



Washington State Auditor's Office

Troy Kelley

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**Financial Statements and Federal Single Audit
Report**

**Tacoma-Pierce County Health
Department**

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

Published September 18, 2014

Report No. 1012584





Washington State Auditor
Troy Kelley

September 18, 2014

Board of Health
Tacoma-Pierce County Health Department
Tacoma, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Tacoma-Pierce County Health Department's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Federal Summary

Tacoma-Pierce County Health Department January 1, 2013 through December 31, 2013

The results of our audit of the Tacoma-Pierce County Health Department 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, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

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 Department's compliance with requirements applicable to each of its major federal programs.

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 were major programs during the period under audit:

| <u>CFDA No.</u> | <u>Program Title</u> |
|-----------------|---|
| 93.778 | Medicaid Cluster - Medical Assistance Program |
| 93.940 | HIV Prevention Activities Health Department Based |

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

The Department 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*

Tacoma-Pierce County Health Department January 1, 2013 through December 31, 2013

Board of Health
Tacoma-Pierce County Health Department
Tacoma, 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, each major fund and the aggregate remaining fund information of the Tacoma-Pierce County Health Department, Pierce County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated September 5, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the Department implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

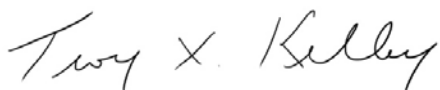
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of the Department'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 Department'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 Department'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

September 5, 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

**Tacoma-Pierce County Health Department
January 1, 2013 through December 31, 2013**

Board of Health
Tacoma-Pierce County Health Department
Tacoma, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Tacoma-Pierce County Health Department, Pierce 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 Department'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 Department'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 Department'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 Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department 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 Department 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 Department'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 Department'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 black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

September 5, 2014

Independent Auditor's Report on Financial Statements

Tacoma-Pierce County Health Department January 1, 2013 through December 31, 2013

Board of Health
Tacoma-Pierce County Health Department
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Tacoma-Pierce County Health Department, Pierce County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic 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 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 Department'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 Department'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, each major fund and the aggregate remaining fund information of the Tacoma-Pierce County Health Department, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Health And Environmental Services Special Revenue funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 19 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.

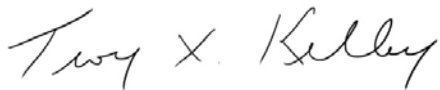
Supplementary and Other Information

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

additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014 on our consideration of the Department'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 Department's internal control over financial reporting and compliance.

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

TROY KELLEY
STATE AUDITOR

September 5, 2014

Financial Section

Tacoma-Pierce County Health Department January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2013

Statement of Revenues, Expenditures And Changes in Fund Balances – Budget and Actual – General Fund – 2013

Statement of Revenues, Expenditures And Changes in Fund Balances – Budget and Actual – Health and Environmental Services Special Revenue Fund – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2013

Statement of Cash Flows – Proprietary Funds – 2013

Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Tacoma-Pierce County Health Department (the Health Department), we offer readers of the financial statements a narrative overview of the Health Department's financial activities for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

- The Health Department's net position in governmental activities as of December 31, 2013 is \$4.9 million.
- During the year, Health Department expenses exceeded revenues by \$635,000 resulting in corresponding decrease in the Health Department's net position.
- General fund expenditures exceeded revenues by \$345,000.
- In year 2013, the Health Department received \$31.4 million in program revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the Health Department's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the Health Department's assets and liabilities, with the difference between the two reported as net position. This statement serves the purpose similar to that of the balance sheet of a private-sector business.

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Health Department is improving or deteriorating. However, this is just one indicator of financial health of the Health Department. Other indicators include the level of change in federal, state and local governmental support for the services that the Health Department provided to its constituents, as well as the general economic conditions within Pierce County.

The statement of activities presents information showing how the Health Department's net position changed during 2013. It separates program revenue generated by specific functions and programs: charges for services and operating grants and contributions. All changes in net position are reported as soon as the underlying event gives rise to the change to occur, regardless of the timing of related cash flows. Items such as unpaid vendor invoices and earned but unused leave balances will be included in the statement of activities as expenses, even though the cash associated with these items will not be distributed in 2013.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues and expenditures or expenses. The Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and to provide management with information for controlling spending activities. All of the funds of the Health Department can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances present separate columns of financial data for the General Fund, the Health and Environmental Services Fund, both of which are considered to be major funds based on criteria established by the Governmental Accounting Standards Board (GASB) Statement # 34. (GASB Statement #34 defines a major fund as one whose assets, liabilities, revenues or expenditures of the individual fund are at least ten percent of the corresponding element total – assets, liabilities, and so forth – for all funds of that category type; and the same element that met the 10% criterion is at least 5% of the corresponding element total for all governmental funds combined).

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' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. This information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

The Health Department maintains budgetary controls over all funds. The objective of budgetary controls is to ensure compliance with legal requirements embodied in state law, and the Agreement Providing for Creation and Operation of a County-City Health Department. A budgetary comparison of revenues, expenditures, and changes in fund balances is provided for the General Fund and the Health and Environmental Service Fund to demonstrate compliance with the budget.

Proprietary Funds

There are two types of proprietary funds: Enterprise and Internal Service Funds. The Health Department does not have enterprise fund type operations. The Health Department uses an Internal Service Funds to accumulate and allocate internally self-insurance costs among the Health Department's various functions.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net position

As noted earlier, net position may serve over time as a useful indicator of the Health Department's financial position. The Health Department's assets exceeded liabilities by \$4,855,345 at December 31, 2013.

The following table reflects the condensed Government-Wide Statement of net position of the Health Department.

| | 2013 | 2012 |
|--------------------------------------|--------------|--------------|
| Current assets | \$ 7,345,263 | \$ 7,709,239 |
| Capital assets (net of depreciation) | 1,089,865 | 1,324,065 |
| Total assets | 8,435,128 | 9,033,304 |
| Current liabilities | 3,265,863 | 3,229,751 |
| Long-term liabilities | 313,920 | 313,399 |
| Total liabilities | 3,579,783 | 3,543,150 |
| Net Position: | | |
| Invested in capital assets | 1,089,865 | 1,324,065 |
| Restricted | 532,459 | 1,011,431 |
| Unrestricted | 3,233,021 | 3,154,658 |
| Total net position | \$ 4,855,345 | \$ 5,490,154 |

A substantial portion (22.5%) of net position is the investment in capital assets such as equipment and leasehold improvements. These assets are not available for future spending. Restricted net position (11%) represent amounts of constraints placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

Statement of Activities

The following table provides a summary of the Health Department's operation for the year ended December 31, 2013 with comparative totals for the year ended December 31, 2012.

| | <u>Governmental Activities</u> | | Increase (Decrease) |
|------------------------------------|--------------------------------|---------------------|------------------------|
| | <u>2013</u> | <u>2012</u> | |
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | \$ 11,934,822 | \$ 11,505,983 | \$ 428,839 |
| Operating grants and contributions | 19,415,778 | 19,475,069 | (59,291) |
| Capital grants and contributions | 23,037 | - | 23,037 |
| General revenues: | | | |
| Interest earnings on investments | 5,939 | 8,742 | (2,803) |
| Other | (2,854) | - | (2,854) |
| Total revenues | <u>31,376,722</u> | <u>30,989,794</u> | <u>386,928</u> |
| Program Expenses: | | | |
| General administration | 1,819,456 | 1,791,469 | 27,987 |
| Strengthening families | 10,663,122 | 11,926,126 | (1,263,004) |
| Communicable disease control | 5,593,645 | 6,139,420 | (545,775) |
| Environmental health | 13,935,308 | 12,525,342 | 1,409,966 |
| Total expenses | <u>32,011,531</u> | <u>32,382,357</u> | <u>(370,826)</u> |
| Change in net position | <u>(634,809)</u> | <u>(1,392,563)</u> | <u>757,754</u> |
| Net position as of January 1 | <u>5,490,154</u> | <u>6,882,717</u> | <u>(1,392,563)</u> |
| Net position as of December 31 | <u>\$ 4,855,345</u> | <u>\$ 5,490,154</u> | <u>\$ (634,809)</u> |

The Health Department experienced an increase in charges for services of \$429,000, 3.7%. Overall expenses decreased by \$371,000. The net of these decreases and increases results in a change to net position of \$(635,000), decreasing total net position to \$4.86 million at December 31, 2013.

