



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

Pend Oreille County

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

Published September 15, 2014

Report No. 1012537





Washington State Auditor Troy Kelley

September 15, 2014

Board of Commissioners
Pend Oreille County
Newport, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

TROY KELLEY
STATE AUDITOR

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Federal Summary

Pend Oreille County January 1, 2013 through December 31, 2013

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We 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 County's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster

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

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

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*

**Pend Oreille County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Pend Oreille County
Newport, 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 Pend Oreille County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's financial statements, and have issued our report thereon dated August 27, 2014.

We issued an unmodified opinion on the fair presentation of the County's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the County using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

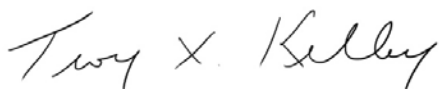
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

August 27, 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

**Pend Oreille County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Pend Oreille County
Newport, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Pend Oreille 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 County's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

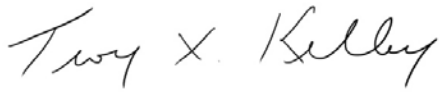
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 27, 2014

Independent Auditor's Report on Financial Statements

Pend Oreille County January 1, 2013 through December 31, 2013

Board of Commissioners
Pend Oreille County
Newport, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pend Oreille County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Pend Oreille County has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Pend Oreille County, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the County used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Pend Oreille County, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

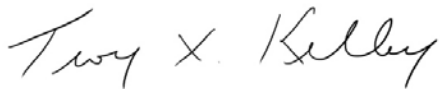
Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. 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*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 27, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

August 27, 2014

Financial Section

Pend Oreille County
January 1, 2013 through December 31, 2013

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

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

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General	101 Arts & Toursim	102 Counseling
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	3,967,982	802,338	41,502	954,166
30880	Beg Fund Bal-Unreserved	3,202,670	1,291,857	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	5,181,003	3,336,605	36,238	38,310
320	Licenses & Permits	175,590	175,590	0	0
330	Intergovernmental Revenues	9,667,437	3,836,650	0	1,426,224
340	Charges for Goods and Services	5,141,897	1,098,902	0	146,352
350	Fines & Penalties	196,537	196,537	0	0
360	Miscellaneous Revenues	337,479	231,399	0	859
Total Operating Revenues:		20,699,943	8,875,683	36,238	1,611,745
Operating Expenditures					
510	General Government	4,903,649	3,794,997	0	0
520	Public Safety	4,389,056	3,767,527	0	0
530	Utilities	892,551	0	0	0
540	Transportation	4,694,028	0	0	0
550	Natural and Economic Environment	645,003	516,647	35,504	0
560	Social Services	1,906,635	220,416	0	1,560,247
570	Culture And Recreation	240,036	62,193	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		17,670,958	8,361,780	35,504	1,560,247
Net Operating Increase (Decrease):		3,028,985	513,903	734	51,498
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	512,053	143,858	0	5,254
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	105,000	0	0	0
Total Nonoperating Revenues:		617,053	143,858		5,254
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	391,274	6,588	0	39
591-593	Debt Service	305,700	206,443	0	0
594-595	Capital Expenditures	2,197,329	155,607	0	0
597	Transfers-Out	105,000	5,000	0	0
Total Nonoperating Expenditures:		2,999,303	373,638		39
Increase (Decrease) in Cash and Investments		646,735	284,123	734	56,713
Ending Cash and Investments					
50810	End Fund Bal-Reserved	4,545,524	1,028,134	42,237	1,010,878
50880	End Fund Balance-Unreserved	3,271,864	1,350,184	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		103 Crime Victims	104 Fair	105 Law Library	107 2009 Tech Project
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	9,500	70,645	5,009	79,070
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	31,264	0	0
340	Charges for Goods and Services	7,423	33,792	3,973	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	28,982	0	2,700
Total Operating Revenues:		7,423	94,038	3,973	2,700
Operating Expenditures					
510	General Government	4,369	0	0	2,904
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	89,841	6,230	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		4,369	89,841	6,230	2,904
Net Operating Increase (Decrease):		3,054	4,197	-2,257	-204
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	2,636	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:			2,636		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	5,757	0	0
591-593	Debt Service	0	0	0	63,634
594-595	Capital Expenditures	0	0	0	15,230
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:			5,757		78,864
Increase (Decrease) in Cash and Investments		3,054	1,076	-2,257	-79,068
Ending Cash and Investments					
50810	End Fund Bal-Reserved	12,554	71,722	2,752	0
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		110 Park	111 Paths & Trails	112 Road	114 Veteran's Assistance
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	273,423	115,841	628,164	40,543
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	1,445,734	11,652
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	8,015	3,551,134	1
340	Charges for Goods and Services	0	0	378,561	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	2,128	0	16,056	0
Total Operating Revenues:		2,128	8,015	5,391,485	11,653
Operating Expenditures					
510	General Government	0	0	370,365	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	3,476,845	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	7,504
570	Culture And Recreation	76,370	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		76,370		3,847,210	7,504
Net Operating Increase (Decrease):		-74,242	8,015	1,544,275	4,149
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	15	0	11,684	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	100,000	0
Total Nonoperating Revenues:		15		111,684	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	34,562	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	34,583	0	1,042,181	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		34,583		1,076,743	
Increase (Decrease) in Cash and Investments		-108,810	8,015	579,216	4,149
Ending Cash and Investments					
50810	End Fund Bal-Reserved	164,612	123,856	1,207,379	44,692
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		117 Treasurer's REET tech	118 Treasurer's O&M	119 Auditor's O&M	123 Trial Court Improvement
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	63,708	13,569	55,778	63,520
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	52,197	14,396
340	Charges for Goods and Services	0	14,419	9,533	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	85	0	0	0
Total Operating Revenues:		85	14,419	61,730	14,396
Operating Expenditures					
510	General Government	13,861	7,443	36,694	12,801
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		13,861	7,443	36,694	12,801
Net Operating Increase (Decrease):		-13,776	6,976	25,036	1,595
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:					
Increase (Decrease) in Cash and Investments		-13,776	6,976	25,036	1,595
Ending Cash and Investments					
50810	End Fund Bal-Reserved	49,932	20,546	80,814	65,115
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		126 Drug Enforcement	127 Emergency 911 communication	128 Extension Education	130 Growth Management
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	1,823	21,669	19,309	0
30880	Beg Fund Bal-Unreserved	0	0	0	12,296
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	103,138	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	570,656	0	25,000
340	Charges for Goods and Services	0	0	1,695	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	2,143	300	0
Total Operating Revenues:			675,937	1,995	25,000
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	621,529	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	9,068
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	5,402	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:			621,529	5,402	9,068
Net Operating Increase (Decrease):		0	54,408	-3,407	15,932
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	354	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	5,000
Total Nonoperating Revenues:				354	5,000
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	25,000
591-593	Debt Service	0	0	0	56
594-595	Capital Expenditures	0	7,756	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:			7,756		25,056
Increase (Decrease) in Cash and Investments		0	46,652	-3,053	-4,124
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,823	8,321	16,257	0
50880	End Fund Balance-Unreserved	0	60,000	0	8,171

