



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

**Area Agency on Aging and Disabilities
of Southwest Washington**

Clark County

For the period January 1, 2013 through December 31, 2013

Published August 25, 2014

Report No. 1012409





Washington State Auditor Troy Kelley

August 25, 2014

Board of Directors
Area Agency on Aging and Disabilities of Southwest Washington
Vancouver, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Agency on Aging and Disabilities of Southwest Washington's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Clark County
January 1, 2013 through December 31, 2013**

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Federal Summary

Area Agency on Aging and Disabilities of Southwest Washington

Clark County

January 1, 2013 through December 31, 2013

The results of our audit of the Area Agency on Aging and Disabilities of Southwest Washington 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 and each major fund.

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 Agency.

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

| <u>CFDA No.</u> | <u>Program Title</u> |
|-----------------|--|
| 93.044 | Aging Cluster - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers |
| 93.045 | Aging Cluster - Special Programs for the Aging - Title III, Part C - Nutrition Services |
| 93.053 | Aging Cluster - Nutrition Services Incentive Program |

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

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

Schedule of Federal Audit Findings and Questioned Costs

Area Agency on Aging and Disabilities of Southwest Washington

Clark County

January 1, 2013 through December 31, 2013

1. The Agency did not comply with allowable cost principles for its Aging Cluster programs.

| | |
|--|--|
| CFDA Number and Title: | 93.044 Special Programs for the Aging, Title III-Part B, Grants for Supportive Services and Senior Centers 93.045 Special Programs for the Aging, Title III-Part C, Nutrition Services 93.053 Nutrition Services Incentive Program |
| Federal Grantor Name: | U.S. Department of Health and Human Services |
| Federal Award/Contract Number: | NA |
| Pass-through Entity Name: | Department of Social and Health Services |
| Pass-through Award/Contract Number: | 1369-64734-01 |
| Known Questioned Cost Amount: | \$2,140 |
| Likely Questioned Cost Amount: | \$11,982 |

Background

For the year ended December 31, 2013, the District spent \$1,456,101 in its federal aging program, which includes a total of \$67,722 in direct costs associated with paid time off. The objective of the program is to provide services to older individuals, supportive services including transportation, in-home services and caregiver support

Description of Condition

Program guidelines allow entities to charge the costs of employee leave to the federal program. These costs must be equitably charged between individual programs. We found the Agency did not equitably allocate the costs of paid leave for certain employees. In some instances the Agency charged 100 percent of leave costs to the grant; although not all employee time was spent working in the program.

Cause of Condition

The Agency was not aware that the method used would result in an inequitable allocation of paid leave costs.

Effect of Condition and Questioned Costs

The Agency used grant funds to pay unallowable expenses resulting in actual questioned costs of \$2,140, which could result in the Agency having to repay funding to the grantor. We estimate additional likely questioned costs of \$11,982.

Federal regulations require us to report known and projected questioned costs when likely questioned costs are greater than \$10,000 for each type of compliance requirement. We question costs when we find an agency has not complied with grant regulations and/or when it does not have adequate documentation to support expenditures.

Recommendation

We recommend the Agency establish internal controls to ensure paid leave costs are equitably allocated between programs. We further recommend the Agency consult with the Department of Social and Health Services concerning the potential repayment of questioned costs.

Agency's Response

AAAD Southwest acknowledges that our payroll systems automatically distributed dollars to the wrong sub-grant portion of the overall Older Americans Act grant. The error we made was a result of making an assumption that the error in allocation from vacation pay was an immaterial amount, which we still feel is true, but we do acknowledge that even though we feel it was immaterial it did generate an error that according to Federal law must be reported. The total dollar amount of the error resulted in an allocation error of less than one percent of the total Older Americans Act budget to the wrong sub-grant.

We are pleased to note that the distributed cost allocation for all of the funds was charged to the correct overall Federal grant source and that no agency funds were or are subject to an improper use of funds question. When we were notified of this error during the audit, we immediately changed our practice so that effective July 1, 2014 we now allocate all costs including vacation and other non-salary wage payments in the correct process.

Auditor's Remarks

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

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), states in part:

Appendix B, Section 8(d) Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

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:

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

Section .510:

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on

the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

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*

**Area Agency on Aging and Disabilities of Southwest Washington
Clark County
January 1, 2013 through December 31, 2013**

Board of Directors
Area Agency on Aging and Disabilities of Southwest Washington
Vancouver, 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 and each major fund of the Agency on Aging and Disabilities of Southwest Washington, Clark County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated August 11, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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.

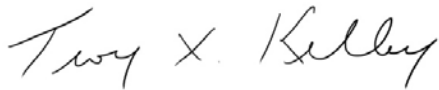
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of the Agency'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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

August 11, 2014

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

**Area Agency on Aging and Disabilities of Southwest Washington
Clark County
January 1, 2013 through December 31, 2013**

Board of Directors
Area Agency on Aging and Disabilities of Southwest Washington
Vancouver, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Area Agency on Aging and Disabilities of Southwest Washington, Clark 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, 2013. The Agency'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 Agency'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 Agency'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 Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency 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, 2013.

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 1. Our opinion on each major federal program is not modified with respect to these matters.

Agency's Response to Findings

The Agency's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Agency'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 Agency 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 Agency'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 Agency's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any

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

PURPOSE OF THIS REPORT

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

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

TROY KELLEY
STATE AUDITOR

August 11, 2014

Independent Auditor's Report on Financial Statements

Area Agency on Aging and Disabilities of Southwest Washington

Clark County

January 1, 2013 through December 31, 2013

Board of Directors

Area Agency on Aging and Disabilities of Southwest Washington

Vancouver, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Area Agency on Aging and Disabilities of Southwest Washington, Clark County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 15.

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 Agency'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 Agency'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 and each major fund of the Area Agency on Aging and Disabilities of Southwest Washington, as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

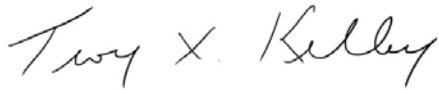
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 24 and budgetary comparison information on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the 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 Agency'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 August 11, 2014 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

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

TROY KELLEY
STATE AUDITOR

August 11, 2014

Financial Section

**Area Agency on Aging and Disabilities of Southwest Washington
Clark County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Governmental Funds Balance Sheet/Statement of Net Position – 2013
Statement of Governmental Revenues, Expenditures, and Changes in Fund
Balances/Statement of Activities – 2013
Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual –
2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

**Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
January 1, 2013 Through December 31, 2013**

Management's Discussion and Analysis

In compliance with state and federal regulations we are presenting this overview and analysis of the Area Agency on Aging and Disabilities of Southwest Washington's (hereafter referred to as AAADSW or the Agency) financial activities for the fiscal year ended December 31, 2013. We offer this information in conjunction with and support of our included financial statements which follow this discussion.

Financial Highlights

* AAADSW assets on the statement of net position exceeded liabilities by \$2,221,933 (reported as total net position). \$6,475 of this amount is unrestricted with the balance reported as restricted including an amount of \$27,413 which represents the investment in capital assets.

* AAADSW's total net position increased by \$459,487. This change resulted from increased Title XIX case management caseloads and other aging network or Affordable Care Act related services generating net position of \$624,266 plus investment income of \$2,651 and the adjustment for a capital expenditure (net of depreciation/amortization) in the amount of \$16,196. These increases were offset by the planned and approved usage of fund balance for Title XIX/Aging Network or Affordable Care Act related functions in the amount of \$158,007 and an increase in the accrued vacation liability of \$25,619. The entire amount is restricted, net of an unrestricted portion in the amount of \$6,475 and includes net investment in capital assets of \$27,413.

* At the close of fiscal year 2013, AAADSW's governmental fund reported combined ending fund balances of \$2,399,243 an increase of \$ 468,910 over 2012.