FINANCIAL ANALYSIS OF TACOMA- PIERCE COUNTY HEALTH DEPARTMENT FUNDS

The focus of the Health Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending in the next fiscal year.

At the end of the current fiscal year, the Health Department reported combined ending fund balances of approximately \$4.9 million. Within this total, \$35,000 is Nonspendable, comprised of inventory, prepaids and deposits; approximately \$532,000 is restricted by third parties; approximately \$1.5 million is committed for unexpected contingencies; approximately \$2.34 million is assigned for public health emergencies and program specific activities. For specific details on fund balances, please see Note 1 E 10 in the financial statements.

INDIVIDUAL FUND ANALYSIS

The General Fund is the Health Department's primary operation fund. It is used to account for all activities not accounted for in another fund. All administrative expenditures are accumulated in the General Fund. Administrative program expenditures are allocated to the Health Department's operating programs as indirect costs. Specific amounts are shown in the following table.

| | 2013 | 2012 | Variance |
|---|---------------------|---------------------|---------------------|
| Revenues | | | |
| Intergovernmental revenues | \$ 857,150 | \$ 843,205 | \$ 13,945 |
| Charges for services | 622,320 | 519,130 | 103,190 |
| Contributions and miscellaneous revenues | 57,127 | 56,513 | 614 |
| Total revenues | <u>1,536,597</u> | <u>1,418,848</u> | <u>117,749</u> |
| Expenditures | | | |
| Personal services | 5,079,132 | 4,619,287 | 459,845 |
| Supplies/minor equipment | 209,774 | 501,416 | (291,642) |
| Other services/charges | 1,473,829 | 1,490,732 | (16,903) |
| Support services | (5,257,514) | (5,022,705) | (234,809) |
| Capital outlay | - | 46,881 | (46,881) |
| Total expenditures | <u>1,505,221</u> | <u>1,635,611</u> | <u>(130,390)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>31,376</u> | <u>(216,763)</u> | <u>248,139</u> |
| Transfers in/out, net | (376,665) | (1,462,551) | 1,085,886 |
| Net change in fund balances | (345,289) | (1,679,314) | 1,334,025 |
| Fund balances, January 1 | <u>2,982,303</u> | <u>4,661,617</u> | <u>(1,679,314)</u> |
| Fund balances, December 31 | <u>\$ 2,637,014</u> | <u>\$ 2,982,303</u> | <u>\$ (345,289)</u> |

Overall, general fund expenditures and transfers exceeded revenues by \$345,000 resulting in ending fund balances of approximately \$2.6 million.

The Health and Environmental Services Fund accounts for health and minimum environmental services provided to Pierce County residents. Many resources of this fund are legally restricted to be spent for specified purposes. The fund derives the majority of its revenues from federal, state, and local grants, charges for services, and licenses and permits. Specific amounts are shown in the following table.

| Revenues | 2013 | 2012 | Variance |
|---|---------------------|---------------------|---------------------|
| Licenses and permits | \$ 4,362,610 | \$ 4,115,894 | \$ 246,716 |
| Intergovernmental revenues | 18,529,476 | 18,137,910 | 391,566 |
| Charges for services | 6,449,942 | 6,127,123 | 322,819 |
| Contributions and donations | 38,492 | 456,524 | (418,032) |
| Miscellaneous revenues | 111,549 | 89,136 | 22,413 |
| Total revenues | <u>29,492,069</u> | <u>28,926,587</u> | <u>565,482</u> |
| Expenditures | | | |
| Personal services | 18,985,174 | 19,017,174 | (32,000) |
| Supplies/minor equipment | 572,205 | 659,206 | (87,001) |
| Other services/charges | 5,237,544 | 5,736,608 | (499,064) |
| Support services | 5,210,101 | 5,001,794 | 208,307 |
| Capital outlay | 23,038 | - | 23,038 |
| Total expenditures | <u>30,028,062</u> | <u>30,414,782</u> | <u>(386,720)</u> |
| Excess (deficiency) of revenues over (under) expenditures | (535,993) | (1,488,195) | 952,202 |
| Transfers in/out, net | 376,665 | 1,462,551 | (1,085,886) |
| Net change in fund balances | (159,328) | (25,644) | (133,684) |
| Fund balances, January 1 | <u>2,408,540</u> | <u>2,434,184</u> | <u>(25,644)</u> |
| Fund balances, December 31 | <u>\$ 2,249,212</u> | <u>\$ 2,408,540</u> | <u>\$ (159,328)</u> |

Overall, the fund closed the year with a net decrease in fund balances of \$159,328.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Health Department Board of Health revised the budget several times. The budget amendments were necessary to reflect:

1. Changes in appropriations on unanticipated federal and state grants for specific programs.
2. Changes in appropriations to prevent budget overruns.

The General Fund budget was originally adopted for \$2,839,315 (expenses plus transfers); the final budget decreased the general fund budget to \$2,397,418 representing a decrease of \$441,897.

CAPITAL ASSETS

The Health Department's investment in net capital assets for its governmental type activities as of December 31, 2013 amounted to \$1.1 million. This investment in capital assets includes computer equipment, software, and other types of equipment and leasehold improvements. Capital asset balances are follows:

| | 2013 Capital Assets | 2013 Accumulated Depreciation | 2013 Capital Assets, Net | 2012 Capital Assets, Net | Variance |
|------------------------|------------------------|-------------------------------------|-----------------------------|-----------------------------|---------------------|
| Land | \$ 61,451 | \$ - | \$ 61,451 | \$ 61,451 | \$ - |
| Building | 245,388 | (40,804) | 204,584 | 222,376 | (17,792) |
| Leasehold improvements | 1,958,500 | (1,509,993) | 448,507 | 496,679 | (48,172) |
| Equipment | 883,837 | (724,673) | 159,164 | 208,678 | (49,514) |
| Software | 547,116 | (330,957) | 216,159 | 334,881 | (118,722) |
| Total | <u>\$ 3,696,292</u> | <u>\$ (2,606,427)</u> | <u>\$ 1,089,865</u> | <u>\$ 1,324,065</u> | <u>\$ (234,200)</u> |

For more detailed information on capital asset activity, please see Notes 1 E5 and Note 5 in the notes to the financial statements.

ECONOMIC FACTORS

While the economy is showing signs of improvement, the Health Department continues to forecast decreasing to flat revenues with increasing expenditures. Sales tax, property tax, and other general fund revenues remain at lower levels locally as well as state wide. Sales tax collections that fund a majority of the discretionary funding distributed by the County show only weak increases with little sign of a quick recovery as consumers continue to spend cautiously.

The Pierce County Economic Index Report (Tacoma-Pierce County Chamber, 2013-14) states:

- The Pierce County Economic Index (PCEI) is forecast to end 2013 up 2.8%, in line with last year's forecast of 2.8%. By the end of 2013, the Pierce County economy will have completed fourteen consecutive quarters of increasing economic activity.