The accompanying notes are an integral part of this Statement.

BARS Code		131 Low Income Housing	132 Homeless Program	134 Public Facilities	201 Bond fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	20,588	105,120	346,620	0
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	131,487	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	15,572	81,497	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	0	0	0
Total Operating Revenues:		15,572	81,497	131,487	
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	83,784	0
560	Social Services	19,062	99,406	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		19,062	99,406	83,784	
Net Operating Increase (Decrease):		-3,490	-17,909	47,703	0
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	3,000	305,342
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:				3,000	305,342
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	305,342
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	2,690	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:				2,690	305,342
Increase (Decrease) in Cash and Investments		-3,490	-17,909	48,013	0
Ending Cash and Investments					
50810	End Fund Bal-Reserved	17,098	87,212	394,634	0
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		301 Capital Projects	463 Solid Waste	501 Risk Management	502 ER&R
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	236,077	0	0	0
30880	Beg Fund Bal-Unreserved	0	173,545	157,728	1,363,591
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	77,839	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	151,900	0	0
340	Charges for Goods and Services	0	722,433	306,262	1,737,957
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	50,301	1,904	622
Total Operating Revenues:		77,839	924,634	308,166	1,738,579
Operating Expenditures					
510	General Government	19,621	0	308,864	0
520	Public Safety	0	0	0	0
530	Utilities	0	892,551	0	0
540	Transportation	0	0	0	1,217,183
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		19,621	892,551	308,864	1,217,183
Net Operating Increase (Decrease):		58,218	32,083	-698	521,396
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	12,755	254	26,461
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:			12,755	254	26,461
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	12,675	735	137
591-593	Debt Service	35,567	0	0	0
594-595	Capital Expenditures	63,772	53,596	0	688,737
597	Transfers-Out	100,000	0	0	0
Total Nonoperating Expenditures:		199,339	66,271	735	688,874
Increase (Decrease) in Cash and Investments		-141,121	-21,433	-1,179	-141,017
Ending Cash and Investments					
50810	End Fund Bal-Reserved	94,956	0	0	0
50880	End Fund Balance-Unreserved	0	152,112	156,549	1,222,574

The accompanying notes are an integral part of this Statement.

BARS Code		504 Unemployment	505 ITS
Beginning Cash and Investments			
30810	Beg Fund Bal-Reserved	0	0
30880	Beg Fund Bal-Unreserved	70,019	133,634
38800/58800	Prior Period Adjustments, net	0	0
Operating Revenues			
310	Taxes	0	0
320	Licenses & Permits	0	0
330	Intergovernmental Revenues	0	0
340	Charges for Goods and Services	124,933	458,593
350	Fines & Penalties	0	0
360	Miscellaneous Revenues	0	0
Total Operating Revenues:		124,933	458,593
Operating Expenditures			
510	General Government	33,917	297,813
520	Public Safety	0	0
530	Utilities	0	0
540	Transportation	0	0
550	Natural and Economic Environment	0	0
560	Social Services	0	0
570	Culture And Recreation	0	0
598	Intergovernmental Payments	0	0
Total Operating Expenditures:		33,917	297,813
Net Operating Increase (Decrease):		91,016	160,780
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	0	440
391-393	Debt Proceeds	0	0
397	Transfers-In	0	0
Total Nonoperating Revenues:			440
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	0	439
591-593	Debt Service	0	0
594-595	Capital Expenditures	0	133,177
597	Transfers-Out	0	0
Total Nonoperating Expenditures:			133,616
Increase (Decrease) in Cash and Investments		91,016	27,604
Ending Cash and Investments			
50810	End Fund Bal-Reserved	0	0
50880	End Fund Balance-Unreserved	161,035	161,239

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	621 Auditor DOL	622 CSA	623 District Ct Checking
308	Beginning Cash and Investments	228,852	7,165	4,777	11,198
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	44,735	0	0	0
380-390	Other Increases and Financing Sources	6,311,106	1,267,660	2,294	438,802
510-570	Expenditures	0	0	0	0
580-590	Other Decreases and Financing Uses	6,242,137	1,253,795	4,971	438,019
Increase (Decrease) in Cash and Investments		113,704	13,865	-2,677	783
508	Ending Cash and Investments	342,557	21,030	2,100	11,981