* AAADSW's Fund Balance is composed of non-spendable, restricted and unassigned portions. The amounts per classification are \$20,795, \$2,371,973 and \$6,475 respectively. The restricted portion includes the balance of a prior year restricted donation in the amount of \$32,301. The non-spendable portion is \$20,795 which represents Pre-Paid expenses. The remaining of the Fund Balance (restricted and unrestricted) in the amount of \$2,346,147 is available to spend with the approval of the Council of Governments (COG) for services meeting the defined restrictions of funders.

* AAADSW's end of year fund balance of \$2,399,243 represents 25.8% of total general fund expenditures.

**Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
January 1, 2013 Through December 31, 2013**

Overview of Financial Statements

The following discussion and analysis is intended to serve as an introduction to AAADSW's basic financial statements. AAADSW's basic financial statements include three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the financial statements this report also contains other supplementary information.

AAADSW has only one governmental fund; it does not operate any activities that would be defined as either proprietary funds or fiduciary funds. Current funding sources come predominantly from contractual relationships with the Aging and Long Term Services Administration (AL TSA, a unit within the Washington State Department of Social and Health Services). Other revenue sources include; The Multi-Service Center (direct Ombudsman funding), contracts with managed care organizations to provide CCO services, grants from foundations or universities, restricted or unrestricted donations/endowments received, fees/donations paid by clients that are considered program income and investment interest income. AAADSW financial statements present the governmental funds statements in the far left column and the government-wide statements in the far right column. No separate fund financial statements are included in this report. The adjustment columns are the reconciliation of the difference between the statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of AAADSW's finances in a manner similar to a private sector business.

The statement of net position presents information on all of AAADSW's assets and liabilities, with the difference between assets and liabilities reported as net position. Net position measures the financial strength of the agency, and over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of AAADSW is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that

may result in cash flows in future fiscal periods (uncollected revenues, unused vacation leave and unpaid invoices).

**Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
January 1, 2013 Through December 31, 2013**

Fund financial statements. A fund is a grouping of related accounts used to maintain control over resources that are segregated for specific activities or objectives. AAADSW, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. AAADSW has only one governmental fund.

Governmental funds. Governmental 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, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets of the Area Agency on Aging and Disabilities of Southwest Washington exceeded liabilities by \$2,221,933 for 2013, an increase of \$459,487 over 2012. This amount, in its entirety, is reported as "total net position".

| AAADSW Net Position Governmental Activities | | | |
|--|------------------|------------------|--------------------------------|
| | 2013 | 2012 | Increase (Decrease) |
| Current Assets | 4,501,015 | 4,185,379 | 315,636 |
| Capital Assets | 27,413 | 11,217 | 16,196 |
| Total Assets | <u>4,528,428</u> | <u>4,196,596</u> | <u>331,832</u> |
| Current Liabilities | 2,101,772 | 2,255,046 | (153,274) |
| Noncurrent Liabilities | 204,723 | 179,104 | 25,619 |
| Total Liabilities | <u>2,306,495</u> | <u>2,434,150</u> | <u>(127,655)</u> |
| Net Position: | | | |
| Investment in Capital Assets | 27,413 | 11,217 | 16,196 |
| Restricted | 2,188,045 | 1,751,229 | 436,816 |
| Unrestricted | 6,475 | | 6,475 |
| Total Net Position | <u>2,221,933</u> | <u>1,762,446</u> | <u>459,487</u> |

Within the restricted net position is the balance of a 2009 restricted donation from the Swoboda family of \$32,301. This funding is restricted for respite services for caregivers of citizens of Clark and Skamania Counties that have Alzheimer's disease or dementia. Current

**Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
January 1, 2013 Through December 31, 2013**

assets increased 7.5% due to the increase in cash balances held by Cowlitz County, slightly offset by a reduction in accounts receivable.

The total net position, less the net investment in capital assets of \$27,413, less the Swoboda donation of \$32,301 and less an unassigned amount of \$6,475, equals \$2,155,744 and is restricted by the nature of AAADSW's contract with ALTSA. The restriction placed on the use of net position earned from services funded (or contracted) by ALTSA can be released for the provision of any Title XIX, Aging Network service (or support for that service) or other services/programs allowed by ALTSA per AAADSW's contract. AAADSW's governing body (COG) has approved a Fund Balance policy which is discussed in Note #1 (F)(9).

As stated before, AAADSW conducts only governmental activities revolving around human service functions. AAADSW's statement of net position reported an increase of \$459,487 in 2013.

Financial Analysis of the Government's Funds

The general fund is the only operating fund of AAADSW. At the end of the fiscal year, total fund balance for the general fund equaled \$2,399,243; all of it available to spend with the exception of a non-spendable portion in the amount of \$20,795 representing pre-paid expenses from December 31, 2013, subject to restrictions. The general fund balance increased by \$468,910 in calendar year 2013. Of this increase, \$373,530 was from agency operations, and \$95,380 was due to a prior year adjustment (see Notes to Financial Statements).

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| AAADSW Change in Governmental Fund Balance | | | |
|---|------------------|------------------|--------------------------------|
| | 2013 | 2012 | Increase (Decrease) |
| Federal Indirect Grant Revenue | 4,686,772 | 4,657,124 | 29,648 |
| State Grant Revenue | 4,800,908 | 4,638,337 | 162,571 |
| General Revenue | 172,384 | 25,051 | 147,333 |
| Total Revenue | 9,660,064 | 9,320,512 | 339,552 |
| Expenses: | | | |
| Program Expenditures: | | | |
| Access Services | 5,987,796 | 5,591,848 | 395,948 |
| Nutrition Services | 792,485 | 856,019 | (63,534) |
| In-Home Services | 76,437 | 76,152 | 285 |
| Social & Health Services | 1,292,038 | 1,199,059 | 92,979 |
| Caregiver Training/Agency Worker Health/Core Services Mgmt. | 466,756 | 373,597 | 93,159 |
| Administration/Coordination | 621,124 | 819,649 | (198,525) |
| Other AAADSW Activities | 49,899 | 9,180 | 40,719 |
| Subtotal Expenditures | 9,286,535 | 8,925,504 | 361,031 |
| Change in Fund Balance | 373,530 | 395,008 | (21,478) |
| Prior Year Adjustment | 95,380 | 0 | 95,380 |
| Fund Balance as of January 1 | 1,930,333 | 1,535,325 | 395,008 |
| Fund Balance as of December 31 | 2,399,243 | 1,930,333 | 468,910 |

Total Access services expenditures increased by \$395,948. This increase was mostly due to increased Title XIX case management caseloads creating the need to add staff. There was also a small increase in Information and Assistance program expenditures. Additionally, AAADSW began operating an ADRC program whose costs are considered an access expenditure. ADRC (Aging and Disability Resource Center) expands on our current Information and Assistance program adding other components like Care Transitions and Options Counseling all of which (along with other outreach type services) in the future will become our ADRC.

The decrease of \$63,534 in Nutrition service expenditures was due to a decrease in the allocation of Older Americans Act nutrition funding that arose from the sequestration for federal funding in 2013.

In Home Services expenditures were relatively flat for 2013 increasing only \$285.

Social and Health Services had an expenditure increase of \$92,979. Most of the increase was in the State Family Caregiver Services contract for the purpose of serving additional caregivers. Social and Health Services expenditures were also enhanced by a grant from ALTSA to provide dental services to seniors and an increase in the grant from the University of Washington for

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the Reduce Dementia and Alzheimers Disease (RDAD) program. AAADSW also received slightly more governmental funding to continue the Chronic Disease Self Management Program, which also contributed to the increase in expenditures. Other expenditures in this area were somewhat flat.

The increase of \$93,159 to Caregiver Training, Agency Worker Health Insurance and Core Services Contract Management was primarily due to an increase in Caregiver Training pass through expenditures, stemming partly from a change in training requirements. There was also a slight increase to Core Services Contract Management expenditures.