- Non-farm employment in 2013 is estimated to grow to an average annual rate of employment growth of about 1.4%. 2014 is predicted to be 1.5% for the year. Accounting for the typical seasonal pattern, these figures predict a slight drop in employment in early 2014, but an ongoing recovery through the remainder of the year, with an estimated 281,000 jobs in the fourth quarter of 2014, corresponding roughly to the 2006 level of employment. The average labor force in 2013 is predicted to be 383,500 (down from 386,300 in 2012), while it's predicted to increase to 386,300 in 2014. On average, the unemployment rate will drop by 0.74 percentage points from 2012 to 2013 and 0.57 percentage points from 2013 to 2014.
- Inflation-adjusted retail sales in 2013 are predicted to grow by 6.5% above their 2012 levels. Retail sales are predicted to come in at about \$5.7 billion in 2009 dollars. While the overall trend in retail sales will remain positive, growth is expected to slow in 2014. Retail sales in 2014 are predicted to grow 4.2% from 2013 and will reach \$5.9 billion in 2009 prices. This still falls considerably short of the \$6.4 billion attained in 2007.
- Total real personal income is expected to log gains of 2.2% and 1.9% in 2013 and 2014, respectively. This will give the economy an additional \$2.5 billion in income in 2014 compared to 2010. Real personal income per capita is forecast to finish up 1.6% for 2013, finally bringing per capita income above its pre-recession peak.
- Even though the Pierce County economy is out of the Great Recession and in an expansion, the rate of growth continues sluggish. The long run average annual growth rate for the Pierce County economy is 2.8%. Since the recovery started in 2010, the average annual growth rate has only been 2.1%.

The State of Washington experienced its own set of financial shortfalls but was previously able to hold the Health Department harmless with discretionary funding. It is unclear if the current financial challenges faced by the State will impact this funding. It is also unclear how grant funding from the State may be impacted especially in the area of human services funded through the Department of Social and Health Services and Department of Health. At this time the Health Department anticipates fee generating programs will hold steady. Although the Housing Activity Index is expected to increase through 2014, housing prices remain reduced and may impact new construction. The Health Department will likely see a significant reduction to Federal Medicaid funding. Other Federal grant funding provides short-term funding to some efforts, but a funding gap may still exist after grants expire.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Health Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tacoma-Pierce County Health Department, Christopher Schuler, Business Support Services, 3629 South "D" Street, Tacoma, WA 98418-6813.

Tacoma-Pierce County Health Department
Statement Of Net Position
December 31, 2013

| | <u>Governmental Activities</u> |
|----------------------------------|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 3,381,232 |
| Accounts receivable | 61,202 |
| Due from other governments | 3,867,378 |
| Inventory, at cost | 19,911 |
| Prepaid items and deposits | 15,540 |
| Capital assets | |
| Nondepreciable | 61,451 |
| Depreciable (net) | <u>1,028,414</u> |
| Total assets | <u>8,435,128</u> |
| Liabilities | |
| Vouchers and accounts payable | 828,352 |
| Accrued wages/benefits payable | 518,883 |
| Due to other governments | 520,981 |
| Unearned revenue | 297,647 |
| Noncurrent liabilities | |
| Due within one year | 1,100,000 |
| Due in more than one year | <u>313,920</u> |
| Total liabilities | <u>3,579,783</u> |
| Net Position | |
| Net investment in capital assets | 1,089,865 |
| Restricted for: | |
| Government grants and contracts | 532,459 |
| Unrestricted | <u>3,233,021</u> |
| Total net position | <u>\$ 4,855,345</u> |

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

Tacoma-Pierce County Health Department
Statement of Activities
For The Year Ended December 31, 2013

| | | Program Revenues | | | Changes In |
|--|----------------------|----------------------|----------------------|------------------|---------------------|
| | | Charges For | Operating | Capital | Net Assets |
| | Expenses | Services | Grants And | Grants And | Governmental |
| | | | Contributions | Contributions | Activities |
| Functions/Programs | | | | | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General administration | \$ 1,819,456 | \$ 914,692 | \$ 870,847 | \$ - | \$ (33,917) |
| Strengthening families | 10,663,122 | 3,610,574 | 6,652,683 | - | (399,865) |
| Communicable disease control | 5,593,645 | 3,286 | 5,502,668 | - | (87,691) |
| Environmental health | 13,935,308 | 7,406,270 | 6,389,580 | 23,037 | (116,421) |
| Total governmental activities | <u>\$ 32,011,531</u> | <u>\$ 11,934,822</u> | <u>\$ 19,415,778</u> | <u>\$ 23,037</u> | <u>(637,894)</u> |
| General revenues: | | | | | |
| Interest earnings | | | | | 5,939 |
| Gain(loss) on retirement of capital assets | | | | | (2,854) |
| Total general revenues | | | | | <u>3,085</u> |
| Change in net position | | | | | (634,809) |
| Net position - beginning | | | | | <u>5,490,154</u> |
| Net position - ending | | | | | <u>\$ 4,855,345</u> |

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

Tacoma - Pierce County Health Department
Balance Sheet
Governmental Funds
December 31, 2013

| | General | Health and Environmental Services | Total Governmental Funds |
|--|---------------------|---|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,825,202 | \$ 1,214,405 | \$ 3,039,607 |
| Accounts receivable | 46,137 | 15,065 | 61,202 |
| Due from other governmental units | 1,296,756 | 2,570,622 | 3,867,378 |
| Inventory, at cost | - | 19,911 | 19,911 |
| Prepaid items | 10,440 | 2,021 | 12,461 |
| Deposits | 79 | 3,000 | 3,079 |
| | <u>3,178,614</u> | <u>3,825,024</u> | <u>7,003,638</u> |
| Total assets | <u>3,178,614</u> | <u>3,825,024</u> | <u>7,003,638</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Vouchers and accounts payable | 229,158 | 550,743 | 779,901 |
| Accrued wages/benefits payable | 153,853 | 365,030 | 518,883 |
| Due to other governments | 158,589 | 362,392 | 520,981 |
| Unearned revenues | - | 297,647 | 297,647 |
| Total liabilities | <u>541,600</u> | <u>1,575,812</u> | <u>2,117,412</u> |
| Fund balances: | | | |
| Nonspendable | 10,519 | 24,932 | 35,451 |
| Restricted | 363,938 | 168,521 | 532,459 |
| Committed | 1,517,205 | - | 1,517,205 |
| Assigned | 281,816 | 2,055,759 | 2,337,575 |
| Unassigned | 463,536 | - | 463,536 |
| Total fund balances | <u>2,637,014</u> | <u>2,249,212</u> | <u>4,886,226</u> |
| Total liabilities and fund balances | <u>\$ 3,178,614</u> | <u>\$ 3,825,024</u> | <u>\$ 7,003,638</u> |

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

Tacoma-Pierce County Health Department
Reconciliation of Governmental Fund Balances
To Net Position of Governmental Activities
December 31, 2013

| | |
|----------------------------------|--------------|
| Total governmental fund balances | \$ 4,886,226 |
|----------------------------------|--------------|

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

| | |
|---|-----------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 1,089,865 |
|---|-----------|

Long-term liabilities applicable to the Health Department's activities are not due and payable in the current period and are not reported as fund liabilities:

| | |
|----------------------|-------------|
| Compensated absences | (1,338,917) |
|----------------------|-------------|

Internal service funds are used by management to charge the costs of insurance and information services to individual funds.

| | |
|---|----------------|
| Total assets and liabilities of the internal service funds that are reported with governmental activities, net of amounts reported above. | <u>218,171</u> |
|---|----------------|

| | |
|---|----------------------------|
| Net position of governmental activities | <u><u>\$ 4,855,345</u></u> |
|---|----------------------------|