BARS Code		624 Sheriff Correction-Jail	625 Superior Ct Checking/Trust	632 Advance Tax	675 Sheriff's Trust
308	Beginning Cash and Investments	32,635	25,527	0	2,624
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	0	0	0	0
380-390	Other Increases and Financing Sources	78,183	196,344	0	25,782
510-570	Expenditures	0	0	0	0
580-590	Other Decreases and Financing Uses	68,497	211,655	0	26,060
Increase (Decrease) in Cash and Investments		9,686	-15,311	0	-278
508	Ending Cash and Investments	42,321	10,216	0	2,346

BARS Code		679 State	682 Tax Foreclosure Suspense	683 Timber Tax Reserve	685 Treasurer's Suspense
308	Beginning Cash and Investments	39,655	15,625	89,646	0
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	0	0	44,735	0
380-390	Other Increases and Financing Sources	4,242,865	59,176	0	0
510-570	Expenditures	0	0	0	0
580-590	Other Decreases and Financing Uses	4,239,140	0	0	0
Increase (Decrease) in Cash and Investments		3,725	59,176	44,735	0
508	Ending Cash and Investments	43,381	74,801	134,381	0

The accompanying notes are an integral part of this Statement.

Pend Oreille County
Notes to Financial Statements
January 1, 2013 through December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pend Oreille County reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Pend Oreille County was incorporated on March 1, 1911 and operates under the laws of the state of Washington applicable to a sixth class county. The county is a general purpose government and provides public safety, road maintenance and improvement, judicial administration, health and social services and general administrative services. The county uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the county are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The county's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the county:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund (001)

This fund is the primary operating fund of the county. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds (100-199)

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the county.

Debt Service Funds (200-299)

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds (300-399)

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds (400-499)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds (500-599)

These funds account for operations that provide goods or services to other departments or funds of the county on a cost-reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the county in a trustee capacity or as an agent on behalf of others.

Private Purpose Funds (621-630)

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments

Agency Funds (631-699)

These funds are used to account assets that county holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The county adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level except the general (current expense) fund, where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Appropriated Amounts	Supplemental Appropriation	Actual Expenditures	Variance
GENERAL FUND				
001-000-000	\$ 1,119,610	\$ 32,000	\$ 1,149,144	\$2,300,754.00 2,466
001-000-060	\$ 248,484		\$ 247,200	\$ 1,284
001-000-090	\$ 364,840		\$ 360,125	\$ 4,715
001-000-100	\$ 4,870		\$ 1,342	\$ 3,528
001-000-120	\$ 2,780	\$ 10,000	\$ 11,992	\$ 788
001-000-150	\$ 237,835	\$ 7,200	\$ 220,171	\$ 24,864
001-000-180	\$ 276,779		\$ 271,563	\$ 5,217
001-000-200	\$ 23,500		\$ 19,162	\$ 4,338
001-000-210	\$ 337,961	\$ 10,000	\$ 335,585	\$ 12,376
001-000-240	\$ 419,758	\$ 5,500	\$ 404,424	\$ 20,834
001-000-285	\$ 65,900		\$ 48,005	\$ 17,895
001-000-300	\$ 181,782	\$ 30,000	\$ 190,812	\$ 20,970
001-000-330	\$ 186,307		\$ 182,256	\$ 4,051
001-000-350	\$ 77,514		\$ 62,209	\$ 15,305
001-000-380	-	\$ 41,000	\$ 40,967	\$ 33
001-000-390	\$ 165,103		\$ 146,107	\$ 18,996
001-000-420	\$ 749,286	\$ 125,000	\$ 869,053	\$ 5,233

