitas County Planning Commission with directions to conduct a “meaningful open record hearing.” The rezone application was again denied and a Land Use Petition for Review was filed in Kittitas County Superior Court. The matter was forwarded to the Washington Counties Risk Pool. The Superior Court remanded the case back to the Kittitas County Board of Commissioners on February 5, 2009. The Board issued the rezone promptly. The applicant later moved forward with an action for damages that is being handled by the Risk Pool.

2. Summer Seasons LLC v. Kittitas County (11-2-00198-1): Plaintiff seeks refund of 2010 and 2011 real estate taxes paid under protest, including attorney fees and costs, and other relief as the court deems proper. Coverage by risk pool was denied because the matter concerns refund of taxes. County won partial summary judgment. Discovery nearly complete; summary judgment motion expected to be brought by Plaintiffs and the matter is pending.

3. ABC Holdings, Inc., and Chem Safe Environmental, Inc. (11-2-00234-1): Plaintiff appeals the decision of the Kittitas County Hearings Examiner regarding Kittitas County Code violations, Notice of Violation and Order of Abatement. The Plaintiffs sought reversal of these decisions and any other such relief, including an award of fees and costs as the court deems appropriate. Plaintiffs’ appeal was denied and Plaintiffs appealed to the Court of Appeals, Division Three. Plaintiffs brought motions for stay in the superior court and in the Court of Appeals, both of which were denied. Plaintiffs then brought large public records requests against the County, seeking to supplement the record on appeal. The County filed an action for declaratory and injunctive relief in superior court,

to protect documents which are attorney-client privileged and attorney work product, and obtained a temporary restraining order. The County also has filed a motion for contempt of court order. All aspects of this case are pending.

4. Estate of Joshua Hathorne: Claimant states that Joshua Hawthorne was transferred from Kittitas County Jail to Republic, where he committed suicide on 1-17-2010, due to Kittitas County being aware of, but not having notified Republic of suicide attempts while in jail and immediately prior to his incarceration.

5. Allen et al v. Kittitas County: The initial claim for damages submitted on January 6, 2011 was denied, so the parties filed a lawsuit against Kittitas County seeking damages for flooding they allege the county has control of. These claims asserted that the County owned and maintained a system of flood control dykes and levees along the Teanaway River that were to protect their property and that in early January of 2009, those dykes and levees failed resulting in flooding to their property. Kittitas County does not own or maintain any dykes or levees along the Teanaway River. Many of the claimants do own property in the FEMA designated 100-year floodplain. The Allen's property is not considered part of this designated 100-year floodplain. The property was flooded as a result of a levee breach. It is not clear what the levee failure mode was.

6. Summer Seasons LLC v. Kittitas County (2012 case): Plaintiff seeks refund of 2010 and 2011 real estate taxes paid under protest, including attorney fees and costs, and other relief as the court deems proper. Coverage by risk pool was denied because the matter concerns refund of taxes. The matter is pending.

7. Warren et al v. Kittitas County: Plaintiff seeks refund of 2010 and 2011 real estate taxes paid under protest, including attorney fees and costs, and other relief as the court deems proper. Coverage by risk pool was denied because the matter concerns refund of taxes. The matter is pending.

NOTE 14 – INTERFUND BALANCES AND TRANSFERS

Interfund balances and transfers are activities between the funds of Kittitas County. Interfund activities are **divided into two broad categories: reciprocal and non-reciprocal. Reciprocal interfund activity comprises interfund loans** and interfund services provided and used. Non-reciprocal interfund activity comprises interfund transfers and interfund reimbursements.

A. INTERFUND BALANCES

Interfund balances at December 31, 2012 included billings for items such as postage, scan/phone, building rents, copies, central services, computer hardware/software, advertising, and shared copier leases. The balances are as follows:

	Due From						
Due To	General fund	County Road	CTHSE/Jail Facilities Expansion	Solid Waste	Equipment Rental & Revolving	All Others	Total
General Fund	$319,880	$80,002	$344	$172,735	$41,139	$127,171	**$741,271**
County Road	3,831	0	0	70	1,615	2,095	**$7,611**
Solid Waste	0	1,107	0	49,506	0	0	**$50,613**
Equipment Rental & Revolving	0	185,139	0	0	40	126,214	**$311,393**
All Others	6,919	0	0	0	20	0	**$6,939**
Total	**$330,629**	**$266,249**	**$344**	**$222,311**	**$42,814**	**$255,479**	**$1,117,826**

B INTERFUND TRANSFERS

Interfund transfers during 2012 included contributions between funds. The balances were as follows:

	Transfer From					
Transfer To	General Fund	County Road	Non Major Government	CTHSE/Jail Facilities Expansion	Equipment Rental & Revolving	**TOTAL**
General Fund	$0	$0	$261,111	$869,514	$0	**$1,130,625**
Non-Major Governmental	909,154	273,946	774,364	0	125,000	**$2,082,464**
TOTAL	**$909,154**	**$273,946**	**$1,035,475**	**$869,514**	**$125,000**	**$3,213,089**

C. INTERFUND LOANS

Interfund Loans between funds for 2012 were as follows:

	Loan From			
Loan To	County Road	Solid Waste	Total	Loan Purpose
General Fund	0	150,000	**$150,000**	Property purchase (913 East 8th Ave, Ellensburg)
Airport	152,000	0	**$152,000**	Airport Apron Improvement Project
Total	**$152,000**	**$150,000**	**$302,000**	