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

Tacoma-Pierce County Health Department
Statement Of Revenues, Expenditures, And Changes In Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

| | General | Health and Environmental Services | Total Governmental Funds |
|--|---------------------|---|--------------------------------|
| Revenues | | | |
| Licenses and permits | \$ - | \$ 4,362,610 | \$ 4,362,610 |
| Intergovernmental revenues | 857,150 | 18,529,476 | 19,386,626 |
| Charges for services | 622,320 | 6,449,942 | 7,072,262 |
| Contributions and donations | 13,697 | 38,492 | 52,189 |
| Miscellaneous revenues | 43,430 | 111,549 | 154,979 |
| | <u>1,536,597</u> | <u>29,492,069</u> | <u>31,028,666</u> |
| Total revenues | | | |
| | <u>1,536,597</u> | <u>29,492,069</u> | <u>31,028,666</u> |
| Expenditures | | | |
| Current | | | |
| Personal services | 5,079,132 | 18,985,174 | 24,064,306 |
| Supplies/minor equipment | 209,774 | 572,205 | 781,979 |
| Other services/charges | 1,473,829 | 5,237,544 | 6,711,373 |
| Support services | (5,257,514) | 5,210,101 | (47,413) |
| Capital outlay | | | |
| Capital expenditures | - | 23,038 | 23,038 |
| | <u>1,505,221</u> | <u>30,028,062</u> | <u>31,533,283</u> |
| Total expenditures | | | |
| | <u>1,505,221</u> | <u>30,028,062</u> | <u>31,533,283</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>31,376</u> | <u>(535,993)</u> | <u>(504,617)</u> |
| Other financing sources (uses) | | | |
| Transfers in | - | 493,309 | 493,309 |
| Transfers out | (376,665) | (116,644) | (493,309) |
| | <u>(376,665)</u> | <u>376,665</u> | <u>-</u> |
| Total other financing sources and uses | | | |
| | <u>(376,665)</u> | <u>376,665</u> | <u>-</u> |
| Net change in fund balances | (345,289) | (159,328) | (504,617) |
| Fund balances-beginning of year | 2,982,303 | 2,408,540 | 5,390,843 |
| | <u>2,982,303</u> | <u>2,408,540</u> | <u>5,390,843</u> |
| Fund balances-end of year | <u>\$ 2,637,014</u> | <u>\$ 2,249,212</u> | <u>\$ 4,886,226</u> |

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

Tacoma-Pierce County Health Department
Reconciliation of The Statement of Revenue, Expenditures,
And Changes In Fund Balances of Governmental Funds
To the Statement of Activities
For The Year Ended December 31, 2013

Net changes in fund balances - total governmental funds \$ (504,617)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. Amounts related to capital assets are:

| | |
|--------------------------------------|-----------|
| Capital asset purchases capitalized | 23,038 |
| Depreciation expense | (254,384) |
| Loss on retirement of capital assets | (2,854) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | |
|----------------------|-------|
| Compensated absences | (521) |
|----------------------|-------|

Certain fees received in 2012 are considered revenues in the fund financial statements. In the government-wide statements, those fees were reported in deferred revenues. In 2013, these fees are reported as unearned revenue in both statements.

96,027

Internal service funds are used by management to charge the costs of insurance and information services to individual funds. The net revenue of the internal service funds is reported with the governmental activities.

8,502

Change in net position of governmental activities

\$ (634,809)

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

Tacoma-Pierce County Health Department
General Fund
Statement Of Revenues, Expenditures, And Changes In Fund Balances
Budget And Actual
For The Year Ended December 31, 2013

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental revenues | \$ 977,161 | \$ 886,161 | \$ 857,150 | \$ (29,011) |
| Charges for services | 536,293 | 613,643 | 622,320 | 8,677 |
| Contributions and donations | 25,762 | 11,097 | 13,697 | 2,600 |
| Miscellaneous revenues | 13,000 | 15,000 | 43,430 | 28,430 |
| Total revenues | <u>1,552,216</u> | <u>1,525,901</u> | <u>1,536,597</u> | <u>10,696</u> |
| Expenditures | | | | |
| Current | | | | |
| Personal services | 5,404,272 | 5,370,023 | 5,079,132 | 290,891 |
| Supplies/minor equipment | 226,360 | 238,403 | 209,774 | 28,629 |
| Other services/charges | 1,678,972 | 1,618,382 | 1,473,829 | 144,553 |
| Support services | (5,909,088) | (5,834,607) | (5,257,514) | (577,093) |
| Capital outlay | | | | |
| Capital expenditures | <u>180,000</u> | <u>162,000</u> | <u>-</u> | <u>162,000</u> |
| Total expenditures | <u>1,580,516</u> | <u>1,554,201</u> | <u>1,505,221</u> | <u>48,980</u> |
| Excess (deficiency) of revenues over expenditures | <u>(28,300)</u> | <u>(28,300)</u> | <u>31,376</u> | <u>59,676</u> |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(1,258,799)</u> | <u>(843,217)</u> | <u>(376,665)</u> | <u>466,552</u> |
| Total other financing sources and uses | <u>(1,258,799)</u> | <u>(843,217)</u> | <u>(376,665)</u> | <u>466,552</u> |
| Net change in fund balances | (1,287,099) | (871,517) | (345,289) | 526,228 |
| Fund balances-beginning of year | <u>2,982,303</u> | <u>2,982,303</u> | <u>2,982,303</u> | <u>-</u> |
| Fund balances-end of year | <u>\$ 1,695,204</u> | <u>\$ 2,110,786</u> | <u>\$ 2,637,014</u> | <u>\$ 526,228</u> |

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

Tacoma-Pierce County Health Department
Health And Environmental Services Special Revenue Fund
Statement Of Revenues, Expenditures, And Changes In Fund Balances
Budget And Actual
For The Year Ended December 31, 2013

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|---|------------------|--------------|--------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Licenses and permits | \$ 3,984,699 | \$ 4,314,699 | \$ 4,362,610 | \$ 47,911 |
| Intergovernmental revenues | 18,755,095 | 19,575,003 | 18,529,476 | (1,045,527) |
| Charges for services | 6,553,447 | 6,732,413 | 6,449,942 | (282,471) |
| Contributions and donations | 136,649 | 39,649 | 38,492 | (1,157) |
| Miscellaneous revenues | 90,390 | 103,845 | 111,549 | 7,704 |
| Total revenues | 29,520,280 | 30,765,609 | 29,492,069 | (1,273,540) |
| Expenditures | | | | |
| Current | | | | |
| Personal services | 19,934,809 | 20,166,717 | 18,985,174 | 1,181,543 |
| Supplies/minor equipment | 633,773 | 601,566 | 572,205 | 29,361 |
| Other services/charges | 5,775,526 | 6,239,054 | 5,237,544 | 1,001,510 |
| Support services | 5,532,767 | 5,648,214 | 5,210,101 | 438,113 |
| Capital outlay | | | | |
| Capital expenditures | - | 23,038 | 23,038 | - |
| Total expenditures | 31,876,875 | 32,678,589 | 30,028,062 | 2,650,527 |
| Excess (deficiency) of revenues over expenditures | (2,356,595) | (1,912,980) | (535,993) | 1,376,987 |
| Other financing sources (uses) | | | | |
| Transfers in | 1,258,799 | 843,217 | 493,309 | (349,908) |
| Transfers out | - | - | (116,644) | (116,644) |
| Total other financing sources and uses | 1,258,799 | 843,217 | 376,665 | (466,552) |
| Net change in fund balances | (1,097,796) | (1,069,763) | (159,328) | 910,435 |
| Fund balances-beginning of year | 2,408,540 | 2,408,540 | 2,408,540 | - |
| Fund balances-end of year | \$ 1,310,744 | \$ 1,338,777 | \$ 2,249,212 | \$ 910,435 |

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

Tacoma-Pierce County Health Department
Proprietary Funds
Statement Of Net Position
December 31, 2013

| Assets | Governmental Activities - Internal Service Funds |
|------------------------------|---|
| Current assets | |
| Cash and cash equivalents | \$ 341,625 |
| Total current assets | <u>341,625</u> |
| | |
| Total assets | <u>341,625</u> |
| | |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | <u>48,454</u> |
| Total current liabilities | <u>48,454</u> |
| Noncurrent liabilities | |
| Estimated claim settlements | <u>75,000</u> |
| Total noncurrent liabilities | <u>75,000</u> |
| Total liabilities | <u>123,454</u> |
| | |
| Net Position | |
| Unrestricted | <u>218,171</u> |
| Total net position | <u>\$ 218,171</u> |