001-000-450	\$ 206,580		\$ 100,535	\$ 106,045
001-000-455	\$ 21,692		\$ 17,644	\$ 4,048
001-000-475	\$ 169,834	\$ 60,000	\$ 225,543	\$ 4,291
001-000-480	\$ 61,211	\$ 2,500	\$ 61,894	\$ 1,817
001-000-510	\$ 261,765	\$ 5,000	\$ 264,007	\$ 2,758
001-000-520	\$ 107,715		\$ 103,336	\$ 4,379
001-000-540	\$ 769,365		\$ 734,184	\$ 35,181
001-000-600	\$ 1,968,661	\$ 146,000	\$ 2,110,059	\$ 4,602
001-000-660	\$ 267,500	\$ 10,500	\$ 274,988	\$ 3,012
001-000-690	\$ 259,019	\$ 1,200	\$ 238,862	\$ 21,357
Total General Fund	\$ 8,555,652	\$ 485,900	\$ 8,691,170	\$ 350,382
101-000-000	\$ 40,000		\$ 35,504	\$ 4,496
102-000-000	\$ 1,301,700	\$ 280,000	\$ 1,560,286	\$ 21,414
102-000-060	\$ -	\$ 50,000	\$ 50,000	\$ -
103-000-000	\$ 5,474	\$ -	\$ 4,369	\$ 1,105
104-000-000	\$ 97,000	\$ -	\$ 95,597	\$ 1,403
104-000-060	\$ -	\$ -	\$ -	\$ -
105-000-000	\$ 9,325	\$ -	\$ 6,230	\$ 3,095
107-000-000	\$ 60,000	\$ 26,769	\$ 81,769	\$ 5,000
110-000-000	\$ 24,935	\$ 90,000	\$ 110,953	\$ 3,982
111-000-000	\$ -	\$ -	\$ -	\$ -
112-000-000	\$ 4,389,090	\$ 700,000	\$ 5,069,289	\$ 19,801
112-000-010	-	\$ 150,000	\$ 145,334	\$ 4,666
114-000-000	\$ 15,500		\$ 7,504	\$ 7,996
116-000-000	\$ 140,000	\$ 5,000	\$ 34,336	\$ 110,664
117-000-000	\$ 36,500	\$ -	\$ 13,861	\$ 22,639
118-000-000	\$ 19,100		\$ 7,443	\$ 11,657
119-000-000	\$ 107,892		\$ 36,694	\$ 65,050
122-000-000	\$ 3,089		\$ 25	\$ 3,064
123-000-000	\$ 27,000	\$ -	\$ 12,801	\$ 14,199
124-000-000	\$ -	\$ -	\$ -	\$ -
126-000-000	\$ 400		\$ 0	\$ 400
127-000-000	\$ 755,751		\$ 629,285	\$ 126,466
128-000-000	\$ 11,550		\$ 5,402	\$ 6,148
130-000-000	\$ 25,000	\$ 42,295	\$ 34,124	\$ 33,171
131-000-000	\$ 15,000	\$ 5,000	\$ 19,062	\$ 938
132-000-000	\$ 76,000	\$ 25,000	\$ 99,406	\$ 1,594
134-000-000	\$ 82,857	\$ 4,000	\$ 86,473	\$ 384
201-000-020	\$ 308,025		305,342	
301-000-000	\$ 136,000	\$ 129,000	\$ 218,961	\$ 46,039
463-000-000	\$ 976,689	\$ -	\$ 958,821	\$ 17,868
501-000-000	\$ 306,261	\$ 3,500	\$ 309,599	\$ 162
502-000-000	\$ 2,081,550	\$ -	\$ 1,906,058	\$ 175,492
504-000-000	\$ 100,000		\$ 33,917	\$ 66,083
505-000-000	\$ 525,311	\$ -	\$ 431,429	\$ 93,882

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); 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 county's legislative body.

D. Cash

It is the county's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is posted to the current expense fund.

The amounts reported as net cash and investments also include a compensating balance maintained with the bank in lieu of payments for services rendered. The average compensating balance maintained during 2013 was approximately \$5,071,749.

E. Deposits

The county deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments See Note No. 2 *Investments*.

G. Derivatives and Similar Transactions

The county had no derivative or similar transactions during the period covered by the financial statement.

H. Capital Assets

Capital assets are assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 5 years. The capital assets of the county are recorded as expenditures when purchased.

I. Compensated Absences

Vacation leave may be accumulated up to 30 days unless specified by a bargaining unit contract and is payable upon resignation, retirement, or death.

Sick leave may be accumulated indefinitely, unless specified by a bargaining unit contract. Upon separation, employees do not receive payment for unused sick leave. Upon retirement or death, employees do receive payment for 1/3 of unused sick leave with a cap of 50 days.

J. Long-Term Debt See Note No. 5 *Debt Service Requirements*

K. Other Financing Sources or Uses

The County's "*Other Financing Sources*" consist of transfers in and out between funds and disposition of fixed assets,

Transfer In	Amount	Transfer Out	Amount
Counseling	\$ 50,000	Counseling Obligated Reserve	\$ 50,000
Growth Management	\$ 5,000	Timber Sales	\$ 5,000
Road RAP Excess	\$ 145,334	Road	\$ 145,334
Road	\$ 145,334	Road RAP excess	\$ 145,334
Road	\$100,000	Capital Projects	\$ 100,000

Disposition of Fixed Assets:

Current Expense	\$ 78,701
Timber	\$ 39,527
ER&R	\$ 22,210

L. RISK MANAGEMENT

Pend Oreille County is a member of the Washington Counties Risk Pool (“Pool”). Other Washington counties that are Pool members include: Adams, Benton, Chelan and Clallam, Clark, Columbia, Cowlitz and Douglas, Franklin, Garfield, Grays Harbor and Island, Jefferson, Kittitas, Lewis and Mason, Okanogan, Pacific and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Kitsap, Klickitat and Whitman Counties are former Pool members, having voluntarily terminated their memberships beginning October 1st of 2010, 2002 and 2003 respectively.

Background: The Pool was formed August 18, 1988 after an Interlocal (Cooperative) Agreement under Chapter 39.34 RCW was approved by several Washington counties. The agreement and cooperative created a mechanism to provide member counties with “joint” programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling, and risk management. Washington’s pools operate under the state’s “pooling” laws and regulations, more specifically, RCW 48.62 RCW and WAC 200.100. They must be first approved and then are overseen by the State Risk Manager, and they are subject to annual fiscal audits performed and issued by the State Auditor’s Office.

Noteworthy is the definition of “insurer” within RCW 48.01.050 for application of the Washington Insurance Code, which reflects the following:

Two or more local government entities, under any provision of law, that join together and organize to form an organization for the purpose of jointly self-insuring or self-funding are not an “insurer” under this code.

Thus, under Washington law the Pool is not an insurance company, and therefore, not subject to the rules governing insurance policy interpretation.

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

A Membership Compact was added as an addendum to the Interlocal Agreement in 2000. It constitutes a commitment to strengthen the Pool by helping member counties implement and/or enhance their local risk management efforts to reduce losses and support the best management of the Pool and its resources. It obligates member counties to support these goals through three major elements – membership involvement, risk control practices, and a targeted risk management program(s).