NOTE 15 – RECEIVABLE AND PAYABLE BALANCES

A. RECEIVABLES

Receivables at December 31, 2012 were as follows:

		Type							
		Accounts	**Court**	**Employee**	**Interest**	**Recording Unbilled**	**Rent**	**Taxes**	**Total**
Funds	**General**	$90,540	$2,002,147	$6,234	$2,269	$5,989	$15,245	$627,261	**$2,749,686**
	Non Major Governmental	1,584	156,129	0	879	0	0	40,095	**$198,687**
	Road	10,483	0	0	2,647	0	0	372,835	**$385,965**
	CTHSE/Jail Facilities Expansion	50	0	0	23	0	0	0	**$73**
	Solid Waste	225,877	0	0	1,612	0	0	0	**$227,489**
	Equipment Rental & Revolving	28,709	0	0	765	0	0	0	**$29,475**
	Total	**$357,245**	**$2,158,277**	**$6,234**	**$8,195**	**$5,989**	**$15,245**	**$1,040,190**	**$3,591,375**

B. PAYABLES

Payables at December 31, 2012 were as follows:

		Type							
		Vouchers	**Salaries**	**Accrued Interest**	**Retainage**	**Custodial Account**	**Deposits**	**Taxes**	**Total**
Funds	**General**	$380,656	$24,591	$1,115	$17,811	$16,733	$11,809	$3,346	**$456,061**
	Non Major Governmental	542,043	7,951	0	17,577	0	227,062	69	**$794,702**
	Road	715,042	148,263	0	10,916	0	108,982	97	**$983,301**
	CTHSE/Jail Facilities Expansion	37,460	0	0	41,347	0	0	0	**$78,808**
	Solid Waste	166,767	5,700	0	0	0	0	(2,778)	**$169,690**
	Equipment Rental & Revolving	284,053	24,381	0	16,291	0	0	300	**$325,025**
	Unemployment	16,141	0	0	0	0	0	0	**$16,141**
	Total	**$2,142,163**	**$210,887**	**$1,115**	**$103,942**	**$16,733**	**$347,854**	**$1,034**	**$2,823,728**

NOTE 16 - JOINT VENTURES

Kittitas County and the City of Ellensburg entered into a cooperative service enterprise to purchase and operate the facility known as the City/County Community Center effective July 19, 1987. The $62,500 in initial costs of the facility were split $15,625 to the County and $46,875 to the City.

The City is responsible for operations and maintenance of the facility. The operating costs are allocated between the City and County based upon the percent of non-city resident users. Complete financial information can be obtained from the City of Ellensburg, 501 N. Anderson Street, Ellensburg, WA 98926.

The City accounts for the operations of the facility in the Recreation Department of the General Fund. The 2012 operations are as follows:

	BUDGET	ACTUAL
Kittitas Co. Support	$38,000	$45,478
Tour Fees	5,500	5,152
Other	23,900	26,110
Total Revenues	67,400	76,740
City of Ellensburg Support	77,023	71,763

NOTE 17 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

A. PLAN DESCRIPTION

In addition to the retirement described in the Pension note 7 above, the County provides certain medical insurance benefits for retired public safety employees. Substantially the entire County's LEOFF 1 employees may become eligible for these benefits if they reach normal retirement age while working for the County. Kittitas County does not currently have any active LEOFF 1 employees employed. There are 7 retired LEOFF 1 employees who are eligible to receive these benefits.

B. FUNDING POLICY

In 2012, expenditures of $65,357 for medical premiums and billings were recognized for post employment health benefits. The program is funded "pay as you go".

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

The net OPEB obligation of $591,122 is included as a noncurrent liability on the Statement of Net Assets.

Annual Required Contribution (ARC)	$ 182,289
Net OPEB Obligation Interest	22,417
Net OPEB Obligation Amortization	(46,385)
Annual OPEB cost	$ 158,320
Less: Contributions made	(65,357)
Increase in net OPEB obligation	$ 92,963
Net OPEB Obligation beginning of year 2012	498,159
Net OPEB Obligation end of year 2012 (NOO)	$591,122

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation through 2012 were as follows:

Fiscal Year Ended	Annual OBEB Cost	Percentage of Annual OBEB Cost Contributed	Net OPEB Obligation
12/31/2008	204,692	33.0%	137,106
12/31/2009	193,917	32.0%	131,549
12/31/2010	187,723	41.1%	110,570
12/31/2011	185,991	36.1%	118,934
12/31/2012	158,320	41.3%	92,963
		TOTAL	591,122

D. FUNDING STATUS

As of December 31, 2012, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $1,957,698 and the actuarial value of the assets was $0 resulting in a UAAL of $1,957,698. Historically, Kittitas County has used a pay-as-you-go approach to funding.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As 2008 was the first year Kittitas County implemented GASB 45, only five years are presented.