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

**Tacoma-Pierce County Health Department
Proprietary Funds
Statement of Revenues, Expenses
And Changes in Fund Net Position
For the Year Ended December 31, 2012**

| | Governmental Activities - Internal Service Funds |
|--|---|
| Operating revenues: | |
| Charges for services | \$ 248,806 |
| Miscellaneous revenues | 137 |
| | <hr/> |
| Total operating revenues | 248,943 |
| | <hr/> |
| Operating expenses: | |
| Administration | 47,414 |
| Insurance, claim settlements and other charges | 198,966 |
| | <hr/> |
| Total operating expenses | 246,380 |
| | <hr/> |
| Operating income (loss) | 2,563 |
| | <hr/> |
| Nonoperating revenues (expenses): | |
| Interest revenue | 5,939 |
| | <hr/> |
| Total nonoperating revenues (expenses) | 5,939 |
| | <hr/> |
| Change in net assets | 8,502 |
| | <hr/> |
| Total net position - beginning | 209,669 |
| | <hr/> |
| Total net position - ending | \$ 218,171 |
| | <hr/> <hr/> |

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

TACOMA-PIERCE COUNTY HEALTH DEPARTMENT

Internal Service Funds

Combining Statement of Cash Flows

For the Year Ended December 31, 2013

| | <u>Self-Insurance</u> | <u>Total</u> |
|---|--------------------------|--------------------------|
| Cash Flows From Operating Activities | | |
| Receipts from interfund services provided | \$ 248,943 | \$ 248,943 |
| Payments for insurance, claims settlements and other charges | <u>(238,418)</u> | <u>(238,418)</u> |
| Net cash provided by operating activities | <u>10,525</u> | <u>10,525</u> |
| Cash Flows From Investing Activities | | |
| Interest revenue | <u>5,939</u> | <u>5,939</u> |
| Net cash provided by investing activities | <u>5,939</u> | <u>5,939</u> |
| Net increase in cash and cash equivalents | <u>16,464</u> | <u>16,464</u> |
| Cash and cash equivalents at beginning of year | <u>325,161</u> | <u>325,161</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 341,625</u></u> | <u><u>\$ 341,625</u></u> |
| Reconciliation of operating income to net cash provided (used) by operating activities | | |
| Operating income (loss) | <u>\$ 2,563</u> | <u>\$ 2,563</u> |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Accounts payable | <u>7,962</u> | <u>7,962</u> |
| Total adjustments | <u>7,962</u> | <u>7,962</u> |
| Net cash provided (used) by operating activities | <u><u>\$ 10,525</u></u> | <u><u>\$ 10,525</u></u> |

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

**Tacoma-Pierce County Health Department
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2012**

| | Governmental Activities - Internal Service Funds |
|---|---|
| Cash Flows From Operating Activities | |
| Receipts from interfund services provided | \$ 248,943 |
| Payments for insurance, claims settlements and other charges | (238,418) |
| Net cash provided by operating activities | <u>10,525</u> |
| Cash Flows From Investing Activities | |
| Interest revenue | <u>5,939</u> |
| Net cash provided by investing activities | <u>5,939</u> |
| Net increase in cash and cash equivalents | <u>16,464</u> |
| Cash and cash equivalents at beginning of year | <u>325,161</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 341,625</u></u> |
| Reconciliation of operating income to net cash provided (used) by operating activities | |
| Operating income (loss) | <u>\$ 2,563</u> |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Accounts payable | <u>7,962</u> |
| Total adjustments | <u>7,962</u> |
| Net cash provided (used) by operating activities | <u><u>\$ 10,525</u></u> |

There were no non-cash transactions.

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

TACOMA-PIERCE COUNTY HEALTH DEPARTMENT
Notes to the Financial Statements
January 1, 2013 through December 31, 2013

Note 1. Summary of Significant Accounting Policies

The financial statements of the Tacoma-Pierce County Health Department (the Health Department) 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 Washington State Auditor's Office has further developed and implemented the Budgeting, Accounting, and Reporting System (BARS) designed to promote uniformity in financial reporting of governmental entities within the State of Washington. The significant accounting policies are described below.

A. Reporting Entity

The Health Department is a joint venture of the City and County providing personal and environmental health services throughout the County. The Department provides community leadership in protecting the public's health, preventing health problems, and promoting healthy and safe living. The Health Department was created pursuant to the provisions of Chapter 70.08 of the Revised Code of Washington (RCW) to serve the needs of the constituents of the City of Tacoma, Pierce County, and other cities and towns within the County. The operations of the Health Department are governed by an agreement, dated May 23, 2006, between the City of Tacoma and Pierce County. The Health Department is managed by the Board of Health, which consists of the Pierce County Executive or a duly designated representative, three members of the County Council, Mayor of the City of Tacoma or a duly designated representative, one member of the City Council, one member representing Pierce County Cities and Towns Association, and one member-at-large appointed by the first six representatives. The City of Tacoma and Pierce County are responsible for its debts and are entitled to the surplus.

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 nonfiduciary activities of the Health Department. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position reports the composition and balances of net economic resources that can be used by the government to provide future services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants for license and permit fees, and charges for services provided by a given function or segment and 2) federal, state and local government grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Health Department considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual are charges for services, earned interest, and intergovernmental revenues, such as grants, where program expenditures are the prime factor for determining reimbursement. Other revenues, such as licenses and fees, are not considered to be susceptible for accrual since these revenues are not measurable until received.

The Tacoma-Pierce County Health Department reports the following major governmental funds:

The **General Fund** is the Health Department's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund.

All administrative expenditures are accumulated in the General Fund. Administrative program expenditures are allocated to the Health Department's operating programs as indirect costs.

The **Health and Environmental Services Fund** accounts for health and minimum environmental services provided to Pierce County residents. The resources of this fund are legally restricted to be spent for specified purposes. The fund derives the majority of its revenues from federal, state, and local grants, charges for services, and licenses and permits.

Additionally, the Health Department reports the following fund type:

The **Internal Service Fund** accounts for self-insurance provided to other funds of the Health Department on a cost reimbursement basis. The internal service fund is considered a proprietary fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's ongoing operations. The principal operating revenues of the internal service funds are for services provided for worker's compensation insurance, Washington State unemployment insurance, and judgments & settlements. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

Annual appropriated budgets are adopted for the general, special revenue and internal service funds on the modified accrual basis of accounting.

The Health Department's budget procedures are mandated by the *Agreement Providing for Creation and Operation of a Combined County-City Health Department*. The following procedures are used in establishing the budgetary data reflected in the financial statements:

1. Scope of Budget

Annually or before the date set by the Board of Health, the Director of Health submits to the Board of Health, a budget which he deems sufficient to carry out the operations of the Health Department.

The Board of Health examines the budget and makes whatever adjustments it deems necessary and recommends approval of the budget when it is in a form satisfactory to the Board. The Board submits the budget to the legislative bodies of the County and City with a recommendation to such bodies that they approve the budget as submitted.

The legislative bodies of the County and City (after making adjustments, if any, that they deem necessary) approve, by appropriate legislative action, the budget of the Health Department for the ensuing fiscal year. Both the County and the City make

appropriations consistent with the formula developed by the Board of Health and approved by the legislative bodies of the County and the City.

The General Fund budget and Special Revenue Fund budgets are adopted at the program level. The Health Department adopts budgets for the Internal Service Funds even though the law does not require it. Appropriations for general and special revenue funds lapse at year-end. Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year end.