New members may be asked to pay modest fees to cover any costs to analyze the member’s loss data and risk profile, but they are normally only required to contribute their proportional shares on their entry year’s insuring assessments. Members contract initially under the Interlocal Agreement to remain in the Pool for at least five years. Following the initial term, a county may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files its required advance written notice; otherwise, the Interlocal Agreement and memberships automatically renew for another year. Even after termination, former members remain responsible for reassessments by the Pool for the members’ proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

Joint Self-Insurance Liability Program (“JSILP”): The Pool, which recently celebrated its Silver Anniversary, has been providing its membership with occurrence-based, jointly purchased and/or jointly self-insured 3rd-party liability coverage since October 1, 1988 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by an occurrence during the policy period and occurring anywhere in the world. Total coverage limits have grown from the \$1 million limit that existed during the Pool’s initial two insuring months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million occurrence limit that has existed since October 1, 2003. (Note: Additional occurrence limits of \$5 million have been available for many years for member counties to choose as an individual county-by-county option.) There are no aggregate limits to the payments the WCRP makes for any one member county or all member counties combined.

The initial \$10 million in coverage is jointly self-insured. The remaining JSILP coverage, up to \$15 million, is acquired as “following form” excess insurance from higher rated commercial carriers. Member counties annually select a deductible amount applicable to each occurrence from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000.

Reinsurance is acquired from higher rated carriers as well to protect the Pool directly and its member counties indirectly from larger-valued losses. The reinsuring program is written with a self-insured retention (“SIR”) equal to the greater of the applicable member’s deductible or \$100,000. The reinsuring agreements also include first and second layer corridor

elements – to \$1 million and from \$1 to \$2 million – with cumulative (WCRP) retentions of \$2.95 and \$0.65 million and annual aggregate limits of \$40 and \$20 million respectively.

616 third-party liability claims (and lawsuits) were reported to the Pool by its member counties during Py2013, and added to the Pool's administrative database. This represented a 3% reduction in year-over-year filings and a continuation of recent years' decline in annual filings. The new filings raised the to-date total (Oct 1988 – Sep 2013) to 19,232. Total incurred losses (payments made plus reserve estimates for *open* claims) increased \$8.1 million during Py2013 to \$250.9 million. The annual amount is 50% more than the corresponding Py2012 amount of \$5.4M, but it represents just 51% of the Py2011 increase of \$16.0M, 46% of the \$17.8M in Py2010, and only 39% of the \$20.8M annual average for Py2007 through Py2009. Only 327 claims remained classified as '*open*' at year-end. With 307 additional claims projected by the actuary from all years as incurred but not yet reported ("IBNR"), the Pool's estimated ultimate claims totaled 19,539 as of September 30, 2013.

The independent actuary's projection of total reserves for claims that are expected to be the Pool's responsibility decreased slightly (-1%) from Py2012 to \$14.6 million. This amount includes \$3.4 million (-21% from Py2012) for losses within the Pool's self-insured retention, \$10.0 million (+7%) for losses subject to the "corridor" programs with the Pool's reinsurers, \$0.2 million for losses within the Py2013 quota-shared (10%) upper reinsured layer, and \$1.0 million (+3%) for estimated unallocated loss adjustment expenses. *NOTE: The corridor programs involving the WCRP's first (and now second) layer reinsurers began seven years ago. These programs included an occurrence coverage maximum of \$0.5 million during the first three years, \$1.0 million during the next three years, and of both \$1.0 million and \$2.0 million beginning with Py2013. Occurrence coverage minimums have remained since the corridor program began the greater of the applicable member deductible or \$100,000.*

Washington Counties Property Program ("WCPP"): Beginning with Py2006 (October 1, 2005), WCRP added property insurance as a county-by-county option that is jointly-purchased from a consortium of higher rated commercial carriers. Since the initial offering, both participation and the total values of covered properties have nearly doubled. Twenty six WCRP counties with covered properties totaling over \$2.7 billion participated in the optional insuring program during Py2013.

The WCPP includes All Other Peril coverage limits of \$500 million per occurrence for losses to buildings and contents, vehicles, mobile/contractors equipment, EDP and communication equipment, etc., as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. All Other Perils coverage limits apply to any occurrence, even those affecting more than one participating county, and there are no annual (AOP) aggregate limitations. Flood and Earthquake coverages each include annual aggregate limits of \$200 million. The WCPP coverage also includes sublimited items, e.g. Equipment Breakdown / Boiler & Machinery (\$100 million), Special Flood Hazard Areas (\$25 million). And there are endorsements for Green Construction Upgrades, Reproduction Coverage for Historic Structures, and Terrorism (\$20 million).

AOP occurrence deductibles, which the participating counties select annually and which the counties are solely responsible for paying, range between \$5,000 and \$50,000. Higher deductibles are applicable to losses resulting from catastrophe relevant losses.

There were 15 claims filed during Py2013 by participating counties with loss estimates totaling \$2.6 million and losses paid by fiscal year-end of \$1.5 million. During its initial eight years as a WCRP optional insuring program, there have been 103 WCPP claims filed with to-date incurred losses totaling \$15.5 million and losses paid through fiscal 2013 of \$8.9 million. Considering the fact that to-date WCPP premiums have totaled \$22.2 million, the WCPP's cumulative loss ratio is below 0.7.

Other Insurances: Several member counties also use the Pool's contracted producer (broker) to secure other (specialty) insurances. Examples include public officials bonds and crime (and fidelity), cyber risks/security, special events/concessionaires, underground storage tank and other environmental hazards insurance coverages.