E. ACTUARIAL METHODS AND ASSUMPTIONS

We have used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The Actuarial Accrued Liability and Net OPB Obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 18 - CLOSURE AND POST CLOSURE CARE COSTS

Kittitas County's only municipal landfill was established in 1980 to accept mixed solid waste. The landfill, owned by the county, was established on a parcel of 640 acres of arid land reserved for the landfill and related activities. The following table depicts events affecting Ryegrass landfill operations:

Date	Change/Modification
November 1993	Promulgation of new State Landfill Regulation WAC 173-351
December 1995	A new operations contractor was chosen in the bid process to operate each transfer Station and the balefill. A three year contract was signed.
February 1996	Major Flooding at the Ellensburg transfer station
March 1996	Leachate observed flowing from the southern tip of Ryegrass balefill
August 1996	Fire at balefill

Date	Change/Modification
December 1996	Record snowfall and snowload resulted in the collapse of the Ellensburg transfer station baler building
December 1996	A major fire broke out at Ryegrass balefill
January 1998	Flooding at Ellensburg transfer station
June 1998	Department of Ecology Air Quality Program issued an Order under RCW 70.94 requiring corrective action in operations of the balefill.
September and December 1998	Chloride levels in ground watering monitoring Well B-4 exceeded groundwater standards.
April 1998	Began discussion/negotiations on an Agreed order under the Model Toxics Control Act for closure of the landfill with the Department of Ecology.
April 1998	The Landfill is closed and not accepting any more garbage. The landfill has been covered and must be monitored for 30 years.
December 21, 2004	Resolution 2004-132 Established Reserve Fund 401-011 CDL Post Closure. This money is to be used for the closure and post closure care of the Limited Purpose Landfill which the County operates.
January 2005	CDL post Closure account was started with $200,000

The Ryegrass landfill was closed to new garbage waste in 1998 due to a Washington Department of Ecology Agreed Order. The closed bale fill will be monitored through 2028. The County still continues to accept construction demolition at its limited purpose landfill. The limited purpose landfill is expected to be operational until 2021 after which time it will be monitored for 20 years. State and federal laws and regulations including WAC 1273.350 required Kittitas County to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. GASB 18 establishes the standards for accounting and financial reporting for municipal solid waste landfill closure and post-closure costs.

As a result of the Department of Ecology Agreed Order, a Remedial Action Grant was allocated to Kittitas County for landfill closure/cleanup. This grant funds 75% of the total landfill closures costs. Landfill Closure operations began in July 2000 with construction scheduled to be completed in accordance with the Agreed Order. In August 2000, the Board of County Commissioners adopted Resolution 99-81 reserving solid waste funds for the purpose of post-closure for Ryegrass Landfill. In January 2005, a CDL post Closure account was established with $200,000 from the Ryegrass Closure Account.

In addition to the Remedial Action Grant, $1.55 per ton of the tip fee and $2.44 per ton for the construction debris goes to the post-closure account each year. Each year the Solid Waste budget includes the annual post-closure costs needed for the Ryegrass landfill. Post closure care is funded as a regular part of the Solid Waste budget process.

A. RYEGRASS LANDFILL POST CLOSURE

In 2011, the County estimated the liability for post-closure care cost for the Ryegrass landfill to be $545,781. The 2012 actual costs for post-closure care was $46,157 leaving a liability of $499,623. As required by federal, state, and local regulations, cash in the amount of $326,209 has been restricted for post-closure care. The tip fee for the post-closure cash reserve for 2012 was $42,334.22 (27,312.40 tons of garbage at $1.55 per ton), which will be placed into the reserve in 2013. A plan update was completed in 2012 for regulating compliance with Department of Ecology.

Rye Grass Closure Account	Recorded Liability	Actual Costs	Year	Cash Reserve
12/31/08	662,080	(16,602)	2009	326,209
12/31/09	645,477	(51,108)	2010	326,209
12/31/10	594,369	(48,589)	2011	326,209
12/31/11	545,781	(46,157)	2012	326,209
12/31/12	499,623			

B. LIMITED LANDFILL POST CLOSURE

In 2004 an estimate for post-closure care cost for the Limited purpose landfill was done by RW Beck Inc. Based upon the report from RW Beck, the estimated closure costs are $908,847. The closure is estimated to be 2021 with post-closure activities to occur through 2041. The total cost of completing post-closure for the 20 year period is $242,760 (2004 dollars). The total landfill capacity is 470,258 cubic yards. The total amount of capacity used through December 31, 2012 is 277,001.

The recorded liability for December 31, 2012 is calculated as follows:

Total Closure Cost		$1,151,607.00	($908,847 + 242,760 post-closure)
	X	277,001.00	Cumulative capacity used in 2012
		318,996,290,607.00	
	÷	470,258.00	Total landfill capacity
		678,343.14	Estimated liability for post-closure
	-	635,321.16	2009 thru 2011 Total recorded liability
		43,021.98	2012 Total liability recorded

As required by federal, state, and local regulations, cash in the amount of $255,645 has been restricted for post – closure care. The tip fee for the post-closure cash reserve for 2012 was $7,171.35 (2,939.08 tons of garbage at $2.44 per ton), which will be placed into the reserve in 2013.

The future liability costs are estimates and are subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

NOTE 19 – OTHER DISCLOSURES

A. ACCOUNTING AND REPORTING CHANGES

1. PRIOR YEAR ADJUSTMENTS TO FUND BALANCE

The following list of funds had prior period adjustments. The adjustments will reflect differences in ending and beginning balances on the Statement of Net Assets; Net Activity and Revenue, Expenditures and Changes in Fund Balance for Government funds.

General Fund had a change in prior year receivables in the amount of $-173,836.

2. PRIOR YEAR ADJUSTMENT TO NET ASSETS – GOVERNMENTAL ACTIVITIES

There was a prior year adjustment of $-173,836, to fund balance as indicated in Note 19 A-1.

3. ADJUSTMENTS TO EXPENSED CAPITAL OUTLAY

Kittitas County's budget policy is to show in the actual budget any asset that is over $5,000. The Washington State Auditor requires all government entities to use the Budgeting, Accounting and Reporting System (BARS). Because of this requirement there are several items that are actually treated as a capital items but are not capitalized, i.e.; see Note 1- E (6). The following amounts were adjusted for reporting purposes from operating to capital totaling $1,286,457.14.