2. Amending the Budget

The Director of Health is authorized to transfer budgeted amounts within a program and between programs in the Special Revenue Health and Environmental Services Fund so long as the cumulative transfers do not exceed \$10,000 or 5% of the amount originally budgeted for such program, whichever is greater. In the General Fund, the Director of Health may approve the transfer of appropriations within the Fund.

Any appropriation transfer that materially expands an existing program or creates a new program is subject to the approval of the Board of Health. The Board of Health must approve all appropriations that amend the originally adopted General, Special Revenue, and Internal Service Fund budgets.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

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

E. Assets, Liabilities, Fund Balance and Net Position

1. Cash and Cash Equivalents

It is the Health Department's policy to invest all temporary cash surpluses. Pierce County is the treasurer for the Health Department. At December 31, 2013, the treasurer was holding \$3,381,232 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is recorded in the Internal Service Fund to help offset the cost to programs for unemployment costs.

For purposes of these statements, the Health Department considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables

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

Receivables as of December 31, 2013 for the Health Department's funds are shown in the following table. No provision has been made for doubtful accounts. In the opinion of management, all accounts are deemed to be collectible.

| | General Fund | Health and Environmental Services | Total |
|---------------------|--------------|---|-----------|
| Accounts Receivable | \$ 46,137 | \$ 15,065 | \$ 61,202 |

3. Amounts Due from Other Governments

Amounts due from other governments represent amounts due from other governments for grants, shared revenues and charges for services including amounts owed for which billings have not been prepared.

| | General Fund | Health and Environmental Services | Total |
|----------------------------|--------------|---|--------------|
| Due From Other Governments | \$ 1,296,756 | \$ 2,570,622 | \$ 3,867,378 |

4. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

5. Capital Assets - See Note III, Capital Assets

Capital assets, which include property, building, improvements, equipment and software, are reported in the government-wide financial statements. Capital assets are defined by the Health Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| | |
|--|---------------|
| Leasehold Improvements to Buildings | 10 – 20 years |
| Other Improvements | 30 years |
| Stationary, Movable & Communications Equipment | 7 years |
| Servers & Printers | 4 years |
| Notebooks | 3 years |
| Software | 2 – 5 years |

6. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave and compensatory time. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

Vacation pay, which may be accumulated up to a maximum of 60 days, is payable upon resignation, retirement or death. Upon resignation in good standing, any outstanding sick leave is payable at a rate of 10%. Upon retirement, sick leave is payable at a rate of 25%.

7. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

8. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

9. Fund Balance Classification

The Health Department implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) in 2011. GASB 54 categorizes fund balance as either nonspendable or spendable.

Nonspendable is defined as the portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Health Department's nonspendable items include inventories, prepaids and deposits.

Spendable is defined as a hierarchy of fund balance classifications that is available to be spent based on the element to which the Health Department is bound to observe constraints imposed upon the use of resources. The department spends restricted fund balance before unrestricted resources.

- **Restricted fund balance:** amounts constrained by external parties (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance:** can be used only for specific purposes pursuant to constraints imposed by a formal action such as a Board of Health resolution adopted by the Health Department's highest level of decision making authority, the Board of Health. Such formal action is required to create, modify, or rescind a resolution.
- **Assigned fund balance:** includes amounts that are constrained by the Health Department's intent to be used for a specific purpose, but are neither restricted nor committed. Use of assigned fund balance may be established by the Board of Health, the Director of Health, or, in certain circumstances, by the Business Manager. No formal action is required to reallocate assigned fund balance. For governmental funds other than the General Fund, assigned fund balance is the residual amount within the fund that is not restricted or committed.
- **Unassigned fund balance:** is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

10. Fund Balance Details

The Health Department's Nonspendable fund balance is as follows:

| | General Fund | Health and Environmental Services Fund | Total |
|--------------------|------------------|--|------------------|
| Inventory | \$ - | \$ 19,911 | \$ 19,911 |
| Prepays | 10,440 | 2,021 | 12,461 |
| Deposits | 79 | 3,000 | 3,079 |
| Total Nonspendable | <u>\$ 10,519</u> | <u>\$ 24,932</u> | <u>\$ 35,451</u> |

Fund balances are restricted for 3rd party government grant and contracts as follows:

| | General Fund | Health and Environmental Services Fund | Total |
|------------------------|-------------------|--|-------------------|
| General Government | \$ 363,938 | | \$ 363,938 |
| Environmental Health | | 164,818 | 164,818 |
| Strengthening Families | | 3,703 | 3,703 |
| Total Restricted | <u>\$ 363,938</u> | <u>\$ 168,521</u> | <u>\$ 532,459</u> |

Fund balances are committed to respond to specific purposes within each division as follows:

| | General Fund | Health and Environmental Services Fund | Total |
|--------------------|--------------|--|--------------|
| General Government | \$ 1,517,205 | \$ - | \$ 1,517,205 |
| Total Committed | \$ 1,517,205 | \$ - | \$ 1,517,205 |

Fund balances are assigned to respond to specific purposes within each division as follows:

| | General Fund | Health and Environmental Services Fund | Total |
|------------------------------|--------------|--|--------------|
| General Government | \$ 281,816 | \$ - | \$ 281,816 |
| Environmental Health | | 2,230,806 | 2,230,806 |
| Communicable Disease Control | | (13,834) | (13,834) |
| Strengthening Families | | (161,212) | (161,212) |
| Total Assigned | \$ 281,816 | \$ 2,055,759 | \$ 2,337,575 |

11. Minimum Fund Balance

A cash flow/contingency reserve of unassigned funds will be established to (1) fund unanticipated operations and maintenance expenses, and (2) provide funding for non-recurring, unanticipated expenditures or revenue shortfalls. The level of this reserve will be no less than 2% and no more than 5% of the final adopted operating budget of the previous fiscal year. Additional reserves may be established as directed or approved by the Board of Health.

12. Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. The Health Department adopted GASB Statement 65 in fiscal year 2013.

In March 2012, the GASB issued Statement 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund*

Type Definitions, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The adoption of GASB 66 does not have any impact on the Health Department's financial statements.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the 3 Government-Wide Statement of Net Position

The governmental funds' balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position.

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

Note 3. Stewardship, Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions and there have been no expenditures exceeding legal appropriations in any of the funds of the Tacoma-Pierce County Health Department.

Note 4. Deposits and Investments

Deposits

In accordance with state statute, Pierce County is the Treasurer for the Health Department. Pierce County Treasurer holds all of the Health Department's cash and short-term investments except for imprest accounts. At December 31, 2013, the Health Department had \$1,300 in imprest accounts.

As of December 31, 2013, \$3,379,932 was on deposit with the Pierce County Treasurer. All of the deposits are covered by Federal Depository Insurance (FDIC) and the Washington Public Deposit Protection Commission (WPDPC). Deposits covered by WPDPC are considered insured for deposit categorization purposes.

Investments

The Pierce County Treasurer invests all surplus cash on the Health Department's behalf. The money is invested in short-term investments with original or remaining maturities of three months or less. As of December 31, 2013, \$3,500,000 was invested on the Department's behalf by the Pierce County Treasurer.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. "The County investment policy does not specifically address the management of interest rate risk. The exposure to fair value losses arising from increasing interest rates is managed by limiting the weighted average maturity of the portfolio to between six months and one year." Because the Health Department invests in maturities with maturity dates of ninety days or less, interest rate risk is minimal.

Custodial credit risk is the risk that, in the event of a bank failure, the county deposits may not be recovered. County investment policy limits deposits subject to custodial credit risk to 20 percent of the non-trustee portfolio.