The \$198,525 decrease to Administration/Coordination was primarily due to removing the large expenditure for computers from 2012. The decrease was slightly offset by other small increases in expenditures due to normal and anticipated operating cost increases and due to applying less of the usage of Fund Balance to Administration.

The increase of \$40,719 in Other Activities was entirely due to the expenditures derived from the new Care Coordination program that is funded by contracts with Managed Care Organizations contracted with the State to be Health Homes. This program is part of the State of Washington's approach to meet the requirements of the national Affordable Care Act.

Notes to the financial statements. The included notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Other required information. In addition to this discussion and analysis, these reports also present required supplementary information on budgetary comparisons.

Budgetary Highlights

Differences between the fund operating statement original budget and the final amended budget reflect adjustments for 2013 to incorporate changes in available funding for specific activities. Actual resources were \$549,986 (5.4%) less than the final amended budget. The difference is primarily due to lower than expected State revenues and how the usage of Fund Balance was applied. Actual expenditures were \$923,515 (9%) less than the final amended budget. Primarily the difference was due to not expending a significant portion of COG approved (and budgeted) Fund Balance expenditures and over estimation of Title XIX Case Management expenditures. There were also some fluctuations from budget in subcontracted services.

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Capital Assets

Capital assets. AAADSW's investment in capital assets as of December 31, 2013 amounts to \$31,151 (\$27,413 net of accumulated depreciation). A new capital asset was recorded in 2013. This asset was a leasehold improvement at our Kelso facility. The improvement was made to increase security. The cost of the improvement was \$18,332 and will be amortized over the remaining life of the Kelso lease which expires in 2020. Amortization will not begin until January of 2014. The other item in capital assets is the software package purchased in 2012. It is being depreciated over 72 months.

Additional information on AAADSW's Capital Assets can be found in Note 5.

Economic Factors and Next Year's Budgets and Rates

- State revenue forecasts for the 2014-15 period appear to be somewhat flat or show small increases in the General Fund, however there is some pressure at the State level to increase funding for education (the State legislature has been required by the courts to increase education funding). While there is no expectation this would happen, a potential shift in State priorities may affect funding for senior services or other long term care in the future. Therefore, while AAADSW is not expecting any major reductions or additions in State funded services, we are prepared to deal quickly with any State directed funding cuts (or increases). There is, however, a continuation of prior year's increase in funding for the State Family Caregiver Support Program (SFCSP). AAADSW is making plans to use these additional SFCSP funds to continue enhancing Respite and to increase Caregiver Assessment and Supplemental Services. Additionally there is an expectation of increased State funding in near future periods due to the State rebalancing allocations of funding to AAA's across the state as they change allocation methods (this is discussed more below). Since State revenue projections have been inconsistent (up then down etc.), AAADSW will be prepared to be flexible in case of any cuts or additional expansion of State funding. AAADSW will make every effort to assure that any cuts or expansion to services due to funding changes will be as seamless as possible to the citizens of our service area.
- The 2014 Older Americans Act (OAA) funding contract shows an increase in funding to all titles due to the return of some of the 2013 sequestered funding. There is still some sequestration effect in AAADSW's 2014 OAA budget. AAADSW anticipates the sequestration effect for its service area in 2014 and in the future to be of a reduced risk and of an amount that would not cause a serious disruption to services. AAADSW staff will continue to keep the COG informed of any Federal funding problems. If full

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sequestration returns or causes service problems in the future, AAADSW will propose solutions to the COG to protect direct services as much as possible.

- Federal funds awarded under Older Americans Act (OAA) to the State of Washington are expected to stay flat in 2014 (net of the expected return of 2013 sequestered funding) and over the next few years as Federal budget tightening continues to be a reality. However, AAADSW is expected to get increased OAA funding in steps over the next three years. The State allocates OAA funding to AAA's across Washington based on US Census information. Through 2013, the State based the allocation on the 2000 census. For 2014 contracts, the State changed the allocation formula to use the 2010 census. This change will bring more OAA funding into AAADSW's service area as the population has increased relative to other areas of the state. At this time we are anticipating a total increase of OAA funding over the three year transition period to be near \$200,000. Also because the OAA is currently in the process of being re-authorized by the US Congress, it is possible that there could be some shifting of priority within the Act that would increase funding for one component, while reducing funding for another component. There may also be changes in the types of services allowed under each section of the Act. AAADSW will be prepared to deal with any changes to the Act.
- With the implementation of the national Affordable Care Act (ACA) ongoing, the State of Washington is working to be the front runner among states in affordable global health care coverage for all residents of the state. As part of the goal to be a front runner in ACA implementation, the State is looking into converting many Medicaid services (the change is expected to affect Medical, Mental Health, Long Term Care (senior Services) and Substance Abuse services) into a capitated managed care system. AAADSW has worked diligently to be involved in the discussions about these changes and to be involved in the process of making the changes as they come. We are trying to position ourselves to protect service delivery for the special needs and vulnerable citizens of our service area under a managed care system. Towards this goal, AAADSW has continued to develop specialized services such as Care Coordination (CCO), Care Transitions (CTI), Options Counseling, Aging and Disabilities Resource Center (ADRC) services, Chronic Disease Self Management (CDSMP) and other services that would be desirable in a managed care environment. AAADSW has also reorganized its structure to better position itself to market to private health plans and in 2013 rebranded itself to more readily identify the Agency with the services being provided. To this end, during 2013 AAADSW had a successful beginning to its CCO program and has begun to put together an ADRC program that eventually will improve upon and replace the current Information and Assistance program.
- The planned change to a fully managed care system in the future potentially could have significant effects on all AAA's, including AAADSW. This new system may redefine case management services in terms of payment and how the services are provided. At this time AAADSW is not assured of having a role in the provision of Medicaid Case

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Management services after 2016. While we are not anticipating this, in the worst case scenario (from our perspective) all case management services would be provided by Managed Care Organizations (MCO or Health Plan). In this situation, AAADSW could lose up to 60% of its' total funding. In addition, AAADSW would not be as effective in its ability to advocate for these vulnerable clients receiving Case Management services. There is no guarantee that in a fully capitated system that there would be any advocacy for these clients, who are generally unable to effectively advocate on their own behalf. To partially protect ourselves from this potential severe loss of funding, AAADSW is diligently working on a resource development process and has invested in staff to pursue private funding and direct Federal grant opportunities.

- Employment in Washington State continues to improve, appearing to be even with national employment rates. However some of AAADSW's service area continues to have one of the highest unemployment rates in the state. There is an expectation that in future years this trend will reverse and the counties in SW Washington will return to a more normal employment pattern.
- The overall economic picture of SW Washington continues to improve and appears to be picking up some momentum. It yet may be somewhat weak over the next one to two years. This may affect State funding in future years.

Since almost 100% of AAADSW's revenues are State or Federal sources, AAADSW's governing board members (COG) and management will consider these factors in preparing AAADSW's budget for future years.

Requests for Information

This financial report is designed to provide a general overview of the Area Agency on Aging and Disabilities of Southwest Washington's fiscal status for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Fiscal Manager, 201 NE 73rd St. Suite 201, Vancouver WA, 98665. Additional information about AAADSW and the services it provides can be found on our web site, www.HelpingElders.org.

Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
Governmental Funds Balance Sheet/Statement of Net Position
As of December 31, 2013

| ASSETS | Governmental Funds Balance Sheet | Adjustments | Statement of Net Position |
|---|---|-----------------------|--------------------------------------|
| Cash and Equivalents | \$ 1,328,972.24 | | \$ 1,328,972.24 |
| Investments - State of Washington Pool | 1,944,200.84 | | 1,944,200.84 |
| Cash and Equivalents - Net | 3,273,173.08 | - | 3,273,173.08 |
| Accounts Receivable - Due From Other Governments | 1,157,194.32 | | 1,157,194.32 |
| Accounts Receivable - Other | 49,852.15 | | 49,852.15 |
| Accounts Receivable - Net | 1,207,046.47 | - | 1,207,046.47 |
| Prepaid Expenses | 20,795.50 | | 20,795.50 |
| Capital Assets (Net of Accum Dep) | | | |
| Computer Software | | 9,080.42 | 9,080.42 |
| Leasehold Improvement | | 18,332.32 | 18,332.32 |
| Net Capital Assets | - | 27,412.74 | 27,412.74 |
| Total Assets | 4,501,015.05 | 27,412.74 | 4,528,427.79 |
| LIABILITIES | | | |
| Accounts Payable | 409,980.87 | | 409,980.87 |
| Payroll Payable | 120,112.44 | | 120,112.44 |
| Grant Payable | 2,075.72 | | 2,075.72 |
| Accrued Expense | 1,710.00 | | 1,710.00 |
| Due to Other Governmental Units | | | |
| DSHS Advance | 1,567,893.00 | | 1,567,893.00 |
| Non Current Liabilities | | | |
| Due in more than One Year | | | |
| Accrued Vacation Liability | | 204,722.95 | 204,722.95 |
| Total Liabilities | 2,101,772.03 | 204,722.95 | 2,306,494.98 |
| FUND BALANCES/NET POSITION | | | |
| Fund Balances | | | |
| Nonspendable | | | |
| Prepaid Expense | 20,795.50 | (20,795.50) | - |
| Unrestricted | 6,474.85 | (6,474.85) | - |
| Restricted For | | | |
| TXIX Medicaid/Aging Network | 2,339,671.67 | (2,339,671.67) | - |
| Clark County Respite (SWOBODA Fund) | 32,301.00 | (32,301.00) | - |
| Total Fund Balances | 2,399,243.02 | (2,399,243.02) | - |
| Total Liabilities and Fund Balance | 4,501,015.05 | | |
| NET POSITION | | | |
| Investment in Capital Assets | | 27,412.74 | 27,412.74 |
| Restricted For | | | |
| TXIX Medicaid/Aging Network | | 2,155,744.22 | 2,155,744.22 |
| Clark County Respite (SWOBODA) | | 32,301.00 | 32,301.00 |
| Unassigned | | 6,474.85 | 6,474.85 |
| Total Net Position | | 2,221,932.81 | 2,221,932.81 |

Refer to the Notes on Financial Statements for more information

Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
Statement of Governmental Revenues, Expenditures and Changes in
Fund Balances/Statement of Activities
For the Year Ended December 31, 2013

| | General Fund | Adjustments | Statement of Activities |
|---|---------------------|---------------------|----------------------------|
| Expenditures | | | |
| Current | | | |
| Administration | 352,412.89 | 25,619.06 | 378,031.95 |
| Coordination | 250,379.14 | | 250,379.14 |
| Legal Services | 81,000.00 | | 81,000.00 |
| Transportation | 221,160.00 | | 221,160.00 |
| Information and Assistance | 438,338.03 | | 438,338.03 |
| ADRC | 45,055.59 | | 45,055.59 |
| Personal Care | 76,436.81 | | 76,436.81 |
| Case Management | 5,199,324.15 | | 5,199,324.15 |
| Core Services Contract Management | 195,253.24 | | 195,253.24 |
| Nursing Services | 2,917.82 | | 2,917.82 |
| Family Caregiver Support | 454,662.21 | | 454,662.21 |
| Services to Grandparents | 19,466.00 | | 19,466.00 |
| Kinship Caregiver | 70,678.30 | | 70,678.30 |
| Kinship Navigator | 79,517.00 | | 79,517.00 |
| Respite Services | 438,082.18 | | 438,082.18 |
| Nutrition | 792,484.93 | | 792,484.93 |
| Care Coordination | 49,898.70 | | 49,898.70 |
| Senior Drug Ed | 17,514.91 | | 17,514.91 |
| Disease Prevention/Health Promotic | 49,048.39 | | 49,048.39 |
| Senior Dental Services | 15,550.31 | | 15,550.31 |
| Chronic Disease Self Management | 18,429.88 | | 18,429.88 |
| Long Term Care Ombudsman | 117,643.40 | | 117,643.40 |
| Reduce Disability in Alzheimers | 11,445.21 | | 11,445.21 |
| Caregiver Training | 207,468.32 | | 207,468.32 |
| Agency Workers Insurance | 64,034.94 | | 64,034.94 |
| Depreciation | - | 2,136.48 | 2,136.48 |
| Capital Outlay | 18,332.32 | (18,332.32) | - |
| Total Expenditures | 9,286,534.67 | 9,423.22 | 9,295,957.89 |
| Program Revenues | | | |
| Operating Grants | 9,641,249.94 | - | 9,641,249.94 |
| Net Program Expense | | | 345,292.05 |
| General Revenue | | | |
| Local Funds and Miscellaneous | 18,814.40 | - | 18,814.40 |
| Total General Revenues | 18,814.40 | - | 18,814.40 |
| Excess/(Deficiency) of Revenue over Expenditures | 373,529.67 | (9,423.22) | 364,106.45 |
| Fund Balances/Net Position | | | |
| Beginning of Year | 1,930,333.18 | (167,886.99) | 1,762,446.19 |
| Prior Year Adjustment | 95,380.17 | | 95,380.17 |
| End of Year | 2,399,243.02 | (177,310.21) | 2,221,932.81 |

Refer to Notes on Financial Statements for more information

Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
Notes to Financial Statements
January 1, 2013 through December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Area Agency on Aging and Disabilities of Southwest Washington (AAADSW) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

AAADSW was assigned a Federal Tax ID number July of 2008 and operates under the laws of the State of Washington applicable to a Municipal Corporation. A Council of Governments (COG) was established and an interlocal agreement was signed in October of 2008 establishing AAADSW's governing body. AAADSW began operations as a standalone Area Agency on Aging (AAA-were established in all states by the Older Americans Act) on January 1, 2009. The primary function of AAADSW is to serve as the Southwest Area Agency on Aging (AAA) for the State of Washington. The activities promulgated under the AAA provide for most of the funding for AAADSW.

In 2013 management made the decision to change the name that the agency was operating under to more align the name with the services that the agency provides. Prior to 2013 the agency was known as Southwest Washington Agency on Aging and Disabilities or SWAAD. Beginning January 2013 the agency operates under the name Area Agency on Aging and Disabilities of Southwest Washington or AAADSW and is referred as such throughout this document. The agency's legal name, The Southwest Washington Council of Governments on Aging and Disabilities, has not changed.

AAADSW is a special purpose government and provides direct service for the following: Case Management; Aging and Disabilities Resource Center (ADRC-includes services of Options Counseling, DUALS Options Counseling, Care Transitions, MIPPA and In Person Assister); Information & Assistance (in the future this will be part of ADRC); Health Home/Care Coordination; Family Caregiver Access, Support, Supplemental, Assessment and Coordination Services; DDD Nursing; Disease Prevention/Health Promotion Services, Chronic Disease Self Management Services; Long Term Care Ombudsman and Kinship Caregiver Services. AAADSW also provides funding to other agencies for the following services: Senior Information and Assistance; Senior Transportation; Case Management; Nutrition; Adult Day Care; Legal Services; Senior Personal Care; Respite Care; Services to Grandparents; Senior Oral Health; Kinship Caregiver and Kinship Navigator. AAADSW may also be involved in and receive funding for research projects relating to the aged and/or disabled.

AAADSW's service area covers counties in Southwest Washington; Clark, Skamania, Cowlitz, Klickitat and Wahkiakum. AAADSW is governed by a council made up of five elected officials (currently County Commissioners), one from each member county.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

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, segment or program. Our policy is to allocate indirect costs to a specific function or segment. AAADSW has a State approved cost allocation plan that governs this practice. 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, segment or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function segment or program. Other items not properly included among program revenues are reported instead as general revenues.

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 full accrual basis of accounting.

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, AAADSW considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are only recognized as they come

due for payment. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Interest associated within the current period is considered to be susceptible to accrual, so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by AAADSW.