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

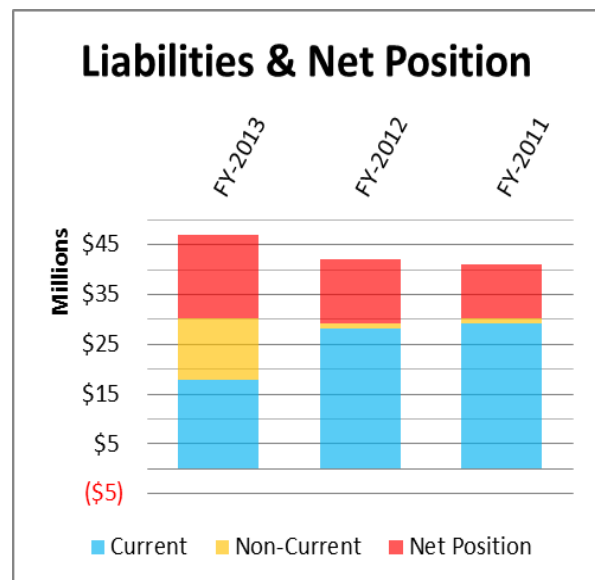
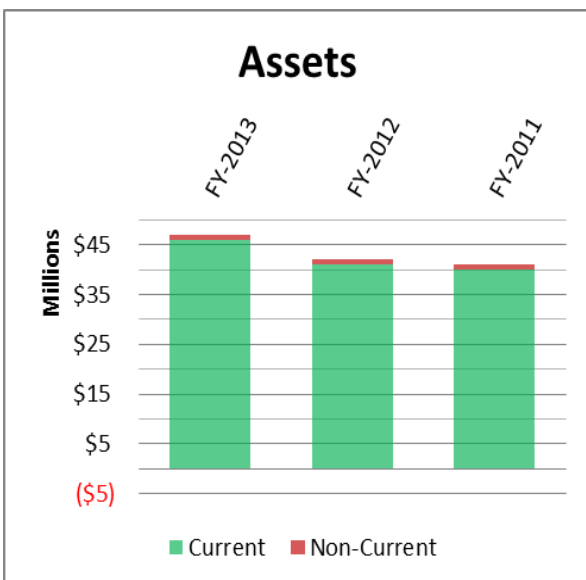
Regular oversight of the Pool's operations is provided by an 11-person executive committee selected from and by the WCRP Board. Committee members are elected to staggered, 3-year terms. The Committee meets several times throughout each policy year to: a) approve all WCRP disbursements and review the Pool's financial health; b) approve case settlements exceeding the applicable member's deductible by at least \$50,000; c) review all claims with incurred loss estimates exceeding \$100,000; and d) evaluate the Pool's operations and program deliverables as well as the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization's policies and coverage documents.

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

Professionals from some of the more respected organizations worldwide are regularly called upon to address various needs of the Pool. More specifically, independent actuarial services are furnished by PricewaterhouseCoopers, LLP. Independent claims auditing is performed by Startegic Claims Direction LLC, and special claims audits are occasionally performed by the Pool's commercial reinsurers/insurers. Insurance producer (broker) and advanced loss control and prevention services are provided by Arthur J. Gallagher Risk Management Services, Inc.. Coverage counsel is furnished by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend the numerous Pool-covered cases, as well as the examinations by and services from both the State Risk Manager and State Auditor's Offices.

Financial Summary: During fiscal 2013, Pool assets grew 11% (+\$4.8 million) and liabilities by 3% (+\$1.0 million). Its net (financial) position, which is commonly referred to as "net assets" and sometimes as "owners' equity", improved 30% (+\$3.9 million) during the Pool's Silver Anniversary year to \$16.7 million as of September 30, 2013. Much of the net position is 'restricted' (\$12.5 million) to address the Board of Directors' recently revised requirements in section D of its Underwriting Policy. *NOTE: This policy revision resulted in the Pool's own restriction increasing \$7.5 million (+187%) and the unrestricted declining \$3.8 million (-53%). The (State Risk Manager's) solvency provisions in WAC 200.100.03001(3) required \$0.9 million for satisfaction, a year-over-year increase of \$0.1 million (+15%). Another \$0.9 million is invested in capital assets (net of debt). The remaining \$3.3 million is unrestricted.*

\$3.75 million in operating income was experienced during Py2013, an increase of 111% from Py2012. Operating revenues were 'flat', but expenses declined nearly \$2.0 million (-15%). This reduction was in part due to even more favorable adjustments by the independent actuary, PricewaterhouseCoopers LLP ("PwC"), to the Pool's claims-related reserves, and to the reduction (-26%) in the premiums to acquire the reinsurance, excess insurance and property insurance policies requested by the Board.



Contingent Liability: The Pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits of the Pool resulting from any fiscal year are financed by reassessments (aka retroactive assessments) placed upon the deficient year's membership in proportion with the deposit assessments initially levied and collected. The Pool's reassessments receivable balance at December 31, 2013 was ZERO (\$0) as there were no known contingent liabilities at that time.

M. Reserved Fund Balance

- a) In 2011, Pend Oreille County was contacted by a representative of the Department of Social and Health Services, who informed us that an advance they provided in 1985 to the Counseling services for the purpose of covering lags in payments should show on the annual reporting. The amount of \$21,895 advance payments have been reported in the reserved portion of the ending fund balance of the Special Revenue Fund 102-000-000.
- b) The Cash flow reserve was established in 2008 to ensure adequate cash flow throughout the year. It was originally set at \$800,000 and in December 2008, resolution 2008-66 added \$200,000 more to the reserve. Resolution 2010-62 decreased the reserve balance back to \$800,000 using the \$200,000 to balance the budget for 2011, with the intent to return the balance back to \$1,000,000 when financially feasible. Resolution 2013-5, fulfilled the intention of returning the cash flow balance to \$1,000,000. In addition, Noxious Weed, a department within Current expense (001-000-475), must reserve the difference in income and expenditures in the neighborhood cost-share program (2013-\$28,134), (a federally funded grant program), if there is any carryover.
- c) The special revenue funds reserve amounts have been committed or restricted either by a Pend Oreille County Commissioner Resolution, State RCW or by Grant restrictions. Following is a table of the particular reserve amounts.