Note 5. Capital Assets

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

| | Balance 1/1/13 | Additions | Deletions | Balance 12/31/13 |
|--|---------------------|---------------------|-------------------|---------------------|
| Governmental Activities | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | \$ 61,451 | \$ - | \$ - | \$ 61,451 |
| Total Capital Assets, not being depreciated | 61,451 | - | - | 61,451 |
| Capital Assets, being depreciated: | | | | |
| Buildings | 245,388 | \$ - | \$ - | 245,388 |
| Leasehold improvements | 1,958,500 | - | - | 1,958,500 |
| Equipment and software | | | | |
| Equipment | 892,722 | 23,038 | (31,923) | 883,837 |
| Software | 579,156 | - | (32,040) | 547,116 |
| Total equipment and software | 1,471,878 | 23,038 | (63,963) | 1,430,953 |
| Total Capital Assets, being depreciated | 3,675,766 | 23,038 | (63,963) | 3,634,841 |
| Less accumulated depreciation for: | | | | |
| Buildings | (32,647) | (8,157) | | (40,804) |
| Leasehold improvements | (1,452,186) | (57,807) | | (1,509,993) |
| Equipment | (684,044) | (69,697) | 29,068 | (724,673) |
| Software | (244,275) | (118,723) | 32,041 | (330,957) |
| Total accumulated depreciation | (2,413,152) | (254,384) | 61,109 | (2,606,427) |
| Total Capital Assets being depreciated, Net | 1,262,614 | (231,346) | (2,854) | 1,028,414 |
| Governmental Activities Capital Assets, Net | \$ 1,324,065 | \$ (231,346) | \$ (2,854) | \$ 1,089,865 |

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

| | | |
|------------------------------|----|----------------|
| Governmental Activities: | | |
| General administration | \$ | 53,970 |
| Strengthening families | | 64,208 |
| Environmental health | | 97,614 |
| Communicable disease control | | 38,592 |
| Total depreciation expense | \$ | <u>254,384</u> |

Note 6. Pension Plan

All the Health Department full-time and qualifying part-time employees participate in the retirement system administered by the Tacoma Employees' Retirement System (TERS). TERS is a cost sharing, multiple-employer retirement system. The Plan is administered in accordance with Chapter 41.28 Revised Code of Washington and the Tacoma City Code, Chapter 1.30. The majority of the membership in the System consists of City of Tacoma elected officials and employees.

Financial statements, actuarial valuation, actuarial assumptions, and information showing the System's progress in accumulating sufficient assets to pay benefits when due and other pension data are presented in the City of Tacoma Employees' Retirement System Comprehensive Annual Financial Report for the year ended December 31, 2013. A copy of the report may be obtained from the City of Tacoma Employees' Retirement System, 1544 Tacoma Municipal Building, 747 Market Street, Tacoma, WA 98402.

The Plan provides service retirement benefits for members who attain the age and service requirements, and early service retirement benefits for members who attain either the minimum age or years of service requirements. The pension received is the product of the member's average monthly salary for the highest consecutive 24-month period, the number of years of creditable service, and a percentage factor (2% maximum), which is determined based on a member's age and years of service. Effective on and after January 1, 1997, a service pension shall not be less than the actuarial equivalent of 200% of the member's accumulated normal contributions (normal contributions plus interest). Several options are available by which the retiree may provide for beneficiaries. The retirement allowance is adjusted to reflect the option selected. There is no lump sum retirement option.

The Plan also provides for a disability retirement if a member is injured on the job or otherwise becomes disabled after five years of creditable service.

Effective January 1, 2001, the Plan may provide for post retirement cost of living increases, in accordance with Tacoma City Code 1.30.665, of 2.125% as of July 1st each year.

Pension Funding Policy

The funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percentage of payrolls.

During 2013, 2012 and 2011, the Health Department and employees made the required contributions. Employee and employer pension contribution amounts and rates for the years ended December 31 are as follows:

| Year | Employee | Rate | Employer | Rate |
|------|---------------|-------|-------------|--------|
| | Contributions | | Cost | |
| 2013 | \$1,492,502 | 9.20% | \$1,752,068 | 10.80% |
| 2012 | \$1,465,536 | 9.20% | \$1,720,410 | 10.80% |
| 2011 | \$1,272,435 | 9.20% | \$1,493,725 | 10.80% |

An actuarial valuation was completed of the Tacoma Employees' Retirement System as of January 1, 2013. The actuarial valuation shows that the current rates are sufficient to pay the System's normal cost and maintain assets of the System's actuarial accrued liability indefinitely, based on the current funding methods and long term actuarial assumptions. The entire employer and employee contribution of 20.00% of salary exceeds the Normal Cost rate of 17.8% of pay. The System's actuarial value of assets exceeds the System's Actuarial Accrued Liability by \$119.5 million as of January 1, 2013.

Note 7. Risk Management

The Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Health Department carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors. Settlements have not exceeded insurance coverage for each of the past three fiscal years. There were no unpaid claims at the beginning or end of fiscal years 2013 and 2012; nor were there any incurred claims or claim payments for fiscal years 2013 and 2012. An estimated claim liability has been recorded in the amount of \$75,000.

Note 8. LeasesOperating Leases

The Health Department leases offices, vehicles and other equipment under noncancelable operating leases. Total cost for such leases was \$578,831 for the year ended December 31, 2013. The future minimum lease payments for these leases are as follows:

| | Facilities | Equipment & Vehicles | Total |
|-------|-------------------|-------------------------|-------------------|
| 2014 | 209,596 | 146,508 | 356,104 |
| 2015 | 90,876 | 128,222 | 219,098 |
| 2016 | 91,734 | 81,106 | 172,840 |
| 2017 | 93,476 | | 93,476 |
| 2018 | 95,271 | | 95,271 |
| 2019 | 48,091 | | 48,091 |
| Total | <u>\$ 629,044</u> | <u>\$ 355,836</u> | <u>\$ 984,880</u> |

Note 9. Changes in Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

| | Balance 1/1/2013 | Additions | Deletions | Balance 12/31/13 |
|---------------------------|---------------------|---------------------|-----------------------|---------------------|
| Compensated Absences | \$ 1,338,399 | \$ 2,040,546 | \$ (2,040,025) | \$ 1,338,920 |
| Claims and Judgments | <u>75,000</u> | <u>-</u> | <u>-</u> | <u>75,000</u> |
| Total | <u>\$ 1,413,399</u> | <u>\$ 2,040,546</u> | <u>\$ (2,040,025)</u> | <u>\$ 1,413,920</u> |
| Due within one year | \$ 1,100,000 | | | \$ 1,100,000 |
| Due in more than one year | \$ 313,399 | | | \$ 313,920 |

Changes in estimated claim settlements liability for the past two years are as follows:

| | 2012 | 2013 |
|----------------------|------------------|------------------|
| Balance | \$ 75,000 | \$ 75,000 |
| New Claims | - | - |
| Adjustment to Claims | - | - |
| Claims Payments | <u>-</u> | <u>-</u> |
| Balance | <u>\$ 75,000</u> | <u>\$ 75,000</u> |

Note 10. Contingencies and Litigations

The Health Department has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Department will have to make payment. In the opinion of management, the Department's self-insurance reserves are adequate to pay all known or pending claims.

The Health Department participates in a number of federal- and state-assisted 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. Department management believes that such disallowances, if any, will be immaterial.

Note 11. Restricted Component of Net Position

The government-wide statement of net position reports \$532,459 of restricted component of net position; the amount is restricted due to provisions by third party grantors.

Note 12. Interfund Balances and Transfers

Interfund transfers for the year ended December 31, 2013 are as follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|---------------------|----------------------|
| General Fund | \$ - | \$ (376,665) |
| Health and Environmental | 493,309 | (116,644) |
| | <u>\$ 493,309</u> | <u>\$ (493,309)</u> |

Note 13. Joint Ventures

In 2013, the Health Department operations were funded by the City of Tacoma, Pierce County, and State financial assistance monies for public health. The Health Department also received funding from federal and state grants and fees for services.