General Fund	
General Government	(3,352.37)
Economic Environment	208.62
Culture & Recreation	26,449.84
Airport	
Transportation	(39,970.60)

County Road	
Transportation	1,299,845.00
Trial Court Improvement	
Judicial	2,149.20
Public Health	
Mental & Public Health	625.86
Misdemeanant Probation	
Public Safety	501.59

4. NEW FUND –FLOOD CONTROL

The Board of County Commissioners formed a Flood Control Zone District (FCZD) by resolution on July 17, 2012. On August 7, 2012, the BOCC approved a resolution placing a measure on the November 6, 2012 ballot to ask the county residents whether the district should be funded. Voters approved funding of the FCZD authorizing the District to collect a regular property levy of $0.07 per $1000 of assessed value for a period of 7 years. The 2013 Budget is $734,228.

The county-wide Flood Control Zone District is responsible for carrying out activities to:

- Reduce reliance on general funds for flood fighting and recovery.
- Lower the flood risk to public and private infrastructure through proactive flood management.
- Prevent the creation of new flooding problems.
- Ensure that the existing flood protection systems are properly maintained.
- Enhance the understanding of floodplain and river systems to provide direction on the best use of Kittitas County resources.
- Match and leverage federal and state funds and existing flood control efforts.

The costs for the Flood Control operations were paid in prior years from the General Fund. The 2012 budget for the Flood Control in the General Fund was 452,120.

5. STATEMENT GASB 63 – FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

This statement is effective for financial statements for period beginning after December 31, 2011. The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Government-Wide presented statements have reflected the changes; Statement of Net Assets has changed to Statement of Net Position, and Balance Sheets has changed to Statement of Financial Position. The County does not have any items that are considered Outflows of Resources or Deferred Inflows of Resources.

B. SUBSEQUENT EVENTS

1. 2010 GO & REFUNDING BOND CONSTRUCTION PROJECTS

The Jail pod project closed in July 2012, however there are still some outstanding issues and the asset has not been moved from Construction in Progress, this will conclude in 2013. January 2012 the Upper District has purchased a new building in the amount of $1,000.000 and remodeling will be scheduled in the near future. The Armory is in the construction phase.

2. NEW FUND – COMMUNITY DEVELOPMENT SERVICES

In January 2013, the Board of County Commissioners created fund 402, Community Development Services, moving all of the Community Development Department from the General Fund into an Enterprise fund.

3. NEW FUND – COMMUNITY DEVELOPMENT SERVICES

Kittitas County applied for funding for an energy project through Department of Commerce. This project will upgrade lighting systems throughout the County facilities; improve the elevators in the Courthouse and Jail; commission the HVAC controls in the Jail; and replace leaky wall and window construction in a portion of the Courthouse with a modern, insulated wall and window system.

The total project cost is $ $1,321,618. The county was awarded $ $330,384 in grant funding. The project has been awarded to Ameresco. The difference will be funded from local dollars and about $850,000 in financing, through the Washington State Treasurer LOCAL program.

4. HYAK MAINTENANCE SHOP

The E. R. & R. Fund and the Snoqualmie Pass Utility District is building a joint shop at Hyak. We will each own ½ of the building and have joint responsibility for the small common entrance area. A condominium agreement will be filed and an owner's association/board formed for legal purposes. The county will manage the reserves for future repairs and maintenance of the common parts of the building, grounds, etc.

KITTITAS COUNTY, WASHINGTON

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2012

General Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 10,834,858	$ 10,834,858	$ 11,667,038	$ 832,180
Licenses & Permits	790,390	790,390	932,913	142,523
Intergovernmental	3,689,359	4,139,940	3,828,780	(311,160)
Charges for Services	1,987,801	1,995,301	1,957,939	(37,362)
Fines & Forfeits	1,695,667	1,688,167	1,539,472	(148,695)
Miscellaneous	605,036	755,036	730,091	(24,945)
Total Revenues	$ 19,603,111	$ 20,203,692	$ 20,656,232	$ 452,540
Expenditures				
General Governmental	$ 6,491,977	$ 6,654,431	$ 6,145,730	$ 508,701
Judicial	2,534,539	2,655,299	2,474,500	180,799
Security of Persons and Property	8,393,161	8,666,048	7,321,404	1,344,644
Physical Environment	591,423	599,229	179,352	419,877
Transportation	3,717	3,717	3,717	-
Economic Environment	1,039,039	1,519,204	1,288,781	230,423
Culture & Recreation	1,191,448	1,202,982	1,173,238	29,744
Debt Service	160,112	857,664	828,511	29,153
Capital Outlay	178,876	817,307	662,477	154,830
Total Expenditures	$ 20,584,292	$ 22,975,881	$ 20,077,711	$ 2,898,170
Excess (Deficit) Revenues over Expenditures	$ (981,181)	$ (2,772,189)	$ 578,521	$ 3,350,710
Other Financing Sources (Uses)				
Restitution	$ 500	$ 500	$ 364	$ (136)
Proceeds Capital Leases	-	229,990	229,983	(7)
Sale of Fixed Assets	100	100	1,104	1,004
Transfers In	190,837	1,070,859	909,154	(161,705)
Transfers Out	(244,776)	(1,114,291)	(1,130,625)	(16,334)
Total Other Financing Sources (Uses)	$ (53,339)	$ 187,158	$ 9,979	$ (177,179)
Net Change in Fund Balance	$ (1,034,520)	$ (2,585,031)	$ 588,501	$ 3,173,532
Fund Balance, January 1	$ 5,258,519	5,890,716	$ 9,870,118	$ 3,979,402
Fund Balance, December 31	**$ 4,223,999**	**$ 3,305,685**	**$ 10,458,619**	**$ 7,152,934**