AAADSW reports the following major governmental funds:

The general (or current expense) fund is AAADSW's operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

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.

When both restricted and unrestricted resources are available for use, it is AAADSW's policy to use restricted resources first, then unrestricted resources as needed.

D. Budgetary Information

Scope of Budget

AAADSW prepares four agency-wide budgets annually: the Area Plan (AP) which budgets all activities on a calendar year and is non-contractual; the State/Federal (SF) budget which is on the state fiscal year (July-June) and is contractual; the Older Americans Act (OAA) budget which is on a calendar year and is contractual; and an internal operations budget (IOB). All budgets are prepared on the modified accrual basis. Other small program budgets may be prepared for small funding opportunities that come from government, private foundations or other entities. The AP, SF and OAA budgets, as well as any small budgets, would be adopted when incorporated into AAADSW's overall Internal Operation Budget and approved by the COG.

The AAA's budget requirements (for AP, SF, OAA budgets) are mandated by Aging & Long Term Services Administration (AL TSA) a division of the Washington State Department of Social and Health Services (DSHS). Any of these budgets, as adopted, constitutes the legal authority for expenditures. Transfers or revisions are generally allowed up to 10 percent of the total budget, but supplemental or additional appropriations must be approved by AL TSA. Most appropriations lapse at the end of the State of Washington biennium. The primary exception is OAA funds that have a fiscal year that ends on December 31st. Up to 10% of OAA funds can be carried over into the subsequent year. Title XIX and State funded program appropriations cannot be carried over.

Amending the Budget

The Fiscal Manager or Executive Director is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures 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 COG.

When AAADSW determines that it is in the best interest of the Agency to increase or decrease the appropriation for a particular source of funds, it may do so by resolution approved by one more than the majority of the COG after holding a public hearing.

The budget amounts shown in the financial statements represent AAADSW's original 2013 operating budget and the final budget for 2013 approved by the COG.

Excess of Expenditures Over Appropriations

AAADSW may over expend appropriations in those instances when no specific funding limit is identified by the funding agency. In these cases, services which have been appropriately authorized are considered to be eligible for payment and revenue is available to pay for the service.

E. Encumbrances

AAADSW does not employ encumbrance accounting.

F. Assets, Liabilities, and Fund Equity

1. Cash and Cash Equivalents

At December 31, 2013, the Cowlitz County Treasurer's office was holding \$1,228,684 in ready cash belonging to AAADSW. This amount is classified on the Balance Sheet/Statement of Net Position as cash and cash equivalents. AAADSW deposits all funding received to this account. There is no interest earned on these amounts. AAADSW has no cash equivalents.

AAADSW considers these deposits to all be highly liquid (including restricted assets).

Beginning in September of 2012 AAADSW established a banking relationship with US Bank in Vancouver, WA. The relationship consists of two "imprest" bank accounts (one for Payroll, one for Accounts Payable) that were opened with a deposit of \$100 each. As of 12/31/13 these two accounts held total balances of \$99,965 and \$324 for the Accounts Payable and Payroll accounts respectively (it is AAADSW's policy to hold \$100,000 in the AP account and \$100 in the payroll account, the difference in the actual balance is due to outstanding items), this amount is included under cash and cash equivalents on the Balance Sheet/Statement of Net Position. The purpose of these accounts is so AAADSW could begin, in January of 2013, to process its own payroll and other expenditures. Formerly, Cowlitz County provided these functions. AAADSW cannot and will not deposit to these "imprest" bank accounts, all deposits come electronically from Cowlitz County out of AAADSWs cash account held by the Cowlitz County Treasurer's office. There is no interest earned on these accounts.

2. Investments (See Note 4 – Deposits and Investments)

It is AAADSW's policy to invest all temporary cash surpluses with the amount held in the investment account equal to the prior year's Fund Balance plus interest earned. As of December 31, 2013, the Cowlitz County Treasurer was holding \$1,944,201 in short term residual investments of surplus cash. This amount is classified on the balance sheet as Investments and is valued at fair value. Earnings on investments are credited to the General Fund and may be restricted for use depending on the source of the investment. All interest currently being earned on AAADSW investments is restricted however, as detailed in the Management Discussion portion of this report. The restriction is satisfied for any use of these earnings towards AAADSW's basic core services that are funded by ALTSA. AAADSW keeps the balance in this account at the

amount of the prior year end Fund Balance, plus interest, unless it is needed for operational purposes (see discussion of Fund Balance in #9).

It is the policy of the Cowlitz County Treasurer to invest public funds in accordance with all federal, state, and local governing statutes. The Treasurer will invest public funds in a manner which will provide maximum safety of principal, ensure adequate liquidity, and achieve the highest return within these parameters.

AAADSW holds no other investments.

3. Receivables

Accounts receivable consist predominantly of amounts to be received from other governmental units. For 2013, AAADSW had some small non-governmental accounts receivable with the largest single amount being \$19,885. This receivable is due and payable from managed care companies for services provided as a result of Care Coordination Organization contracts for services that AAADSW provided beginning in August of 2013. One hundred percent of this amount was collected in subsequent months, however AAADSW realizes that, since these insurance companies are private entities and the services provided are on a fee for services basis, it may be possible that uncollectable amounts will arise in the receivables. AAADSW will watch these receivables closely and if it is deemed necessary, an account to accumulate an allowance for uncollectable receivables will be established.

In the future AAADSW could have additional receivables that consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared.

4. Prepaid Expenses

AAADSW accounts for prepaid expenses (facility rent) using the consumption method. The purchase is reported as an asset and the recognition of the expenditure is deferred until the period in which the expense is actually incurred. All prepaid items at 12/31/13 were cleared by 1/31/14.

5. Amounts Due to and from Other Governmental Units

Amounts due to and from other governmental units represents funds due to the State of Washington Department of Social and Health Services (DSHS), for a two-month working capital advance of service dollars. Additional funds may be requested or the State may request a return of some or all of the funds, on an annual basis, with the submittal of Documentation of Funds as required by DSHS Office of Accounting Services. During 2013 AAADSW was asked to return \$48,874 to DSHS. The balance of this liability after 2013 activity was \$1,567,893 at 12/31/13.

6. Capital Assets (See Note 5 – Capital Assets and Depreciation)

Capital Assets are defined by AAADSW as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All capital assets are valued at historical cost.

For 2013, AAADSW had no new non facility capital assets recorded. AAADSW uses straight line depreciation when it depreciates capital assets.

In 2013, a facility upgrade was completed at our Kelso office. Costs for additions or improvements to leased facilities are capitalized when they increase the effectiveness or efficiency of the asset. As the upgrade increased the effectiveness of the facility, the cost of the upgrade was capitalized and will be amortized over the remaining life of that lease. The cost of normal maintenance and repairs are not capitalized.

If AAADSW acquired certain assets, spending \$5000 or more, with funding provided directly by Federal financial assistance programs,

depending on the terms of the agreements involved, the Federal government could retain an equity interest in these assets. AAADSW currently holds no capital assets purchased with Federal funds.

7. Compensated Absences

Compensated absences (Accrued Vacation Liability on Financial Statements) are absences for which employees will be paid, such as vacation. All vacation is expensed when paid in the governmental fund financial statements.

AAADSW records all accumulated unused vacation leave. Vacation leave may be accumulated up to 240 hours per employee. Outstanding vacation accrual is payable upon retirement, death, or termination of service. The liability for accrued vacation is listed on the Statement of Net Position. A schedule showing activity between 2012 and 2013 is provided below.

| Compensated Absence | Dec. 31 2012 Balance | Dec. 31, 2013 Balance | Net Increase/(Decrease) |
|----------------------------------|---------------------------------|----------------------------------|------------------------------------|
| Accrued Vacation Liability | \$179,103.89 | \$204,722.95 | \$25,619.06 |

8. Other Accrued Liabilities

Other accrued liabilities include accounts that consist of accrued wages, accrued employee benefits, or private grants that may require unspent portions to be returned.