The Health Department received amounts for general support and various special services that have been requested and/or mandated by the City and County, as follows:

| | <u>Support</u> | <u>Services</u> | <u>Total</u> |
|----------------|---------------------|---------------------|---------------------|
| Pierce County | \$ 2,424,790 | \$ 873,510 | \$ 3,298,300 |
| City of Tacoma | 555,790 | 644,046 | 1,199,836 |
| Total | <u>\$ 2,980,580</u> | <u>\$ 1,517,556</u> | <u>\$ 4,498,136</u> |

Note 14. Other Postemployment Benefit (OPEB) Plans

Healthcare Plan Description

In addition to the pension benefits described in Note 4, TERS provides post-employment healthcare benefits to Health Department employees who retire in accordance with criteria listed in Note 4. These healthcare benefits are purchased through and by the City of Tacoma. The City of Tacoma has recorded the entire OPEB liability, including the liability related to Health Department employees. As a result, the Health Department has no post-employment liability for healthcare costs. Funding for retiree healthcare costs is provided entirely by the Health Department retirees, based upon pay-as-you-go financing requirements.

TACOMA-PIERCE COUNTY HEALTH DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

| Federal Agency Name/Pass Through Agency Name | Federal Program Name | CFDA Number | Other I.D. Number | From Pass Through Awards | From Direct Awards | Total | Foot-note Ref |
|---|---|-------------|-------------------|--------------------------|--------------------|---------|---------------|
| US Department of Agriculture/WA State Department of Health | Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | C16903 | 16,821 | | 16,821 | |
| US Department of Agriculture/WA Superintendent of Public Instruction | Child and Adult Care Food Program | 10.558 | 27-01-0568 | 8,262 | | 8,262 | |
| US Department of Agriculture/South Sound Outreach Services | State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | N/A (10/12-9/13) | 20,880 | | 25,834 | (3) |
| | | | N/A (10/13-9/14) | 4,954 | | | (3) |
| | | | Subtotal | 25,834 | | | |
| US Environmental Protection Agency | Puget Sound Watershed Management Assistance | 66.120 | PO-00J12301-0 | | 231,150 | 231,150 | |
| US Environmental Protection Agency/WA State Department of Health | Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program | 66.123 | C16903 | 175,900 | | 175,900 | |
| US Environmental Protection Agency/WA State Department of Health | Beach Monitoring and Notification Program Implementation Grants | 66.472 | C16903 | 26,500 | | 26,500 | |
| US Department of Health and Human Services/National Association of County and City Health Officials | Medical Reserve Corps Small Grant Program | 93.008 | MRC 11 284 | 2,896 | | 2,896 | |
| US Department of Health and Human Services/WA State Department of Health | Public Health Emergency Preparedness | 93.069 | C16903 | 747,723 | | 747,723 | |
| US Department of Health and Human Services/WA State Department of Health | Environmental Public Health and Emergency Response | 93.070 | C16903 | 31,066 | | 31,066 | |
| US Department of Health and Human Services/WA State Department of Health | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | C16903 | 113,537 | | 113,537 | |
| US Department of Health and Human Services/WA State Department of Health | Grants to States to Support Oral Health Workforce Activities | 93.236 | C16903 | 41,792 | | 41,792 | |
| US Department of Health and Human Services/WA State Department of Health | Immunization Cooperative Grants | 93.268 | C16903 | 240,103 | | 240,103 | (4) |
| US Department of Health and Human Services/WA State Department of Health | Centers for Disease Control and Prevention_ Investigations and Technical Assistance | 93.283 | C16903 | 4,291 | | 4,291 | |
| US Department of Health and Human Services/WA State Department of Health | National Public Health Improvement Initiative | 93.292 | C16903 | 15,072 | | 15,072 | |
| US Department of Health and Human Services/Thrive By Five Washington | Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | N/A | 148,064 | | 148,064 | (3) |

TACOMA-PIERCE COUNTY HEALTH DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

| Federal Agency Name/Pass Through Agency Name | Federal Program Name | CFDA Number | Other I.D. Number | From Pass Through Awards | From Direct Awards | Total | Foot-note Ref |
|--|--|-------------|--|--|--------------------|-----------|---------------|
| US Department of Health and Human Services/WA State Department of Health | PPHF 2012: National Public Health Improvement Initiative | 93.507 | C16903 | 57,664 | | 57,664 | |
| US Department of Health and Human Services | PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds | 93.531 | 1U58DP003534 | | 956,360 | 956,360 | (2) |
| US Depart of Health and Human Services/WA State Department of Health | PPHF 2012 - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds | 93.531 | C16903 | 17,716 | | 17,716 | |
| US Depart of Health and Human Services/WA State Department of Health | PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by 2012 Prevention and Public health Funds | 93.539 | C16903 | 14,684 | | 14,684 | |
| US Department of Health and Human Services/WA State Department of Social & Health Services | Refugee and Entrant Assistance_State Administered Programs | 93.566 | 1163-26674 1363-76434 Subtotal | 35,064 <u>33,552</u> 68,616 | | 68,616 | |
| US Department of Health and Services/Puget Sound Educational Service District | Child Care and Development Block Grant | 93.575 | 7736 | 29,774 | | 29,774 | |
| US Department of Health and Human Services/WA State Department of Social & Health Services | Refugee and Entrant Assistance_Discretionary Grants | 93.576 | 1363-76434 | 1,825 | | 1,825 | |
| US Depart of Health and Human Services/WA State Department of Health | Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF-2012) | 93.733 | C16903 | 2,000 | | 2,000 | |
| US Department of Health and Human Services/WA State Health Care Authority | Medical Assistance Program | 93.778 | 1163-38302 1166-34010 K770 1269-56130 1269-56130-01 1163-36841 1163-36841-01 Subtotal | 2,606,492 5,799 20,425 6,505 8,916 40,000 <u>36,322</u> 2,724,459 | | 2,724,459 | (2) |
| US Department of Health and Human Services/WA State Department of Health | National Bioterrorism Hospital Preparedness Program | 93.889 | C16903 | 151,049 | | 151,049 | |

TACOMA-PIERCE COUNTY HEALTH DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

| Federal Agency Name/Pass Through Agency Name | Federal Program Name | CFDA Number | Other I.D. Number | From Pass Through Awards | From Direct Awards | Total | Foot-note Ref |
|--|---|-------------|-------------------|--------------------------|--------------------|---------|---------------|
| US Department of Health and Human Services/WA State Department of Health | HIV Prevention Activities_Health Department Based | 93.940 | C16903 | 343,021 | | 343,021 | |
| US Department of Health and Human Services/Pierce County Community Connections | Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 79205 | 185,748 | | 185,748 | |
| US Department of Health and Human Services/WA State Department of Health | Preventive Health Services_Sexually Transmitted Diseases Control Grants | 93.977 | C16903 | 138,665 | | 138,665 | |
| US Department of Health and Human Services/WA State Department of Health | Maternal and Child Health Services Block Grant to the States | 93.994 | C16903 | 570,332 | | 570,332 | |

Total Federal Awards Expended

\$5,903,414

\$1,187,510

\$7,090,924

TACOMA-PIERCE COUNTY HEALTH DEPARTMENT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

Notes To The Schedule Of Federal Financial Assistance

Note 1 - Basis of Accounting

The Schedule of Financial Assistance is prepared on the modified accrual basis of accounting.

Note 2 - Program Costs

The amounts shown as current years expenditures represent only the Federal grant portion of the program costs. Entire program costs, including the Tacoma-Pierce County Health Department's portion may be more than shown.

Note 3 - Not Available (N/A)

The Tacoma-Pierce County Health Department agreements do not contain an Identification Number.

Note 4 - Vaccine

The grant expenditures reported on this schedule include the costs of vaccines in lieu of cash received by the Tacoma-Pierce County Health Department in the current period.

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.

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|--|--|
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