KITTITAS COUNTY, WASHINGTON

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2012

County Road

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 4,169,002	4,169,002	$ 4,173,041	$ 4,039
Licenses & Permits	10,500	10,500	13,335	2,835
Intergovernmental	7,972,374	7,972,374	6,263,196	(1,709,178)
Charges for Services	532,271	532,271	90,743	(441,528)
Miscellaneous	24,000	24,000	93,851	69,851
Total Revenues	$ 12,708,147	$ 12,708,147	$ 10,634,166	$ (2,073,981)
Expenditures				
General Governmental	$ 599,521	$ 599,521	$ 217,224	$ 382,297
Transportation	6,146,475	6,146,475	4,902,882	1,243,593
Capital Outlay	7,669,000	7,669,000	5,175,056	2,493,944
Total Expenditures	$ 14,414,996	$ 14,414,996	$ 10,295,163	$ 4,119,834
Excess (Deficit) Revenues over Expenditures	$ (1,706,849)	$ (1,706,849)	$ 339,004	$ 2,045,853
Other Financing Sources (Uses)				
Sale of Fixed Assets	$ -	$ -	$ -	$ -
Transfers In	466,200	466,200	273,946	(192,254)
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	$ 466,200	$ 466,200	$ 273,946	$ (192,254)
Net Change in Fund Balance	$ (1,240,649)	$ (1,240,649)	$ 612,950	$ 1,853,599
Fund Balance, January 1	$ 15,584,025	$ 15,584,025	$ 14,801,660	$ (782,365)
Fund Balance, December 31	**$ 14,343,376**	**$ 14,343,376**	**$ 15,414,610**	**$ 1,071,234**

Kittitas County, Washington
Required Supplemental Information
Notes to Budgetary Comparison Schedule
Year Ended December 31, 2012

A. Budgetary Basis

Annual appropriated budgets are adopted for the general, special revenue, debt service, capital projects and all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles.

B. Material Violations

There were no material violations of finance-related legal or contractual provisions in the general fund and special revenue funds. In addition, these fund's expenditures did not exceed legal appropriation for 2012.

Kittitas County, Washington
Required Supplemental Information
LEOFF I Retiree Medical Benefits
Schedule of Funding Progress
Year Ended December 31, 2012

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/08	$ -	$2,198,297	$2,198,297	0%	-	-
12/31/09	$ -	$2,082,585	$2,082,585	0%	-	-
12/31/10	$ -	$2,016,062	$2,016,062	0%	-	-
12/31/11	$ -	$2,193,414	$2,193,414	0%	-	-
12/31/12	$ -	$1,957,698	$1,957,698	0%	-	-

*2008 is the first year Kittitas County implemented GASB 45, and only five years are presented.

KITTITAS COUNTY
Required Supplementary Information
2012 Annual Report
Information about Infrastructure Assets Reported Using the Modified Approach

Asset Management System

Kittitas County maintains an Asset Management System that includes an up-to-date inventory of all gravel roads. This inventory also identifies the condition of gravel roads owned by the County. The County's Public Works Department assesses the condition of gravel roads on an annual basis.

Required Documentation

The Governmental Accounting Standards Board (GASB) Statement #34 requires the County to report infrastructure capital assets. The County has elected to use the "Modified Approach", as defined by GASB Statement #34, for reporting its gravel roads, thereby forgoing depreciation of these assets. Under this alternative method, the County expenses certain maintenance and preservation costs and does not report depreciation expense. In order to utilize the modified approach, the County is required to:

- Maintain an up-to-date asset management system and inventory.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate the annual cost to maintain and preserve the assets at the condition level established and disclosed by the County.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Condition Assessment Methods

Kittitas County's Public Works Department had previously used maintenance and financial records to determine the condition level of gravel roads. In 2012, Kittitas County's Public Works Department began a new assessment system (see Attachment A). This rating system is conducted by the Road Log Engineering Technician who fills out rating forms for each gravel road while doing a field assessment. This new rating system is more robust and thorough because each gravel road is physically surveyed and scored by one person, instead of relying on maintenance and financial records provided by various maintenance personnel.

Gravel Roads in Kittitas County

Kittitas County owns and maintains over 67 miles of gravel roads, of which about 23 miles are standard gravel roads (non-primitive) and about 44 miles are primitive gravel roads. The standard gravel roads (non-primitive) are those roads that have an average of 101 or more annual daily vehicles and have road signs and warning signs placed along the roadway in accordance with the Manual on Uniform Traffic Control Devices. Primitive gravel roads have

100 or less annual daily vehicles and no design, signing, or maintenance standards are required other than the requirement that warning signs be placed that apply to primitive roads.

Budgeted and Estimated Costs to Maintain Infrastructure

The County's estimate of spending to preserve and maintain gravel roads at or above the established condition levels is shown in Table A below. This table indicates the estimated budgeted amount and the actual amount spent during the past five fiscal years.