FUND	Beginning Reserve	Ending Reserve	Nature of Restriction
101 Arts & Tourism	41,502	42,237	RCW 67.28.180
102 Counseling	954,166	1,010,878	RCW 71.24.015 (7) & RCW 71.20.110 & State & Federal Grants
103 Crime Victims	9,500	12,554	RCW 7.68.035
104 Fair	70,645	71,722	RCW36.29.010 & RCW39.29.020
105 Law Library	5,008	2,752	RCW27.24.070 & RCW 27.24.030
107 2010 Tech Project	79,069	0	Closed
110 Park	273,423	164,612	Resolution 2008-59 and Resolution 98-82
111 Paths & Trails	115,841	123,856	RCW 47.30
112 Road	628,164	1,207,379	RCW 36.82.010 & RCW 82.36.025 & State & Federal Grants
114 Veteran's Assistance	40,543	44,692	RCW 73.08.010
117 Treasurer's REET	63,708	49,932	RCW 82.45.180
118 Treasurer's O&M	13,569	20,546	RCW 84.56.020
119 Auditor's O&M	55,778	80,814	RCW 36.22.170 & RCW 36.22.175
123 Trial Court Improvement	63,520	65,115	RCW 3.58.060
126 Drug Enforcement	1,823	1,823	RCW 69.50.505
127 Emergency 911	21,669	8,321	RCW 82.14B.030
128 Extension Education	19,309	16,257	Resolution 98-19
130 Growth Management	12,296	0	RCW 36.70.010
131 Low Income Housing	20,587	17,098	RCW 36.22.178
132 Homeless Program	105,120	87,212	RCW 36.22.179
134 Public Facilities	346,620	394,634	RCW 82.14.370

NOTE 2 - INVESTMENTS

The county's investments are insured, registered or held by the county or its agent in the county's name. Investments are presented at cost.

The investment amounts listed under Pend Oreille County may include county funds and funds of any municipal corporation, which are not required for immediate expenditure. These funds are invested per RCW 36.29.020. The combined total of \$4,600,645 includes only county funds.

Investments by type at December 31, 2013 are as follows:

Type of Investment	Pend Oreille County	Investments held by the county as agent for other local or private organizations	Total
LGIP	\$3,662,742	\$9,877,599	\$13,540,341
US GOVT SEC	\$0	\$0	\$0
Certificates of Deposit	\$500,000	\$100,000	\$600,000
Money Market Accounts	\$437,903	\$7,073	\$444,976
Totals	\$4,600,645	\$9,984,672	\$14,585,317

NOTE 3 - PROPERTY TAX

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

Property tax revenues are recognized when cash is received by the county treasurer. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

Pend Oreille County's regular levy for the year 2013 was \$1.628148425 per \$1,000 on an assessed valuation of \$1,359,055,615 for a total regular levy of \$2,212,714. This includes a levy shift from Road to Current Expense of \$400,000.

The county is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The county's road levy rate for 2013 was \$1.1868693452 per \$1,000 on an assessed valuation of \$1,190,977,588 for a total road levy of \$1,413,534. This amount reflects a levy shift from Road to Current Expense of \$400,000.

NOTE 4 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2013. The \$60,000 balance on the Enhanced 911 loan was revised to an interfund equity transfer by Resolution 2013-39:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2012</u>
Enhanced 911	CE	\$60,000	\$0	\$60,000	\$0
Fair	Public Facilities	\$36,000	0	\$3,000	\$33,000
Growth Management	CE	\$25,000	0	\$25,000	\$0
TOTALS		\$121,000	\$0	\$88,000	\$33,000

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Debt (09) provides more details of the outstanding debt and liabilities of the county and summarizes the county's debt transactions for year ended December 31, 2013.

The debt service requirements for general obligation bonds, revenue bonds and other debt, including both principle and interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2013	\$ 305,342			\$ 305,342
2014	\$ 306,392			\$ 306,392
2015	\$ 35,943			\$ 35,943
2016	\$ 36,253			\$ 36,253
2017	\$ 0			\$ 0
2018	\$ 0			\$ 0
TOTALS	\$ <u>683,930</u>	\$ _____	\$ _____	\$ <u>683,930</u>

NOTE 6 - PENSION PLANS

Substantially all county full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS 1,2, and 3), Public Safety Employees' Retirement System (PSERS), Or Law Enforcement Officers and Fire Fighters Retirement System, (LEOFF 2) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the county's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

NOTE 7 - OTHER DISCLOSURES

1. One New fund was created in 2013. Resolution 2013-47 established the Real Estate and Property Tax Administration Assistance Fund (115-000-000). No activity until 2014.
2. Resolution 2013-6 closed the Counseling Obligated Reserve Fund (102-000-060).
3. Resolution 2013-48 closed the Technology Bond Fund. (107-000-000).