9. Fund Balance

The total fund balance at 12/31/13 of \$2,399,243 represents resources that are available to spend subject to restrictions on how they may be used. \$32,301 is restricted by the SWOBODA donation. The SWOBODA funding is restricted for use to assist individuals with Alzheimer's disease or dementia, whom reside in Clark or Skamania Counties, to receive caregiver respite services. There is also a portion of the Fund balance that is non-spendable. The non-spendable portion, in the amount of \$20,795, represents prepaid expenditures from 12/31/13 which were authorized for release in January 2014. The remainder of the fund balance in the amount of \$2,346,147 is composed of restricted and non-restricted amounts.

The restricted portion of \$2,339,572 is considered restricted by the nature of AAADSW's contract with ALTSA. This contract requires any Fund Balance derived from services provided under the contract can only be used for services or support of services that are allowed under the terms of the contract.

The unrestricted portion in the amount of \$6,475 was derived from three small contracts to provide services related to the national Affordable Care Act. There were no restrictions in the grants for returning unused funding, or for the use of any unspent funds.

ALTSA is allowing for the use of the restricted portion Fund Balance to cover funding shortfalls for Care Coordination or other services related to the implementation of the national Affordable Care Act in the State of Washington.

The COG board has adopted a Fund Balance policy that allows AAADSW to hold a maximum Fund Balance in an amount equal of 25% of annual Internal Operation Budget (net of any Fund Balance use included in the budget). For 2013 the limit is \$2,488,351. The actual 2013 Fund Balance is just under that amount at \$2,399,243. In the policy, the COG also applied additional restrictions to the use of the Fund Balance, \$200,000 for Accrued Vacation Payable (2013 records show that the accrual was actually larger than the \$200,000 limit, there was no issue of an over expenditure of an appropriation however, as none of these funds were used during 2013). The policy also specifies how to access the Fund Balance for current period use and how the Fund Balance is replenished.

Once restrictions are satisfied, both ALTSA's and the COG (or other restrictions from other sources , if any), all these amounts are readily available for spending on appropriate services to the citizens in AAADSW's service area.

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

Items not recorded in the governmental fund balance sheet:

| | |
|--------------------------------------|-----------|
| Compensated absences | \$204,723 |
| Capital Assets (net of depreciation) | \$ 27,413 |

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

| | |
|---|-------------|
| General Fund Expenditures | \$9,286,535 |
| Plus change to accrual for compensated absences | \$ 25,619 |
| Less Capital Assets (net of depreciation expense \$2,136) | (\$ 16,196) |
| Government Wide Activities | \$9,295,958 |

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 4 – DEPOSITS AND INVESTMENTS

DEPOSITS

AAADSW's deposits are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The Cowlitz County Treasurer's Office holds all deposits for AAADSW, except those imprest at US Bank to pay specific authorized expenditures. Deposits held at US Bank are fully insured up to the FDIC limit.

INVESTMENTS

As required by State law, all investments of AAADSW's funds (except as noted below) are obligations of the U.S. Government, U.S. Agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington state banks. All temporary investments are stated at Note 1(F)(2): Summary of Significant Accounting Policies, Assets, Liabilities, and Fund Equity, Investments.

AAADSW investments at 12/31/13 are shown in the following chart.

| | <u>Carrying Amount</u> | <u>Fair Value</u> |
|-----------------------------------|----------------------------|-----------------------|
| Investment in State of Washington | | |
| Local Investment Pool | \$1,944,201 | \$1,944,201 |
| Total Investments | \$1,944,201 | \$1,944,201 |

AAADSW has no policy related to custodial credit risk; however, all deposits and investments are insured or collateralized with securities held by the entity or by the agent in the AAADSW's name. The Washington State Treasurer's Office Local Government Investment Pool is classified as a 2(a) 7 investment pool, and therefore the AAADSW states the fair value of its investment in the pool based upon the share price of the pool. The AAADSW considers the amount invested in the Washington State Local Government Investment Pool to be liquid investments, and as such a cash equivalent. The LGIP is an unrated external investment pool.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

If AAADSW acquired certain assets with funding provided by federal financial assistance programs, depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. AAADSW currently has no assets that would be affected by this rule.

Capital Assets

Capital assets are long-lived assets of AAADSW as a whole. When purchased, leased, or constructed, such assets are recorded as expenditures in the governmental funds and capitalized as capital assets on the Statement of Net Position. All purchased capital assets would be valued at historical cost.

AAADSW has no capital assets that are infrastructure assets (such as roads, bridges, curbs, and sidewalks).

Capital assets activity for the year ended December 31, 2013 was as follows:

| | |
|---|----------|
| Capital Assets – 12/31/12 | \$12,819 |
| Added in 2013 – Leasehold Improvement – Construction Cost | \$18,332 |
| Capital Assets - 12/31/13 - At Cost | \$31,151 |
| 2013 Depreciation Expense | \$ 3,739 |
| Depreciated Value of Capital Assets at 12/31/13 | \$27,412 |

Depreciable Assets

AAADSW had depreciable assets in 2013. Depreciate capital assets are not recorded in governmental funds. AAADSW uses straight-line depreciation calculations for presentation purposes and accumulated depreciation (or amortization) would be recorded in capital assets recorded on the Balance Sheet using the following estimated useful lives:

| Asset | Useful Life |
|--------------------------|--------------------------------|
| Computer Hardware | 4 years |
| Computer Software | 6 years |
| Office Equipment | 5 years |
| Communications Equipment | 7 years |
| Leasehold Improvement | Length of lease up to 10 years |

NOTE 6 – PENSION PLANS

Substantially all AAADSW 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 GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 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.

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 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 2013, 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, in lieu of any retirement benefit, 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 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, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. Members who do not choose a contribution rate default to a 5 percent rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 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, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

| | |
|--|----------------|
| Retirees and Beneficiaries Receiving Benefits | 82,242 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 30,515 |
| Active Plan Members Vested | 106,317 |
| Active Plan Members Nonvested | 44,273 |
| Total | 263,347 |

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.

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, 2013, are as follows:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|-----------|-------------|-------------|-------------|
| Employer* | 9.21%** | 9.21%** | 9.21%*** |
| Employee | 6.00%**** | 4.92%**** | ***** |

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% for Plan 2.

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

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

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|------|-------------|-------------|-------------|
| 2013 | \$8,759 | \$287,106 | \$34,187 |
| 2012 | \$7,853 | \$139,400 | \$29,308 |
| 2011 | \$9,053 | \$177,110 | \$30,359 |

NOTE 7 – RISK MANAGEMENT

AAADSW maintains insurance against most hazards.

The Area Agency on Aging and Disabilities of Southwest Washington is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to

fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss; \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

During 2013 there was a claim filed and paid out relating to employment practices. This claim was settled and no further risk is associated with the claim.

NOTE 8 – LEASES

Operating Leases

Facilities:

AAADSW rents office space in four locations under operating leases. The Vancouver lease has a five year term, expiring 9/30/14 (with potential for a five year extension at AAADSW's request). The Kelso lease is a ten year lease expiring on 2/28/20 (there is a potential option for two five year extensions at AAADSW's request). The Stevenson lease was for one year and expires in 2014, however it is renewable annually and there is some expectation it will continue in the future. The fourth site is in Wahkiakum County and is currently a month to month arrangement (this expenditure is not included in the chart below). AAADSW may also rent short term space for meeting or trainings.

Total actual facility rental/lease costs for the year ended December 31, 2013 were \$201,119.