Table A
Costs to Maintain Gravel Roads in Kittitas County

Fiscal Year	*Estimated Spending*	*Actual Spending*
2008	$335,500	$246,629
2009	$372,000	$218,576
2010	$347,000	$311,164
2011	$225,000	$158,237
2012	$241,016	$229,327

Condition Level Description

Kittitas County manages its gravel road network using a priority array program. The gravel road condition rating is a numerical condition scale ranging from 1 (severely deficient) to 5 (excellent condition). The ratings are described as follows:

Table B
Gravel Road Condition Rating Description

Score	*Attribute*	*Description*
1	Severely Impaired and load restricted	Impassable for heavy loads and requires load restrictions or road closure until repaired.
2	Poor Condition	Rough ride in places, requires spot grading, spot graveling, shoulder damage repair, or roadside flood damage repair.
3	Fair Condition	Road surface is in fair condition, rough ride in places but does not require grading or graveling.
4	Good Condition	Road surface is not new but in good condition and no maintenance needed.
5	Excellent Condition	New road surface, no maintenance needed.

Established Condition Level

The County has established an acceptable condition level of 3 (Fair Condition) and preserves 80% of its assets (non-primitive gravel roads) at or above this level. The condition of some gravel roads may drop below fair condition due to very limited use of the section of road.

The established condition level has been revised for gravel roads that are classified as primitive roads. Primitive roads do not have an established condition level because they are, by definition, not required to have any design, signing, or maintenance standards or requirements other than the requirement that warning signs be placed as provided in RCW 36.75.300. The condition of primitive roads is assessed and shown in Table E for general information.

Detailed documentation of disclosed assessment levels is kept on file.

Table C
Condition Rating of All Gravel Roads in Kittitas County
Prior to New Assessment Methodology

	Total	*Gravel Road Condition Rating Scores as a Percentage*					
Year	*Miles*	*1*	*2*	*3*	*4*	*5*	*% Rated 3 +*
2008	67.84	0	19.7	45.7	34.6	0	**80%**
2009	67.84	0	19.7	42.9	37.4	0	**80%**
2010	67.84	0	0	0	98.4	1.6	**100%**
2011	67.84	0	10.6	56.9	32.5	0	**89%**

Table D
Condition Rating of
Standard Gravel Roads (non-primitive) in Kittitas County

	Total	*Gravel Road Condition Rating Scores as a Percentage*					
Year	*Miles*	*1*	*2*	*3*	*4*	*5*	*% Rated 3 +*
2012	22.69	0.44	1.15	7.4	66.24	24.77	**98%**

Table E
Condition Rating of
Primitive Gravel Roads in Kittitas County

	Total	*Primitive Gravel Road Condition Rating Scores as a Percentage*					
Year	*Miles*	*1*	*2*	*3*	*4*	*5*	*% Rated 3 +*
2012	44.13	6.5	34.03	19.99	26.2	13.28	**59%**

Attachment A
Gravel Road Condition Rating Form

Kittitas County
Department of Public Works 9/13/2013
Gravel Road Rating Worksheet

Road Name: ________________________________ **Road No.** __________________________________

From:___________________________________ **to** ____

ADT ________________ **FFC** ________ **Posted Speed Limit** _______**Scorer**_____________________

Check the following:
CROWN
DRAINAGE
GRAVEL LAYER
SURFACE DEFORMATION
SURFACE DEFECTS
ROUTES : **US Mail Route ?**
School Bus Route?

CONNECTOR
MAINTENANCE COSTS _____________

5 Excellent	No distress. Dust controlled. Excellent surface condition and ride.	New construction or total reconstruction. Excellent drainage. Little or no maintenance needed.
4 Good	Dust under dry conditions. Moderate loose aggregate. Slight wash boarding.	Recently re-graded. Good crown & drainage. Adequate gravel for traffic. Routine grading & dust control may be needed.
3 Fair	Good crown(3”-6”). Adequate ditches on more than 50% of road. Gravel layer mostly adequate/ additional may be needed to correct wash boarding or potholes/ ruts. Some culvert cleaning needed. Moderate wash boarding (1”-2” deep) over 10%-25%. Moderate dust. None or slight rutting. Occasional small potholes. Some loose aggregate.	Shows traffic effects. Re-grading (re-working) needed to maintain. Needs some ditch improvement and culvert maintenance. Some areas may need additional gravel
2 Poor	Little or no roadway crown (less than 3”). Adequate ditches on less than 50% of road. Portions of ditches may be filled / overgrown / eroded. 25% with little or no aggregate. Culverts partially full of debris. Moderate to severe wash boarding (over 3” deep) over 25% of area. Moderate rutting (1” – 3”) over 10%-25% . Severe loose aggregate.	Travel at slow speeds (less than 25mph) required. Needs additional new aggregate. Major ditch construction and culvert maintenance also required.
1 Failed	No roadway crown or roadway is bowl shaped with extensive ponding. Little if any ditching. Filled or damaged culverts. Severe rutting (over 3” deep), over 25% of the area. Severe potholes (over 4” deep), no aggregate.	Travel is difficult and road may be closed at times. Needs complete rebuilding and/ or new culverts.