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	251.11	Martin Hall bond 96 RFDG	6/1/2013	129,789	0	30,202	99,587
	251.11	Technology Bond G&O 2009	6/1/2013	510,000	0	250,000	260,000
	259.11	Compensated Absences		1,195,740	665,481	663,960	1,197,261
		Total General Obligations:		1,835,529	665,481	944,162	1,556,848
		Total Liabilities:		1,835,529	665,481	944,162	1,556,848

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	Federal Forest Yield		442,160	442,160	
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	Federal Forest Yield		2,250	2,250	4
Forest Service, Department Of Agriculture	Schools and Roads - Grants to States	10.665	NFS 11 DG-11062100-005		34,274	34,274	
Total CFDA 10.665				0	478,684	478,684	
Fish And Wildlife Service, Department Of The Interior	Fish and Wildlife Management Assistance	15.608	13330BG006		14,852	14,852	
Fish And Wildlife Service, Department Of The Interior	Fish and Wildlife Management Assistance	15.608	F11AP00012		886	886	
Total CFDA 15.608				0	15,738	15,738	
US Drug Enforcement/WA State Patrol	Domestic Cannabis Eradication Program	16.C120823FED	C120823FED	1,000		1,000	
Federal Highway Administration (fhwa), Department Of Transportation/State Dept of Transportation	Highway Planning and Construction	20.205	BHS-T261(004)	266,981		266,981	
Federal Highway Administration (fhwa), Department Of Transportation/State Dept of Transportation	Highway Planning and Construction	20.205	HSIP0005(276)	610,234		610,234	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Federal Highway Administration (fhwa), Department Of Transportation/State Dept of Transportation	Highway Planning and Construction	20.205	BRS-T261(005)	1,041	1,041	1,041
Federal Highway Administration (fhwa), Department Of Transportation/State Dept of Transportation	Highway Planning and Construction	20.205	STPR-F260(005)	5,334	5,334	5,334
Federal Highway Administration (fhwa), Department Of Transportation/State Dept of Transportation	Highway Planning and Construction	20.205	STPR-F260(004)	5,031	5,031	5,031
Federal Highway Administration (fhwa), Department Of Transportation/State Dept of Transportation	Highway Planning and Construction	20.205	WA PFH 149(1)	31,535	31,535	31,535
Federal Highway Administration (fhwa), Department Of Transportation/State Dept of Transportation	Highway Planning and Construction	20.205	SB-WA05(001)	5,574	5,574	5,574
Total CFDA 20.205				925,730	0	925,730
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WASPC	State and Community Highway Safety	20.600	G2013-3	3,651	3,651	3,651
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WASPC	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	A-2012-63	1,017	1,017	1,017
Pipeline And Hazardous Materials Safety Administration, Department Of Transportation/WA State Military Dept	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	E13095	7,213	7,213	7,213
U.s. Election Assistance Commission/WA Secretary of State	Help America Vote Act Requirements Payments	90.401	G2850	7,972	7,972	7,972

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services/WA State DSHS	Drug-Free Communities Support Program Grants	93.276	1H79Sp018172-01	138,829		138,829
Administration For Children And Families, Department Of Health And Human Services/WA State DSHS	Child Support Enforcement	93.563	2110-80328	1,385		1,385
Administration For Children And Families, Department Of Health And Human Services/WA State DSHS	Child Support Enforcement	93.563	2110-80328	56,774		56,774
Administration For Children And Families, Department Of Health And Human Services/WA State DSHS	Child Support Enforcement	93.563	2110-80328	22,201		22,201
Total CFDA 93.563				80,360	0	80,360
Centers For Medicare And Medicaid Services, Department Of Health And Human Services/WA State DSHS	Medical Assistance Program	93.778	1163-27319	8,427		8,427
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services/WA State DSHS	Block Grants for Community Mental Health Services	93.958	13MHBG1572	6,088		6,088
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services/WA State DSHS	Block Grants for Community Mental Health Services	93.958	12MHBG1475	6,890		6,890
Total CFDA 93.958				12,978	0	12,978
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services/WA State DSHS	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27319 (13-15 biennium)	28,037		28,037
Department Of Homeland Security/WA State Parks & Rec	Boating Safety Financial Assistance	97.012	LE 911-226	46,473		46,473
Department Of Homeland Security/WA State Military Dept	Emergency Management Performance Grants	97.042	E12339	12,400		12,400

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Department Of Homeland Security/WA State Military Dept	Homeland Security Grant Program	97.067	E12147	44,556		44,556	
Department Of Homeland Security/WA State Military Dept	Homeland Security Grant Program	97.067	E13212	10,940		10,940	
Department Of Homeland Security/WA State Military Dept	Homeland Security Grant Program	97.067	E12173	17,000		17,000	
Department Of Homeland Security/WA State Military Dept	Homeland Security Grant Program	97.067	E13238	50,933		50,933	
Department Of Homeland Security/WA State Military Dept	Homeland Security Grant Program	97.067	E12243	13,181		13,181	
		Total CFDA 97.067		136,610	0	136,610	
		Total Federal Awards Expended:		1,410,697	494,422	1,905,119	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

PEND OREILLE COUNTY, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as Pend Oreille County's financial statements. The County uses the cash basis of accounting.

NOTE 2 – PROGRAM COST

The amounts shown as current year expenditures represent only the federal portion of the program costs. Actual program costs, including the County's portion, may be more than shown.

NOTE 3 – INDIRECT COST RATE

The amount expended for 2013 for Child Support Superior Court includes \$167, and Child Support Prosecutor includes \$8,525, and Child Support County Clerk includes \$19,808 claimed as an indirect cost recovery using an approved indirect cost rate of 12.71%.

NOTE 4 – INDIRECT COST RATE

The amount expended for 2013 for Title II U.S. Dept of Ag/U.S. Forest Service Weed Board Grant includes \$3,865 claimed as an indirect cost recovery using an approved indirect cost rate of 16.58%.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
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Website	www.sao.wa.gov