Future obligations through the end of current lease terms are as follows. The lease for the Kelso office is for 10 years, expiring in 2020, with payments going up 3.5% per year. For Vancouver, the building lease expires in September of 2014. Estimated costs are based on current leases and are included below through 2020. The Stevenson office is on an annual rental agreement that may or may not be renewed annually; therefore costs for that site are not listed here.

| Year | Vancouver | Kelso | Total |
|-------------|-------------------|-----------|-----------|
| 2014 | \$104,725-Partial | \$58,532 | \$163,257 |
| 2015 | | \$60,581 | \$ 60,581 |
| 2016 | | \$62,701 | \$ 62,701 |
| 2017 | | \$64,896 | \$ 64,896 |
| 2018 | | \$67,167 | \$67,167 |
| 2019 & 2020 | | \$135,281 | \$135,281 |
| Total | \$104,725 | \$449,158 | \$553,883 |

Equipment:

AAADSW has outstanding leases for some its office equipment. These leases are all treated as rentals and therefore not capitalized. AAADSW's equipment replacement plan is for computers to be replaced with cash from Fund Balance, which was done during 2012 (and are scheduled to be replaced again in 2016). Total actual equipment lease/rental costs for 2013 were \$24,459.

All current leases are set to expire in early 2016. There is every anticipation that these expiring leases for equipment will be renewed with new equipment but costs are unknown at this time.

Below are the anticipated obligations over time for equipment leases:

| Year | Computers | Copiers & Other | Total |
|-------|-----------|-----------------|----------|
| 2014 | 0 | \$23,452 | \$23,452 |
| 2015 | 0 | \$10,675 | \$10,675 |
| 2016 | 0 | \$1,525 | \$ 1,525 |
| 2017 | 0 | | |
| Total | | \$35,652 | \$35,652 |

NOTE 9 – CHANGES IN DSHS ADVANCE

AAADSW carries a short-term liability on its books that represents an advance against future expenditures and is funded by DSHS. The advance is meant to cover two months of expenditures in the event of any future cash flow issues. This payable may increase or decrease if AAADSW's average monthly expenditures increase or decrease. DSHS does an annual assessment of the advance amount to determine its' appropriateness. In the case of any decrease, AAADSW will return funds to the State in the manner and timeline required. During 2013, AAADSW repaid a portion of the advance. The net change to the liability during the year was a \$48,874 reduction for a 12/31/13 balance of \$1,567,893.

NOTE 10 – PRIOR YEAR ADJUSTMENT

Noted on AAADSW's 2013 Financial Statements is a line item for Prior Year Adjustment. It has been determined that in prior years AAADSW has over expensed Employee insurance benefit cost and the current year was under expensed therefore an entry was required to adjust the cost to the correct amount. It was also discovered that employee benefit accrual accounts were out of balance due to a timing error. The problem was corrected by Increasing Employee benefits cost by \$36,257 and adjusting liability accounts by \$59,123 for a total prior year adjustment of \$95,380.

NOTE 11 – CONTINGENCIES AND LITIGATION

AAADSW's financial statements include all material liabilities. There are no material contingent liabilities to record.

AAADSW participates in a number of federal-and state-grant programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. AAADSW management believes that such disallowances, if any, will be immaterial.

Area Agency on Aging and Disabilities of Southwest Washington
 (Formerly known as Southwest Washington Agency on Aging and Disabilities)
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
 January 1, 2013 Through December 31, 2013

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------------------------|--|
| | Original | Final | | |
| Budgetary Fund Balance, January 1 | | | 1,930,333 | 1,930,333 |
| Resources (Inflows) | | | | |
| Older Americans Act | 1,840,663 | 1,638,789 | 1,585,811 | (52,978) |
| Title XIX | 5,948,917 | 5,905,893 | 5,898,475 | (7,418) |
| Other Federal | 156,910 | 140,706 | 151,722 | 11,016 |
| State Funding | 1,979,415 | 2,071,134 | 1,958,023 | (113,111) |
| Care Coordination | - | 57,136 | 19,885 | (37,251) |
| Misc Grants | 17,000 | 30,742 | 27,332 | (3,410) |
| Other | 150,000 | 365,650 | 18,814 | (346,836) |
| Amounts Available for Appropriation | 10,092,905 | 10,210,050 | 9,660,064 | (549,986) |
| Charges to Appropriations (Outflows) | | | | |
| Social Services: | | | | |
| Access Services | | | | |
| Legal Services | 81,000 | 81,000 | 81,000 | - |
| Transportation | 254,000 | 257,146 | 221,160 | 35,986 |
| Information and Assistance | 480,758 | 466,800 | 438,338 | 28,462 |
| ADRC | - | 37,984 | 45,056 | (7,072) |
| Case Management | 5,957,458 | 5,844,699 | 5,199,324 | 645,375 |
| DDD Nursing Services | 9,086 | 5,913 | 2,918 | 2,995 |
| Sub Total Access Services | 6,782,302 | 6,693,542 | 5,987,796 | 705,746 |
| | | | | - |
| In Home Services | | | | |
| Personal Care | 81,446 | 96,203 | 76,437 | 19,766 |
| Sub Total In Home Services | 81,446 | 96,203 | 76,437 | 19,766 |
| | | | | - |
| Nutrition Services | | | | |
| Nutrition Services | 925,670 | 923,871 | 792,485 | 131,386 |
| Subtotal Nutrition Services | 925,670 | 923,871 | 792,485 | 131,386 |
| | | | | - |
| Social & Health Services | | | | |
| Family Caregiver Support | 372,296 | 495,734 | 454,662 | 41,072 |
| Respite Services | 490,799 | 443,480 | 438,082 | 5,398 |
| Services to Grandparents | 19,602 | 19,602 | 19,466 | 136 |
| Reduce Disability in Alzheimers | 13,500 | 13,500 | 11,445 | 2,055 |
| Kinship Caregiver | 81,793 | 77,291 | 70,678 | 6,613 |
| Kinship Navigator | 76,307 | 69,812 | 79,517 | (9,705) |
| Senior Dental Program | 26,682 | 21,346 | 15,550 | 5,796 |
| Chronic Disease Self Management | 19,800 | 11,264 | 18,430 | (7,166) |
| Senior Drug Ed | 12,535 | 14,244 | 17,515 | (3,271) |
| Disease Prevention/Health Promotion | 51,134 | 57,871 | 49,048 | 8,823 |
| Long Term Care Ombudsman | 121,942 | 123,940 | 117,643 | 6,297 |
| Subtotal Social & Health Services | 1,286,390 | 1,348,084 | 1,292,038 | 56,046 |
| | | | | - |
| Other Activities | | | | |
| Caregiver Training | 150,000 | 175,000 | 207,468 | (32,468) |
| Agency Workers Insurance | 65,000 | 65,000 | 64,035 | 965 |
| Care Coordinaton | - | 57,136 | 49,899 | 7,237 |
| Core Services Contract Management | 154,556 | 176,235 | 195,253 | (19,018) |
| Coordination | 236,060 | 283,547 | 250,379 | 33,168 |
| Administration | 411,481 | 391,432 | 352,413 | 39,019 |
| Capital Outlay | - | - | 18,332 | (18,332) |
| Sub Total Other Activities | 1,017,097 | 1,148,350 | 1,137,780 | 10,570 |
| Total Charges to Appropriations | 10,092,905 | 10,210,050 | 9,286,535 | 923,515 |
| Prior Year Adjustment | | | 95,380 | |
| Budgetary Fund Balance, December 31 | - | - | 2,399,243 | 373,530 |

Refer to Notes on Financial Statements for more information

Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)