TOTAL PROJECT RATING ______________________________ **DATE** ____

Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other ID Number	2012 Expenditures: Pass Through Awards	2012 Expenditures: Direct Awards	2012 Expenditures: Total	Notes
U.S. Department of Agriculture - Forest Service Pass through WA Office of the State Treasurer	Schools and Roads - Grants to States	10.665	N/A	340,175		340,175	10
U.S. Department of Housing and Urban Development - Pass through WA State Community, Trade & Economic Development	Community Development Block Grants HopeSource	14.228	1265400-005	37,145			5
	Community Development Block Grants HopeSource		1164100-005	55,482			5
	Community Development Block Grants Water 6		GP64100-0035	114,219			5
			Subtotal	206,846		206,846	
U.S. Department of Justice - Pass through Washington State Patrol	Domestic Cannabis Eradication/Suppression	16.000	WSP Contract # C120816FED	9,988		9,988	15
U.S. Department of Justice - Pass through WA State Department Social & Health Services	Juvenile Accountability Block Grants - JRA	16.523	0663-98328 #6 & #7	10,421		10,421	
U.S. Department of Justice - Pass through WA Department of Community, Trade and Economic Development - Pass through ASPEN	Violence Against Women Formula Grant Program	16.588	F11-31103-018	15,062		15,062	15
U.S. Department of Justice - Bureau of Justice Assistance	State Criminal Alien Assistance Program	16.606	F10-52110-033		7,934	7,934	15
U.S. Department of Justice - Bureau of Justice Assistance	Bulletproof Vest Program	16.607	N/A		4,408	4,408	4
U.S. Department of Justice - Office of Community Oriented Policing Services Pass through WA Association of Sheriff and Police Chiefs	**ARRA** Public safety Partnership and Community Policing Grant Equipment	16.710	WSMI 10104	17,499		17,499	13
U.S. Department of Transportation, Federal Aviation Administration (FAA)	Airport Improvement Program - Bowers Field Apron Imprv, Beacon Replacement	20.106	DOT-FA12NM-0073		379,102	379,102	
U.S. Department of Transportation, Federal Highway Administration	Highway Planning and Construction:	20.205					
	- FHWA Salmon La Sac Preservation		DTFH70-12-E-00026		447,119		8
Pass through WA State Department Transportation	STPD Kittitas Hwy Safety Improvement		STPD-C190(003)	249,167			
	HSIP Kittitas Co Road Safety Systems		HSIP-000S(261)	35,274			
	ER Hanson Road Flood Damage May 2011		ER-1106(017)	290,838			
			Subtotal	575,279	447,119	1,022,398	11

Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other ID Number	2012 Expenditures			Notes
				Pass Through Awards	Direct Awards	Total	
U.S. Department of Transportation-National Highway Traffic Safety Administration: Pass through Washington Traffic Safety Commission and Kittitas County Community Public Health and Pass through WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants - High Visibility Enforcement	20.601	N/A	3,517		3,517	4;15
U.S. Environmental Protection Agency - Pass through WA Department of Health	**ARRA**-Capitalization Grants for Drinking Water State Revolving Funds	66.468	C16889	2,250		2,250	13
Department of Energy - Pass through WA Department of Commerce	**ARRA**-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	F10-52110-033	4,808		4,808	8,11,13
U.S. Election Assistance Commission-Pass through Office of the Secretary of State	Help America Vote Act Requirements Payments	90.401	G2844-#4	1,890		1,890	
	Voting Access for Individual with Disabilities	93.617	G12/013	36,346		36,346	
U.S. Department of Health and Human Services - Pass through Washington Department of Health	Public Health Emergency Preparedness	93.069	C16889	58,695		58,695	15
U.S. Department of Health and Human Services - Center for Disease Control and Prevention Pass through Washington Department of Health	Immunization Grants	93.268	C16889	13,405			6;7;15
	Immunization Grant - Non Cash		N/A	20,371			3;4;6
			Subtotal	33,776		33,776	
U.S. Department of Health and Human Services Center for Disease Control and Prevention - Pass through Washington Department of Health	Center for Disease Control and Prevention - Technical Assistance	93.283	N/A	7,721		7,721	4,15
PPHF 2012 National Public Health Improvement Initiative - Pass through Washington Department of Health	PPHF 2012 National Public Health Improvement Initiative	93.507	C16889	11,228		11,228	
U.S. Department of Health and Human Services-Administration for Children and Families- Pass through WA Department of Social and Health Services	Child Support Reimbursement	93.563	N/A	15,591			4,15
	Child Support Reimbursement	93.563	2110-80577	89,668			
			Subtotal	105,259		105,259	
U.S. Department of Health and Human Services - Pass through Washington Department of Health	Medical Assistance Program - MAM Match	93.778	0963-53332	49,993			
	Medical Assistance Program - Medicaid Title XIX		1166-33934	4,875			
			Subtotal	54,868		54,868	

Kittitas County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other ID Number	2012 Expenditures			Notes
				Pass Through Awards	Direct Awards	Total	
U.S. Department of Health and Human Services - Pass through Washington Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	C16889	3,210		3,210	15
U.S. Department of Health and Human Services-Centers for Disease Control and Prevention-Pass through Yakima Health District	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	N15850-11-12	12,807			15
			N15850 FY 12-13	8,687			15
			Subtotal	21,493		21,493	
U.S. Department of Health and Humans Services - Pass through the WA Department of Social and Health Services -Division of Alcohol and Substance Abuse	Block Grants for Prevention and Treatment of Substance Abuse - DASA	93.959	1163-27314	80,369		80,369	5
U.S. Department of Health and Human Services - Pass through Washington Department of Health	Maternal and Child Health Federal Consolidated Program	93.994	C16889	43,634		43,634	5;15
U.S. Department of Homeland Security- Pass through from WA State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	N/A	7,591			4;15
	Boating Safety Financial Assistance		N/A	11,318			4;15
			Subtotal	18,909		18,909	
U.S. Department of Homeland Security - Pass through from Washington State Military Department-Disaster Grants	Disaster Grants - Public Assistance	97.036	1817-DR-WA 2009 (Road)	55,054			9,11,12,17
			1817-DR-WA 2009 (Gen Fund)	27,205			9,12,17
			1817-DR-WA 2009 (Flood)	7,268			9,12,17
			1963-DR-WA (2011)(Road)	89,661			9,11,12,17
			Subtotal	179,189		179,189	
	Emergency Management - Hazard Mitigation	97.039	1817-DR-WA-7-P	8,232		8,232	9
U.S. Department of Homeland Security - Pass through from Washington State Military Department	Interoperable Emergency Communications	97.055	E11-202	66,414		66,414	
U.S. Department of Homeland Security - Pass through from Washington State Military Department, Pass through Grant County Emergency Management	Homeland Security Grant Program- Domestic Preparedness	97.067	E11-109	91,331		91,331	15
US Department of General Services Administration Pass through Washington State Department of Enterprise Services	Donation of Federal Surplus Personal Property - Non Cash	39.003	N/A	111,600	-	111,600	4,16
TOTAL FEDERAL FINANCIAL ASSISTANCE				**2,120,008**	**838,563**	**2,958,571**	

KITTITAS COUNTY, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Year Ended December 31, 2012

NOTE 1 - BASIS OF ACCOUNTING

This Schedule is prepared on the same basis of accounting as the Kittitas County financial statements. The County uses the modified accrual system of accounting.

NOTE 2 – PROGRAM COSTS

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

NOTE 3 - NON CASH AWARDS

The amount of vaccines reported on the schedule is the value of vaccine distributed by the county Health Department during the current year.

NOTE 4 - NOT AVAILABLE (N/A)

The County was unable to obtain other identification number.

NOTE 5 – PASSED-THROUGH TO SUBRECIPIENTS

Passed-through dollars to Subrecipients.

NOTE 6 – VACCINE FOR CHILDRENS PROGRAMS

Vaccine supplied by Federal Government for Vaccine for Children Program.

NOTE 7 – VACCINE FOR 317 PROGRAMS

Vaccine supplied by Federal Government for Vaccine for 317 Program.

NOTE 8 – PROJECT HAS BEEN COMPLETED OR EXPIRED

Project has been completed or expired.

NOTE 9 – ADJUST CURRENT YEAR EXPENSES

Adjust current year expenses to reconcile balance at year end, difference due to variance between county rate and FEMA eligible rates

NOTE 10 –IN-LIEU OF TAXES/UNRESTRICTED FUNDS

In-Lieu of taxes, unrestricted funds used for general operations of County Road Fund.

NOTE 11 – PRIOR YEAR

Amendment to correct prior year correction, total grant award

2012 Supplemental Grant award includes prior year grant expenditures:

FDA#: 20.205, STPD Kittitas Hwy Safety Improv; $133,832.43 of the $249,167 reported on the SEFA are expenditures incurred in 2011

CFDA#: 97.036, 1817-DR-WA 2009 (Road); $4,641.75 of the $55,054 are expenditures incurred from 2009-11; $37,720 was a Lambert Road Large Project and $17,334 was a Lambert Road Small Project for a total of $55,054. Both projects were approved by FEMA in 2012 of which $4,641.75 of the Large Project costs were from 2009-2011 when the project began.

CFDA#: 97.036, 1963-DR-WA (2011)(Road); $85,876 of the $89,661 are expenditures incurred in 2011; $85,876 was for the Riverbottom Rd project approved by FEMA in 2012 of which project costs are for 2011 when the project began.

NOTE 12 – GRANT PROJECT SHARED

This grant is shared between County Funds.

NOTE 13 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

NOTE 14 – PROJECT CARRYOVER

Large project carryover: Project pending environmental review and permits.

NOTE 15 – INDIRECT COST RATE

Public Health: The amount expended includes an indirect cost recovery using an approved indirect cost rate of 35.5 percent.

Sheriff's Department: The amount expended includes an indirect cost recovery using an approved indirect cost rate of 11.25 percent.

Prosecutor Department: The amount expended includes an indirect cost recovery using an approved indirect cost rate of 11.25 percent

NOTE 16 – DONATION and LOAN OF FEDERAL SURPLUS PERSONAL PROPERTY

Property is first offered for reutilization within the Department of Defense, transfer to other Federal Agencies, or donation to state and local governments and other qualified organizations. The amount reported on the schedule is the value of the property, minus 23.4%, on the date it was received by Kittitas County and priced by Federal Surplus. The program is administered by Washington State Department of Enterprise Services.

Asset Number	Description	Price
18804	1986 Humvee	$36,054.85
18802	1986 Cargo Truck	$7,660.00
18544	2007 Humvee	$26,607.01
18545	1992 Panel Truck	$20,682.00
18543	Fork Lift	$19,150.00
18803	Box Generator Trailer	$723.10
18801	Cargo Trailer	$723.10
	Total	$111,600.06

NOTE 17 – FEMA DISASTER ASSISTANCE

Disaster assistance is usually classified by FEMA as either a “small” or “large” project. Some grantees might experience a long delay from the time they incur costs to recover from a disaster and the date they actually are approved to receive federal disaster relief funding for projects. As with other federal awards, grantees should report the disaster-related costs in the year they are incurred.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Local Government Liaison	**Mike Murphy**
Public Records Officer	**Mary Leider**
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