Schedule of Federal Awards

For the Year Ended December 31, 2013

| Federal Agency Name/Pass-Through Agency Name | Program Name | CFDA Number | Other I.D. Number | Expenditures | | | Footnote Ref. |
|--|--|-------------|--|------------------------------|--------------------|-----------------|--------------------|
| | | | | From Pass-Through Awards | From Direct Awards | Total | |
| Food and Nutrition Service, Department of Agriculture | Senior Farmers Market Nutrition Program | 10.576 | 1369-78321-2 | \$ 14,940.00 | | \$ 14,940.00 | 12e,13,14 |
| Department of Health and Human Services/pass through from WA DSHS | Special Programs for the Aging - Title IV and Title II Discretionary Projects. | 93.048 | 1369-78486-1 | \$ 5,651.84 | | \$ 5,651.84 | 8,14 |
| Department of Health and Human Services/pass through from WA DSHS | Affordable Care Act Implementation Support for State Demonstration to Integrate Care for Medicare-Medicaid Enrollees | 93.628 | 1369-78321-2 | \$ 3,870.00 | | \$ 3,870.00 | 9,14 |
| Department of Health and Human Services/pass through from WA DSHS | Empowering Older Adults and Adults with Disabilities through Chronic Disease Self Management Education Programs | 93.734 | 1269-63912-2 | \$ 20,297.28 | | \$ 20,297.28 | 10,12h,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Special Programs for the Aging-Title VII, Chapter 3 - Prevention of Elder Abuse, Neglect, and Exploitation | 93.041 | 1369-64734-1 21131006 | 6,170.30 | | \$ 6,170.30 | 6,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services | 93.043 | 1369-64734-1 21131006 | 26,780.83 | | \$ 26,780.83 | 12c,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers | 93.044 | 1369-64734-1 21131006 1369-64734-1 21131006 | 620,678.68 35,975.36 | | \$ 656,654.04 | 12a,14 7,12a,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Special Programs for the Aging-Title III, Part C - Nutrition Services | 93.045 | 1369-64734-1 21131006 | 672,276.56 | | \$ 672,276.56 | 12b,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | National Family Caregiver Support, Title III, Part E | 93.052 | 1369-64734-1 21131006 | 203,632.38 | | \$ 203,632.38 | 12d,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Affordable Care Act-Medicare Improvements for Patients & Providers | 93.518 | 1369-92781 | 90.59 | | \$ 90.59 | 5,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Nutrition Services Incentive Program | 93.053 | 1369-64734-1 21131006 | 127,170.01 | | \$ 127,170.01 | 3, 12f,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Money Follows the Person Rebalancing Demonstration | 93.791 | 1169-29507-4 21120063 1369-78321-2 | 9,869.20 10,296.80 | | \$ 20,166.00 | 11,14 |
| U.S. Department of Health and Human Services/pass-through from WA DSHS | Medical Assistance Program | 93.778 | 1169-29507-4 21120063 1369-78321-2 | 1,442,343.21 1,486,728.53 | | \$2,929,071.74 | 4,12g,14 |
| Total Federal Financial Assistance | | | | \$ 4,686,771.57 | \$ - | \$ 4,686,771.57 | |

The accompanying Notes to Schedule of Expenditures of Federal Awards is an integral part of this statement.

Area Agency on Aging and Disabilities of Southwest Washington
(Formerly known as Southwest Washington Agency on Aging and Disabilities)
Notes to Schedule of Expenditures of Federal Awards
January 1, 2013 through December 31, 2013

NOTE 1 – BASIS OF ACCOUNTING

The schedule is prepared on the same basis of accounting as the Area Agency on Aging and Disabilities of Southwest Washington's (AAADSW's) financial statements. AAADSW uses the modified accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the Federal portion of the program costs. Entire program costs, including AAADSW's portion, may be more than shown.

NOTE 3 – NUTRITION SERVICES INCENTIVE PROGRAM

Nutrition Services Incentive Program (NSIP) funds are awarded to the State of Washington, and subsequently to AAADSW, based upon the number of USDA-eligible meals provided during the previous federal fiscal year. NSIP funds are awarded to subcontractors each month for the proportion of USDA-eligible meals provided by each subcontractor during the previous month.

NOTE 4 – TITLE XIX

Specific awards are identified for expenditures incurred for Core Services Contract Management, Nursing Services and Case Management costs under these contracts.

NOTE 5 – MEDICARE IMPROVEMENTS FOR PATIENTS & PROVIDERS ACT

The Medicare Improvements for Patients & Providers Act (MIPPA) contract was reestablished in late 2013. Services provided from this source of funds (indirectly from the State of Washington by the US Department of Health and Human Services), began again in December of 2013 and will expire in September of 2014. The purpose of the program was to help seniors, individuals with disabilities and their caregivers apply for special assistance from Medicare.

NOTE 6 – TITLE VII CHAPTER 3 – PREVENTION OF ELDER ABUSE

Prevention of Elder Abuse funding supports the Long term Care Ombudsman Program (LTCOP). The regional Ombudsman office located within AAADSW provides staff and volunteers to make site visits to residential facilities like nursing homes or assisted living centers to assure the residents have an advocate if there are safety or care concerns.

NOTE 7 – TITLE III PART B – AGING AND DISABILITY RESOURCE CENTER (ADRC) AND DENTAL SERVICES

Special Title III B administrative dollars were granted to AAADSW for an ADRC program and Senior Dental Services. The overall goal of the funding is to assist seniors in attaining dental services they cannot get elsewhere and to help develop an ADRC program.

NOTE 8 – SPECIAL PROGRAMS FOR THE AGING - TITLE II AND TITLE IV – ENHANCED OPTIONS COUNSELING

Special funding was granted to AAADSW to develop an ADRC program by specifically funding an Enhanced Options Counseling service. Enhanced Options Counseling Services are provided to assist clients in making choices for insurance coverage under the State of Washington's implementation on the national Affordable Care Act.

NOTE 9 – AFFORDABLE CARE ACT IMPLEMENTATION – SUPPORT STATE DEMONSTRATION – INTEGRATION OF CARE FOR MEDICARE/MEDICAIDE ENROLLEES

Funding from the Affordable Care Act passed through the State of Washington to AAADSW is used to operate a program that offers Enhanced Counseling services (defined in note 8) to those clients that are enrolled in both Medicare and Medicaid. This service is part of the larger ADRC program.

NOTE 10 – EMPOWERING OLDER ADULTS AND ADULTS WITH DISABILITIES THROUGH CHRONIC DISEASE SELF MANAGEMENT (CDSMP)

AAADSW received new funding to continue the CDSMP. This program has the overall goal of assisting seniors and adults with disabilities to learn to take their medication consistently with the goal of reducing hospital admissions.

NOTE 11 – MONEY FOLLOWS THE PERSON DEMONSTRATION – TITLE XIX

The Federal Medicaid authority re-designated Medicaid money to a demonstration project to track how Case Management services can help to transition clients from long term (six months or more) institutional settings into lower cost community care settings.

NOTE 12 – AMOUNTS AWARDED TO SUBRECIPIENTS

The following chart details the amount of the total federal expenditures that was passed through to a sub-recipient that administered its own project:

| Footnote Reference | Program Name | Amount passed through to sub-recipient | CFDA # |
|--------------------|---|--|--------|
| 12a | Title III, Part B - Grants for Supportive Services and Senior Centers | \$207,106.40 | 93.044 |
| 12b | Title III, Part C - Nutrition Services | \$672,276.56 | 93.045 |
| 12c | Title III, Part D – Disease Prevention and Health Promotion Services | \$4,945.25 | 93.043 |
| 12d | Title III, Part E – National Family Caregiver Support | \$80,576.50 | 93.052 |
| 12e | Senior Farmers Market Nutrition Program | \$14,940.00 | 10.576 |
| 12f | Nutrition Services Incentive Program | \$127,170.01 | 93.053 |
| 12g | Title XIX Medical Assistance Program | \$263,260.03 | 93.778 |
| 12h | Empowering Older Adults-Chronic Disease Self Management | \$4,304.39 | 93.734 |

NOTE 13 – NON CASH AWARDS – SENIOR FARMERS MARKET

Senior Farmer Market Nutrition Program (SFMNP) vouchers now reported on the schedule are the value of SFMNP vouchers received by AAADSW during current year and priced by ALTSA. Other Federal SFMNP funding is also recorded here.

NOTE 14 – INDIRECT COST ALLOCATION

A State of Washington approved cost allocation plan is used to allocate indirect costs. This allocation plan allows for indirect allocations based on relative value of expenditures of the programs being allocated to.

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